LA-Z-BOY INC
Form 10-Q
February 17, 2015

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 24, 2015

COMMISSION FILE NUMBER 1-9656

LA-Z-BOY INCORPORATED

(Exact name of registrant as specified in its charter)

MICHIGAN	**38-0751137**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1284 North Telegraph Road, Monroe, Michigan	**48162-3390**
(Address of principal executive offices)	(Zip Code)

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

None

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

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

Yes x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Yes o No x

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, 2015**
Common Shares, $1.00 par value	51,188,212

Table of Contents

LA-Z-BOY INCORPORATED
FORM 10-Q THIRD QUARTER OF FISCAL 2015

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION (UNAUDITED)

ITEM 1. FINANCIAL STATEMENTS

LA-Z-BOY INCORPORATED
CONSOLIDATED STATEMENT OF INCOME

	Quarter Ended	
(Unaudited, amounts in thousands, except per share data)	**1/24/15**	**1/25/14**
Sales	$ 357,876	$ 346,525
Cost of sales		
Cost of goods sold	228,326	224,786
Restructuring	(9)	(60)
Total cost of sales	228,317	224,726
Gross profit	129,559	121,799
Selling, general and administrative expense	103,393	95,915
Restructuring	(762)	
Operating income	26,928	25,884
Interest expense	131	142
Interest income	232	183
Other income, net	805	849
Income from continuing operations before income taxes	27,834	26,774
Income tax expense	9,477	8,916
Income from continuing operations	18,357	17,858
Income (loss) from discontinued operations, net of tax	115	(987)
Net income	18,472	16,871
Net income attributable to noncontrolling interests	(524)	(388)
Net income attributable to La-Z-Boy Incorporated	$ 17,948	$ 16,483
Net income attributable to La-Z-Boy Incorporated:		
Income from continuing operations attributable to La-Z-Boy Incorporated	$ 17,833	$ 17,470
Income (loss) from discontinued operations	115	(987)
Net income attributable to La-Z-Boy Incorporated	$ 17,948	$ 16,483
Basic weighted average common shares	51,576	52,516
Basic net income attributable to La-Z-Boy Incorporated per share:		
Income from continuing operations attributable to La-Z-Boy Incorporated	$ 0.35	$ 0.33
Income (loss) from discontinued operations		(0.02)
Basic net income attributable to La-Z-Boy Incorporated per share	$ 0.35	$ 0.31
Diluted weighted average common shares	52,139	53,226
Diluted net income attributable to La-Z-Boy Incorporated per share:		
Income from continuing operations attributable to La-Z-Boy Incorporated	$ 0.34	$ 0.33
Income (loss) from discontinued operations		(0.02)
Diluted net income attributable to La-Z-Boy Incorporated per share	$ 0.34	$ 0.31
Dividends declared per share	$ 0.08	$ 0.06

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

	Nine Months Ended			
(Unaudited, amounts in thousands, except per share data)		**1/24/15**		**1/25/14**
Sales	$	1,050,457	$	1,004,298
Cost of sales				
Cost of goods sold		679,873		658,462
Restructuring		(376)		(115)
Total cost of sales		679,497		658,347
Gross profit		370,960		345,951
Selling, general and administrative expense		298,091		279,184
Restructuring		(742)		
Operating income		73,611		66,767
Interest expense		408		411
Interest income		667		539
Other income, net		699		1,107
Income from continuing operations before income taxes		74,569		68,002
Income tax expense		25,975		22,786
Income from continuing operations		48,594		45,216
Income (loss) from discontinued operations, net of tax		2,897		(1,393)
Net income		51,491		43,823
Net income attributable to noncontrolling interests		(933)		(1,006)
Net income attributable to La-Z-Boy Incorporated	$	50,558	$	42,817
Net income attributable to La-Z-Boy Incorporated:				
Income from continuing operations attributable to La-Z-Boy Incorporated	$	47,661	$	44,210
Income (loss) from discontinued operations		2,897		(1,393)
Net income attributable to La-Z-Boy Incorporated	$	50,558	$	42,817
Basic weighted average common shares		52,015		52,465
Basic net income attributable to La-Z-Boy Incorporated per share:				
Income from continuing operations attributable to La-Z-Boy Incorporated	$	0.91	$	0.84
Income (loss) from discontinued operations		0.06		(0.03)
Basic net income attributable to La-Z-Boy Incorporated per share	$	0.97	$	0.81
Diluted weighted average common shares		52,540		53,379
Diluted net income attributable to La-Z-Boy Incorporated per share:				
Income from continuing operations attributable to La-Z-Boy Incorporated	$	0.90	$	0.82
Income (loss) from discontinued operations		0.06		(0.02)
Diluted net income attributable to La-Z-Boy Incorporated per share	$	0.96	$	0.80
Dividends declared per share	$	0.20	$	0.14

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

(Unaudited, amounts in thousands)	Quarter Ended 1/24/15	1/25/14
Net income	$ 18,472	$ 16,871
Other comprehensive income (loss)		
Currency translation adjustment	(761)	(1,223)
Change in fair value of cash flow hedges, net of tax	(291)	(165)
Net unrealized gain (loss) on marketable securities, net of tax	55	(105)
Net pension amortization, net of tax	434	547
Total other comprehensive loss	(563)	(946)
Total comprehensive income before allocation to noncontrolling interests	17,909	15,925
Comprehensive (income) loss attributable to noncontrolling interests	(474)	23
Comprehensive income attributable to La-Z-Boy Incorporated	$ 17,435	$ 15,948

(Unaudited, amounts in thousands)	Nine Months Ended 1/24/15	1/25/14
Net income	$ 51,491	$ 43,823
Other comprehensive income (loss)		
Currency translation adjustment	(715)	(2,530)
Change in fair value of cash flow hedges, net of tax	(491)	(529)
Net unrealized gain on marketable securities, net of tax	154	540
Net pension amortization, net of tax	1,303	1,642
Total other comprehensive income (loss)	251	(877)
Total comprehensive income before allocation to noncontrolling interests	51,742	42,946
Comprehensive income attributable to noncontrolling interests	(861)	(145)
Comprehensive income attributable to La-Z-Boy Incorporated	$ 50,881	$ 42,801

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)		**1/24/15**		**4/26/14**
Current assets				
Cash and equivalents	$	98,410	$	149,661
Restricted cash		9,637		12,572
Receivables, net of allowance of $10,336 at 1/24/15 and $12,368 at 4/26/14		149,090		152,614
Inventories, net		160,133		147,009
Deferred income taxes current		15,782		15,037
Business held for sale				4,290
Other current assets		42,017		41,490
Total current assets		475,069		522,673
Property, plant and equipment, net		170,880		127,535
Goodwill		15,164		13,923
Other intangible assets		5,094		4,544
Deferred income taxes long-term		35,077		32,430
Other long-term assets, net		65,529		70,190
Total assets	$	766,813	$	771,295
Current liabilities				
Current portion of long-term debt	$	331	$	7,497
Accounts payable		49,490		56,177
Business held for sale				832
Accrued expenses and other current liabilities		103,250		102,876
Total current liabilities		153,071		167,382
Long-term debt		51		277
Other long-term liabilities		82,732		73,918
Contingencies and commitments				
Shareholders equity				
Preferred shares 5,000 authorized; none issued				
Common shares, $1 par value 150,000 authorized; 51,266 outstanding at 1/24/15 and 51,981 outstanding at 4/26/14		51,266		51,981
Capital in excess of par value		267,988		262,901
Retained earnings		234,069		238,384
Accumulated other comprehensive loss		(31,057)		(31,380)
Total La-Z-Boy Incorporated shareholders equity		522,266		521,886
Noncontrolling interests		8,693		7,832
Total equity		530,959		529,718
Total liabilities and equity	$	766,813	$	771,295

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** **1/24/15**	**1/25/14**
Cash flows from operating activities		
Net income	$ 51,491	$ 43,823
Adjustments to reconcile net income to cash provided by (used for) operating activities		
Restructuring	(1,106)	(115)
Impairment of business held for sale		1,149
Deferred income tax benefit	(3,987)	(2,929)
Provision for doubtful accounts	(2,060)	(2,494)
Depreciation and amortization	16,297	17,529
Equity-based compensation expense	6,094	7,371
Change in receivables	7,011	4,865
Change in inventories	(11,913)	(15,166)
Change in other assets	5,794	2,698
Change in payables	(7,659)	2,865
Change in other liabilities	(4,898)	3,193
Net cash provided by operating activities	55,064	62,789
Cash flows from investing activities		
Proceeds from disposal of assets	8,940	2,248
Capital expenditures	(56,512)	(23,078)
Purchases of investments	(30,544)	(40,796)
Proceeds from sales of investments	23,987	27,974
Acquisitions, net of cash acquired	(1,774)	(801)
Change in restricted cash	2,935	120
Net cash used for investing activities	(52,968)	(34,333)
Cash flows from financing activities		
Payments on debt	(7,413)	(434)
Payments for debt issuance costs	(164)	
Stock issued for stock and employee benefit plans	496	3,526
Excess tax benefit on stock option exercises	234	5,805
Purchases of common stock	(35,752)	(20,276)
Dividends paid	(10,416)	(7,375)
Net cash used for financing activities	(53,015)	(18,754)
Effect of exchange rate changes on cash and equivalents	(332)	(675)
Change in cash and equivalents	(51,251)	9,027
Cash and equivalents at beginning of period	149,661	131,085
Cash and equivalents at end of period	$ 98,410	$ 140,112
Supplemental disclosure of non-cash investing activities		
Capital expenditures included in payables	$ 6,275	$ 2,183

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

7

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 27, 2013	$ 52,392	$ 241,888	$ 226,044	$ (35,496)	$ 7,140	$ 491,968
Net income			55,056		1,324	56,380
Other comprehensive income (loss)				4,116	(730)	3,386
Stock issued for stock and employee benefit plans, net of cancellations	937	2,395	(4,509)			(1,177)
Purchases of common stock	(1,348)	(3,056)	(27,693)			(32,097)
Stock option and restricted stock expense		8,739				8,739
Excess tax benefit from exercise of options		12,935				12,935
Dividends paid			(10,514)			(10,514)
Change in noncontrolling interests					98	98
At April 26, 2014	51,981	262,901	238,384	(31,380)	7,832	529,718
Net income			50,558		933	51,491
Other comprehensive income (loss)				323	(72)	251
Stock issued for stock and employee benefit plans, net of cancellations	815	(793)	(10,683)			(10,661)
Purchases of common stock	(1,530)	(448)	(33,774)			(35,752)
Stock option and restricted stock expense		6,094				6,094
Excess tax benefit from exercise of options		234				234
Dividends paid			(10,416)			(10,416)
At January 24, 2015	$ 51,266	$ 267,988	$ 234,069	$ (31,057)	$ 8,693	$ 530,959

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. The April 26, 2014, balance sheet was derived from our audited financial statements. The interim financial information was prepared in conformity with generally accepted accounting principles, which were applied on a basis consistent with those reflected in our fiscal 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission, but 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), which are necessary for a fair presentation of results for the respective interim period. The interim results reflected in the accompanying financial statements are not necessarily indicative of the results of operations which will occur for the full fiscal year ending April 25, 2015.

During the third quarter of fiscal 2015 we received a cash payment related to a legal settlement that was recorded as part of cost of sales for the quarter and first nine months ended January 24, 2015. Gross margin improved 1.5 percentage points and 0.5 percentage point in the third quarter and first nine months of fiscal 2015, respectively, due to the legal settlement.

Note 2: 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 and exited the hospitality business as we manufactured those products in our Hudson facility. We have transitioned our warehouse and repair functions from two North Wilkesboro, North Carolina facilities to Hudson. In addition, we sold both of the North Wilkesboro facilities and most of the wood-working equipment from our Hudson plant during the first nine months of fiscal 2015.

We have recorded pre-tax restructuring charges of $7.0 million ($4.5 million after tax) since the inception of this restructuring plan, with $3.7 million pre-tax ($2.4 million after tax) related to continuing operations and $3.3 million pre-tax ($2.1 million after tax) related to discontinued operations. These charges relate to severance and benefit-related costs and various asset write-downs, including fixed assets, inventory and tradenames. 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), 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 an idled showroom.

We had $0.3 million of restructuring liability remaining as of January 24, 2015, primarily related to severance, which we expect to be settled throughout fiscal 2016. We included restructuring charges related to discontinued operations in our income (loss) from discontinued operations in our consolidated statement of income.

Note 3: Discontinued Operations

During the fourth quarter of fiscal 2014, we sold substantially all of the assets of our Bauhaus U.S.A. business unit to a group of investors and classified Lea Industries as held for sale while we marketed that business for

Table of Contents

sale. We were unable to find a buyer for our Lea Industries business, and instead we liquidated all the assets, consisting mostly of inventory, and ceased operations of Lea Industries during the third quarter of fiscal 2015.

The operating results of Bauhaus and Lea Industries are reported as discontinued operations for all periods presented. We had historically reported the results of our Bauhaus business unit as a component of our Upholstery segment and 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 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, and January 25, 2014, were as follows:

	Quarter Ended		Nine Months Ended	
(Amounts in thousands)	**1/24/15**	**1/25/14**	**1/24/15**	**1/25/14**
Net sales	$ 1,075	$ 12,951	$ 7,863	$ 40,494
Operating income (loss) from discontinued operations	$ 186	$ (1,532)	$ 747	$ (2,175)
Income from Continued Dumping and Subsidy Offset Act, net			3,763	
Income tax (expense) benefit	(71)	545	(1,613)	782
Income (loss) from discontinued operations, net of tax	$ 115	$ (987)	$ 2,897	$ (1,393)

In our consolidated statement of cash flows, we included the activity of these discontinued operations along with our activity from continuing operations.

Table of Contents

Note 4: Inventories

A summary of inventories is as follows:

(Unaudited, amounts in thousands)		1/24/15		4/26/14
Raw materials	$	78,359	$	71,247
Work in process		14,408		13,722
Finished goods		93,569		91,842
FIFO inventories		186,336		176,811
Excess of FIFO over LIFO		(26,203)		(29,802)
Inventories, net	$	160,133	$	147,009

During the second quarter of fiscal 2015, we ceased manufacturing casegoods product domestically, and as a result the stream of domestically manufactured inventory will not be replaced. Our LIFO reserve was reduced as we liquidated the inventory.

Note 5: Goodwill and Other Intangible Assets

During the third quarter of fiscal 2015, we acquired the assets of one independent La-Z-Boy Furniture Galleries® dealer in exchange for $1.8 million in cash and forgiveness of that dealer s accounts receivableWe reacquired the right to own and operate one La-Z-Boy Furniture Galleries® store in that market as a result of the acquisition. In our Retail segment, we recorded an indefinite-lived intangible asset of $0.6 million related to this reacquired right and $1.2 million of goodwill, both of which will be amortized and deducted for federal income tax purposes over 15 years. This store was included in our Retail segment results upon acquisition.

The following is a roll-forward of goodwill for the nine months ended January 24, 2015:

(Unaudited, amounts in thousands)		Goodwill
Balance at April 26, 2014	$	13,923
Acquisitions		1,241
Balance at January 24, 2015	$	15,164

The following is a roll-forward of other intangible assets for the nine months ended January 24, 2015:

(Unaudited, amounts in thousands)	Tradenames	Reacquired Rights	Total Other Intangible Assets

Balance at April 26, 2014	$	1,306	$	3,238	$	4,544
Acquisitions				550		550
Balance at January 24, 2015	$	1,306	$	3,788	$	5,094

Note 6: Investments

In our consolidated balance sheet at January 24, 2015, we included $18.9 million of available-for-sale investments and $0.9 million of trading securities in other current assets and $40.6 million of available-for-sale investments in other long-term assets. In our consolidated balance sheet at April 26, 2014, we included available-for-sale investments of $15.9 million and trading securities of $1.8 million in other current assets and available-for-sale investments of $43.2 million in other long-term assets. At January 24, 2015, and April 26,

Table of Contents

2014, $45.3 million and $44.7 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. If there were a decline in the fair value of an investment below its cost and the decline was considered other-than-temporary, we would recognize the amount of decline below cost as part of our earnings.

The following is a summary of investments at January 24, 2015, and April 26, 2014:

As of January 24, 2015

(Unaudited, amounts in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 1,567	$ (109)	$ 8,740
Fixed income	187	(72)	50,466
Mutual funds			875
Other	1	(20)	364
Total securities	$ 1,755	$ (201)	$ 60,445

As of April 26, 2014

(Unaudited, amounts in thousands)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity securities	$ 1,246	$ (52)	$ 8,216
Fixed income	166	(44)	50,510
Mutual funds			1,787
Other	1	(10)	425
Total securities	$ 1,413	$ (106)	$ 60,938

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

	Quarter Ended		Nine Months Ended	
(Unaudited, amounts in thousands)	1/24/15	1/25/14	1/24/15	1/25/14
Proceeds from sales	$ 6,160	$ 9,778	$ 23,987	$ 27,974
Gross realized gains	209	775	254	820
Gross realized losses	(23)	(473)	(53)	(538)

The fair value of fixed income available-for-sale securities by contractual maturity was $18.9 million within one year, $29.6 million within two to five years, $1.5 million within six to ten years and $0.5 million thereafter.

Note 7: Debt

We maintain a revolving credit facility secured primarily by all of our accounts receivable, inventory, and cash deposit and securities accounts. We amended this agreement on December 30, 2014, extending its maturity date to December 30, 2019. 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 24, 2015, we were not subject to the fixed charge coverage ratio requirement, had no borrowings outstanding under the agreement, and had excess availability of $142.2 million of the $150.0 million credit commitment.

Table of Contents

Note 8: Pension Plans

Net periodic pension costs were as follows:

	Quarter Ended		Nine Months Ended	
(Unaudited, amounts in thousands)	**1/24/15**	**1/25/14**	**1/24/15**	**1/25/14**
Service cost	$ 279	$ 311	$ 837	$ 933
Interest cost	1,267	1,206	3,801	3,618
Expected return on plan assets	(1,269)	(1,701)	(3,807)	(5,100)
Net amortization	665	893	1,995	2,676
Net periodic pension cost	$ 942	$ 709	$ 2,826	$ 2,127

Note 9: 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 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 for the quarter and nine months ended January 24, 2015, and January 25, 2014, is as follows:

	Quarter Ended		Nine Months Ended	
(Unaudited, amounts in thousands)	**1/24/15**	**1/25/14**	**1/24/15**	**1/25/14**
Balance as of the beginning of the period	$ 15,540	$ 15,929	$ 16,013	$ 15,525
Accruals during the period	5,094	3,971	14,011	11,643
Accrual adjustments		(945)	(953)	(945)
Reclass to discontinued operations		(218)		(218)
Settlements during the period	(4,198)	(3,615)	(12,635)	(10,883)
Balance as of the end of the period	$ 16,436	$ 15,122	$ 16,436	$ 15,122

As of January 24, 2015, and April 26, 2014, we included $10.1 million and $9.8 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.

Note 10: 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:

Table of Contents

(Unaudited, amounts in thousands)	Quarter Ended 1/24/15	Quarter Ended 1/25/14	Nine Months Ended 1/24/15	Nine Months Ended 1/25/14
Equity-based awards expense	$ 1,047	$ 1,700	$ 6,094	$ 7,371
Liability-based awards expense	3,322	2,203	3,695	5,993
Total stock-based compensation expense	$ 4,369	$ 3,903	$ 9,789	$ 13,364

The table below summarizes the grants we made during the first nine months of fiscal 2015:

(Unaudited, shares/units in thousands)	Shares/units granted	Liability/ Equity award	Settlement
Stock options	374	Equity	Common shares
Restricted stock	103	Equity	Common shares
Restricted stock units directors	33	Equity	Common shares
Performance-based shares	192	Equity	Common shares

Stock Options. We granted 373,711 stock options to employees during the first quarter of fiscal 2015, and we also 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 2015 using the following assumptions:

(Unaudited)	7/26/14
Risk-free interest rate	1.59%
Dividend rate	1.00%
Expected life in years	5.0
Stock price volatility	54.40%
Fair value per share	$ 10.45

Stock Appreciation Rights. We did not grant any SARs to employees during the first nine months of fiscal 2015, 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 will remeasure to reflect the 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 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.

14

Table of Contents

In fiscal 2014, we granted SARs as described in our Annual Report on Form 10-K for the fiscal year ended April 26, 2014. At January 24, 2015, we measured the fair value of the SARs granted during fiscal 2014 using the following assumptions:

(Unaudited)		**1/24/15**
Risk-free interest rate		1.06%
Dividend rate		1.17%
Expected life in years		3.40
Stock price volatility		38.80%
Fair value per share	$	10.92

In fiscal 2013, we granted SARs as described in our Annual Report on Form 10-K for the fiscal year ended April 27, 2013. At January 24, 2015, we remeasured the fair value of the SARs granted during fiscal 2013 using the following assumptions:

(Unaudited)	**1/24/15**