

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **FBN - Furniture Brands Analyst & Investor Conference**

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**Mike Massude**

- Thomasville Furniture Store Owner

## PRESENTATION

**Lynn Chipperfield** - Furniture Brands International Incorporated - SVP & CAO

...Furniture Brands. What we'd like to cover these issues for those of you, who might be taking a first look at our company.

These introductory remarks will be followed by remarks by Mickey Holliman, our Chairman of the Board and Chief Executive Officer. Mickey will cover some major strategic issues, facing our industry and our company. That will take us to about 10 o'clock, at which point we will take a short break for blackberries and breaking out.

In the meantime, if you could put your cell phones on vibrate, that would help. Following that break, you will have a presentation by Tom Foy, our President and Chief Operating Officer. Tom will address the operational issues and doubts in implementing the strategic initiatives that Mickey discusses.

Tom will be followed by a presentation by Denise Ramos, our Senior Vice President, Treasurer and Chief Financial Officer. Denise will cover the financial considerations surrounding these strategic and operational issues.

These presentations will take about an hour. And Mickey will then come back to the podium, and his brief concluding remarks will be followed by a question-and-answer period. You're encouraged to ask questions of anyone up here on the dais, and we'll stay here for questions as long as you'd like.

The formal portion of the presentation this morning will end about noon, at which time the lunch will be brought in. Mickey, Tom, Denise and myself, together with the other company representatives that you see here, will be joining you for lunch. We hope you can stay. We can continue the Q&A over lunch, if you have some follow-up questions. The lunch will be over, and we hope to have everyone out of here by no later than 1 o'clock.

Before we begin, please bear with me, as I provide you with the usual cautionary language. We will be making some forward-looking statements at this conference. So once again, I would caution you that any such statements are based on our current expectations, subject to a number of certainties, and actual results may differ. We'd refer you to our public filings for further information about that. Thank you for patience with that.

First, I'll take a few minutes to give you a little bit of background on our company. Furniture Brands International was founded in St. Louis, in 1911, as a shoe company.

Throughout a corporate history that involved many acquisitions, many divestitures and a major re-capitalization and financial reorganization, and after involvement in many diverse industries, such as apparel and general retail, by the end of 1995, we had transformed the Company from the largest footwear manufacturer in the country to the largest residential furniture manufacturer in the country.

In 1996, we changed the name of the Company to Furniture Brands International. At that time, in 1996, we had three primary brand names, Broyhill, Lane and Thomasville. We also had several smaller companies with their own strong brand names and their own niche markets, Hickory Chair, Pearson, Laneventure, Hickory Business Furniture, and Creative Interiors.

At the end of 2001, we acquired three more companies, Henredon, Drexel Heritage, and Maitland-Smith. These three companies gave us an opportunity for a commanding presence in the furniture market's upper end.

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Our brands define our identity, as you can see on the screen. They represent six of the best-known brand names in the industry. Every study we see, whether we commission it or whether it's commissioned by others, confirms this. And we believe building the strength of these brand names is critical to our future.

Our company is nearly, equally divided in terms of price points. Based on orders to-date this year, about 54% of our business is in the middle price points, which is primarily Broyhill and Lane; 42% of our business is in the upper price points, represented primarily by Thomasville, Drexel Heritage, Henredon, and Maitland-Smith.

As for the lower price points, this has not been a focus for us, but our Creative Interiors Division of Thomasville has been doing very well in the recent years, largely because of its excellent management team. Their business represents the remaining 4% of our total revenues.

In terms of product line, we are also nearly, equally divided. Case goods, which generally means bedroom, dining room, occasional furniture, wall units, other wood furniture, represents about half of our revenues. Upholstered items, which is sofas, loveseats, chairs, recliners -- stage sofas and loveseats within this recline -- these make up about the other half of our revenues.

Our corporate structure is very easy to understand. All of our subsidiaries are wholly owned. We don't have any convertible debentures. We don't have any joint ventures off the books or offshore partnerships. We are very easy to understand. Our capital structure is debt and equity. The debt is represented by an unsecured revolver. The equity is common stock.

As many of you know, the market in which we operate -- it is highly fragmented, and the two or three largest players have not yet risen to the top. There is extraordinary potential for market share growth, which leads us to the question, how can we take advantage of this transition in the industry to position this company for topline growth and consistent earnings performance. You'll hear more about that from Mickey, Tom and Denise, this morning.

So it is now my honor to introduce Mickey Holliman. In 1970, Mickey co-founded Action Industries, the company that specializes in the manufacture of upholstered reclining chairs in Tupelo, Mississippi. After just a couple of years, Action had already outgrown its available resources. So the company was sold to the Lane Company to gain capital to grow the company further.

Mickey and his partner, Bo Bland, continued to run Action, and overtime Action became larger than Lane itself. In the 25 years that Mickey ran Action, from 1971 to 1996, he grew the company from zero to nearly \$0.5 billion in revenues.

Mickey joined Furniture Brands upon the Lane acquisition in 1987. He continued to run Action until October of 1996, when he was elected President and Chief Executive Officer of Furniture Brands. At that time, he was elected as Director of Furniture of Brands. And in May of 1988 -- 1998, he was named Chairman of the Board.

Now, to tell you more about our strategies and how we plan to address them, here is Mickey Holliman, the Chairman and Chief Executive Officer of Furniture Brands. Mickey?

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**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Thank you, Lynn. I'll add my welcome to each of you to this Furniture Brands' investor conference. I've seen a lot of familiar faces here this morning, and I'm glad that you are all here today.

We have appeared at a large number of investor conferences over the years, but this is only the second time that we have hosted our own conference or at least, since I've been on board, that's been the case. We've had a lot of interest in this conference, and it looks like we have a very good number here this morning for this meeting. We are pleased that you are with us, today.

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As Lynn has said, we have some of our company representatives with us, this morning. I would like to introduce them at this time, before we can get into the real content of today's meeting.

Aubrey Patterson is the Chairman of the Board and Chief Executive Officer of Bancorpsouth Incorporated and a Member of our Board of Directors. Aubrey is here, this morning. Aubrey, would you please stand? Thank you very much.

We also have the Chief Executive Officer of our operating companies here, this morning. I'll ask if they will stand, as they are introduced? Harvey Dondero, President and CEO of Broyhill. Randy Spak, President and CEO of the Lane Company. Tom Tilley, President and CEO of Thomasville. Jeff Young, President and CEO of HDM, our consolidated high-end companies consisted of Henredon, Drexel Heritage, and Maitland-Smith. Steve McKee, President of Henredon. And Seamus Bateson, President of Maitland-Smith. We also have Steve Alstadt, our Controller, who is here this morning with us as well. Thank you very much.

When we sponsored the first Furniture Brands investor conference here, in New York, two years ago, I started with these words -- "Seldom in the history of any industry that we see the sort of fundamental challenges and opportunities that we faced in the furniture industry today."

I stand before you this morning to tell you our industry is changing even more rapidly and more dramatically today than it was two years ago. Today, the challenges here, at Furniture Brands, are even greater, and so are the opportunities. Some of these challenges, we have been addressing very well. On some, quite frankly, we could have been doing a better job.

This morning, I will review for you our strategic initiatives to address these challenges and to take advantage of these opportunities. I will be blunt. Where we have done a good job, I'll let you know. Where we have not, I'll let you know that as well. I have said frequently that change is the only constant in our business. I still describe our industry as one in an unprecedented state of transition.

As an example, significant growth has taken place in promotionally priced goods for companies like Rooms To Go, Ashley Furniture, and Nest To Own (ph) Companies and low-margin competitors like Wal-Mart and Costco and Ikea. For several years, I have said the furniture consumer is not trading there. Today, at some price points, I'm not so sure anymore. This is, to some degree, a challenge for us as well.

We continue to lose small, traditional furniture store retailers to bankruptcy and the credit worthiness. Some 190 such customers have been lost to Furniture Brands' companies in the past 12 to 15 months. There are now many Asian companies, primarily Chinese, that have their own US sales forces selling direct to US retailers.

In addition, there are at least a dozen or so US sales organizations, representing consortiums of Chinese and other Asian factories. Their sales are generally the larger retailers, but some are now constructing US warehouses to allow for several smaller independent retailers as well.

The expansion of these imported case goods continues as an industry. In addition, we are now seeing Asian fabric upholstery focusing in significance in both cut and sown products and finished goods, especially at lower price points.

And lastly, we continue to see adhered price deflation. Confusion by consumers over the similarity of product on retail floors, the result of import mockups, and credit terms being exceeded to five and as much as six years.

In our own company, a major transition continues as well. The shift in balance of source versus domestic product continues. That shift would accelerate, as we bring domestic manufacturing in land with incoming businesses and as we adjust to our increasing presence offshore.

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We're also undertaking new initiatives in regard to the development and sourcing of better of quality wet fabric goods. We continue to push toward more control of distribution of our products at retail, expanding our collection of galleries and freestanding stores.

We will continue with our store program, but our expansion at Broyhill and Lane will be done with a bias toward our galleries and our existing retail base, because they continue to be a critical part of our retail strategy. A strengthened corporate and operational role is underway with an emphasis on brainpower and experience. I'll talk about some of those changes in a few minutes.

And finally, our recent acquired companies. At the high end, Henredon, Drexel Heritage and Maitland-Smith have recently been consolidated on the one-leadership structure, adding to the profit potential of this important upper end segment of our business with the elimination of redundancy and back-office costs.

We have made significant change in this company, since I undertook this role at the end of 1996. And we have made even greater changes in the two years, since our last meeting here, in New York, with the analyst community. We have done a lot, but we have not changed quickly enough.

It seemed that we were reinventing this company in a dramatic way over the past several years, but it now appears that a more accelerated process was warranted. In recent months, we have put the mechanism in place to accelerate these changes, but I don't want to minimize the importance of what we have already done.

Changing a company of our size and complexity is not an easy task, particularly, when it is done on a grappling with day-to-day operating issues in an interchanging industry. In the process of our transition, we have dealt with three huge culture issues.

First, there is the culture shock of our transition from domestic manufacturing to sourcing. It's important to understand that only three and one-half years ago, we were a highly decentralized company, with some 60 domestic manufacturing operations, mostly clustered in small communities.

It is not unusual for an employee in one of our plants to have a spouse, a child, or a neighbor working at another of our plants. Closing half the total number of plants and eliminating some 8,000 jobs in a very short window of time has presented culture shock challenges, unprecedented in this company's history.

The toll on the moral of our workforce and on our communities in which we operate has been immeasurable. The hard decisions we have made were the correct ones but not without great adverse effects.

There is a second culture issue, unique to our own company. It arises out of the autonomous way our operating companies have functioned in the past. There were good reasons for this autonomy, including our desire to retain an entrepreneurial attitude at all of these companies and to give them the flexibility to remain nimble and competitive in a marketplace that must be highly responsive to changes in fashion.

Because of this autonomy, the concept of shared best practices or of consolidation of redundant functions was not a high level priority. This has now changed. We are committed to driving that change, and we have total by end from all of our operating companies.

We still do everything we can to promote the entrepreneurial spirit in these companies, but we all realize the autonomy of the old days is something that we can no longer afford. I will speak more about that in my remarks later in the morning.

The last cultural issue we have addressed, perhaps the most important the most difficult, is we have changed the way we think of ourselves. Our company, like the rest of our industry, has long suffered from the inability to rid ourselves of the manufacturing mindset. We describe ourselves as a branded consumer products company, and we are one.

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But having said that, we then spend our days worrying about capacity utilization, lead-times, and all those other things manufacturers worry about. Wrestling ourselves out of this manufacturing mindset has been a big challenge, and I will confess to you that the buck stops right here.

I've been one of the worst offenders in this regard, but our focus has changed. Our singular focus today is on giving the consumer the results that she wants from the shopping experience whatever it may be.

Our goal is not to become a better manufacturer. Our goal is not to satisfy the retailer. Our goal is to satisfy the consumer. We will become an integrated, whole-home furniture resource for the consumer, giving her the best products at the best price with the best delivery times and the best overall service levels.

In other words, we will deliver value to the consumer. I don't mean value only in terms of good furniture at a good price. I mean value in terms of prompt deliver. I mean value in terms of choices of furniture and accessories that work together for here. I mean valuing the consumer's time as well as her pocket book. And I mean being part of the solution.

With that concept in mind, everything else becomes back-office, including the manufacturing process. This has represented a significant cultural shift for all of us in management in this company. It's important that you understand these cultural issues, because this is the reality of the world in which we are operating today.

It is much easier to start a company from scratch, not unlike some of our competitors in the Far East. They have the opportunity to learn from the mistakes of others and to start with a clean sheet of paper. It takes more time to change an existing company, like ours, for we are changing an embedded infrastructure dating back, in some cases, as much as 100 years.

We have to deal with the legacy issues to keep them destroying the Company in the process. My message to you this morning is, I believe, that we have worked our way through these issues. To use an analogy, we have turned in the aircraft carrier, and we are now ready to pick up some steam.

So with that as background, let me list for you the strategic imperatives that we are addressing to lay the foundation for our growth or this company's growth and profitability and to explain to you why I am more convinced than ever that we will be totally successful.

First, we will differentiate our brands and make them more relevant to the furniture consumer. Secondly, we will ensure proper distribution of our branded products through an intelligent focus on both dedicated channels and traditional distribution. Thirdly, we will continue to shift the sourcing of our products to lower cost options and we will optimize distribution and warehousing. Fourth, we will leverage our size to minimize cost by consolidating back office functions and by maximizing our purchasing power. Fifth, we will continue to invest our cash flow lively. And lastly, but more importantly, we will continue to upgrade the quality of our management team and create an organizational structure that drives results.

A discussion of these strategic imperatives will constitute the balance of my remarks this morning. First, I will address the issues of differentiating our brands, which truly remain our most irreplaceable assets. Having strong brands is like being born into a wealthy family. You can still feel that you have to work hard at it. Part of our growth strategy deals with the overall marketing approach of Furniture Brands.

I have mentioned in the past that we are searching for a marketing executive to come to our company at the corporate level. We are moving aggressively to fill this position and we have already conducted many interviews, but we have not found the right person yet. The assignment is very complex and our expectations are extremely high with regard to this position.

The chief marketing officer will have many duties. To focus on brand building and brand segmentation so our brands can be more effectively targeted to the appropriate audience and we will know the limits of their extension for purposes of licensing. To coordinate consumer research generally more proactive than reactive, so we will know in advance what gaps we have in

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our align and whether the products that we introduced will do well in the marketplace. To provide consistency of message, so our brands will remain strong and meaningful.

And lastly, the chief marketing officer will institute process and discipline in our marketing efforts, so that we can eliminate overlap and redundancy and give all of our companies the benefit of a more efficient approach at a corporate level.

We all understand the critical importance of the brands to the success of our operating companies. We must assure that they do not become muddle and lose their distinctiveness. But we are convinced that a more centralized over side of the brands is needed to protect their distinctiveness and to limit, where appropriate, the competition between the brands and the open overlap that has existed in the past. Our CEO's understand and totally agree with this position.

As strong as the brands are, they can be made stronger. This will make all of our companies more competitive in the marketplace. There are number of other ways; we are driving the marketing side of this company as well. We have a firm doing exit interviews with consumers outside some of our retail locations to get on its input on what they did and did not purchase or why they did or did not purchase furniture.

We have conducted focus group interviews with consumers to get their analysis of new product introductions before they enter the marketplace. We are doing extensive consumer research, a good example being the research that was done in advance of the development of the new Broyhill and Lane by Drexel Heritage, which was highly successful at this recent market in North Carolina.

We are changing our personnel at the operating companies to bring in the best design and engineering talents so that we can stay in front with innovative products. In recent months, we have changed the head of upholstery merchandising at four of our five major companies that deal with upholstery. And lastly, we are looking for ways to use the Internet as a more effective marketing and brand building to. Understanding that people still want to buy their furniture in person, but that more and more of them are doing their research on the Internet and we hear a lot about that today. All of these initiatives will make our brands stronger and more distinct in a highly competitive marketplace.

Our second strategic initiative deals with strengthening our distribution channels. We speak frequently about our challenge to find the balance between our traditional distribution and our single brand stores development program. With our change to a consumer centric mindset, the question of where and how we sell our products has taken on a greater level of importance for a number of reasons. First, more control of distribution gives us greater predictability in our income in business than it relieves us from the volatility that we have been experienced in recent years, whether due to retail failures or change in the consumer shopping patterns.

Second, the Furniture consumer has told us, the Furniture shopping experience ranks somewhere just below awful on her list of things to do. She has too many choices, she has too little time, she has too little assistance in making her decision and she simply doesn't get the gratifying shopping experience that she has the right to expect.

And third, we risk losing control of our products at the end of the process. We make quality products and we spend millions every year to build our brand names, but between us and our ultimate consumer is sometimes a retailer who promotes on the basis of price or payment terms and not on the basis of quality and value. Our brand names are diminished through this process. With greater control over distribution, we will resolve these issues. We will better understand what the consumer wants, and we will design and market our furniture to achieve consistency in volume. We will get closer to the consumer and we will make sure that her experience, shopping for her furniture is a positive one. And we will gain increased exposure for our brand, and we will be sure our efforts to build them are not interrupted at the retail level.

Our control of this distribution process has been through a tight focus on galleries and single-brand stores throughout all of the Furniture Brands companies. Today that dedicated distribution represents about 46% of sales and it is growing each year. We will continue to pursue this important distribution strategy where you'll see a different focus dependent upon the operating

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company. Broyhill and Lane will pursue and strengthen their traditional distribution, network of independent retailers. And they will open single-brand stores only to cover buoyed in distribution. For Broyhill and Lane our goal is to build value, to build the brands and to use both of those to strengthen traditional distribution relationships.

Thomasville and Drexel Heritage will continue to pursue their single-brand stores initiatives, and they will pursue traditional distribution only in areas where stores will not work. Our format of choice for single-brand stores will continue to be independent operators. We will open company-owned stores only where no independent dealer is available. An example of that is San Francisco, California for Thomasville.

I know our risk making retailers around the company nervous when I talk about direct control of our distribution channel, and interested, maybe, we've got a few retailers here this morning. But at Broyhill and Lane, our goal is simply to gain distribution in the market areas in which we do not have adequate penetration. Our goal is to protect and to complement, not compete, with our existing distribution channels, and we will continue to drive that philosophy hard in the months to come. The current shakeout on the retail side of this industry will continue, and our goal is to do more business with those strong retailers who we believe will be the survivors in that shakeout period.

Our third initiative is to continue our focus on sourcing initiatives and to optimize our logistic efforts. We are asked frequently, how we plan to compete with the imports that have grown at the expense of domestic made products in this industry? The answer is that we are an importer ourselves. Our run rate of imported products today is approaching 40% of all of our revenues, and that number continues to increase. This has required us to close a large number of our domestic manufacturing facilities, and those closings continue even as we speak today.

This has been the right thing to do, but it has been a painful process, and it could only be done as quickly as our internal culture and our offshore infrastructure that accommodate it. We have overcome those structural issues, and we're satisfied that our offshore infrastructure will enable us to continue this change without threatening our quality or our ability to service our customers.

The issue of service is important and it bears not only our ability to generate good margins, but it has an affect on our topline growth as well. Today's consumer has higher expectations for service. And she is unforgiving when service levels fall below those expectations. We've done a good job recently at Thomasville and at Drexel Heritage in making sure, we are stocked with our best selling products, so we can affect prompt delivery. We are continuing to focus on this at our other companies as well.

We have recently announced the appointment of Joe McClelland, as our new Vice President of Logistics and Supply Chain Management at Furniture Brands. This is a newly created position in our company and Tom will speak a little more about Joe's role in his comments a little later. Joe's challenge will be to bring our supply chain and our service levels to such a high degree of efficiency that they become part of our marketing effort, rather than part of our cost structure. We are asking Joe to make logistics part of the solution, not part of the problem. We also plan to take a hard look at our information systems.

Logistics is much a matter of information flow as product flow. And our operations will not be world class until our IT systems are world class as well. This is especially critical in our global business model for forecasting our needs and then tracking products from the manufacturer through the retailer to the ultimate consumer will control working capital and improve service.

We know that even if the value is right and the quality is right, and the design is right, it does no good, if we can't get the product deliver to the customer, which he wants to. Improving our performance in that area will be a true competitive advantage for us and it will boost our sales and improve our gross margins.

Our fourth strategic initiative is leverage in our size to minimize cost. This is a tremendously important initiative for us. Our revenue problems over the past few years have been related directly to Furniture Brands heavy cost structure. On the one hand, we have witnessed the increasing presence of imported furniture and other low cost and promotional players in our industry.

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On the other hand, as I said earlier, we have not reacted quickly in our own sourcing programs or in removing redundant operating expenses.

When combined with our desire to maintain margins, the net result of these two factors is that our values in some cases are less than competitive. Our research tells us that our brands are still extremely important and that our consumer will pay up for a brand when faced with a choice between reasonable, comparable products. But there is limit to how much the consumer will pay up and in recent years, we have been testing the top-end of those limits. This has contributed much to our failure to growth and it has compressed our margins as well.

The steps we are taking to address operating cost in a major way will help us solve this problem, so will our continuing focus on sourcing initiatives. If we can remain innovative and fresh in our product designs, the value issue is one that we definitely can solve. We have a structural issue. Furniture Brands is a large company, but the size of our consolidated operations is meaningless from a leverage standpoint as long as we continue to operate as multiple freestanding entities. In the past, we have been little more than a collection of smaller companies. We gained no leverage from our size. We will not reach our targeted levels of operating margins until we take dramatic steps to eliminate the redundancy of back office operations at all of our companies.

Two weeks ago, we announced the consolidation of Henredon, Drexel Heritage and Maitland-Smith into a single operating entity. This is an important first step in that process and there will be more. We ensconced the discussions about redundant cost to add our companies and what opportunities we have to bring those companies together to take cost out of the system. But remember what I said earlier about how anything that does bring us eyeball to eyeball with the consumer is back office.

We are not just talking about combined credit operations, our joint opportunities in purchasing raw materials. We are talking about everything that leads up to getting our products and services to the consumer. There are any number of different functions that are appropriate candidates for consolidation or for cooperative efforts among the companies and we are examining them all. The message is that we are serious about addressing the operating cost issues in this company. As we demonstrated with the consolidation of Henredon, Drexel Heritage and Maitland-Smith, even the structure of our organization is a subject for discussion. There are no secret vows.

Our fifth strategic initiative is making wise use of our cash flow. Our strong cash flow is an important part of our financial picture. As a reminder, Furniture Brands has demonstrated its ability to operate on average of over \$100 million per year in free cash, net of capital expenditures over the past five years and before. For far too long, this company was hobbled by too much debt. Focusing all of our free cash on debt reduction was the right thing to do to ensure the company's long-term health and we did that. The targeted debt levels were reached at the end of the third quarter of 2003, with the company having retired some \$615 million in long-term debt in less than 6 years, a truly impressive record of consistency and of discipline.

Now we are presented with the question of what do we with our strong cash generation. This is an issue, Denise, will be covering in her remarks later this morning. So I'll leave further discussion on this issue to her.

Our final and perhaps our most important strategic initiative is upgrading the quality of our management team. This industry, as many of you know, is not accustomed to having had on board an abundance of brainpower. We have made substantial changes on the personnel side since we last met. With the shift in our business model from a focus on manufacturing to a focus on the consumer, the quality of our management team has become a critical factor to our success.

In this year alone, we have taken important steps to strengthen that team. In February of this year, Denise Ramos joined us as our Senior Vice President, Treasurer and Chief Financial Officer. Denise came from the KFC division of a company called Yum! Brands, and she brings with her a strong consumer and retail perspective. She has also brought in her background and experience on the financial side.

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In early April of this year, Harvey Dondero joined our company as President and CEO of Broyhill. Harvey has vast experience in this industry. He enjoys outstanding relationships with our key suppliers and customers, and he has a strong consumer focus background. And I might add, he is one of the best strategic men in this industry as well.

At the end of April, we announced the appointment of Joe McClelland to the newly created position of Vice President of Logistics and Supply Chain Management for all of Furniture Brands companies. Joe brings to this critical role a career of experience in supply chain, most recently on the international side of the Home Depot. He has already taken important steps to make our logistics operations more efficient and more cost effective.

A couple of weeks ago we announced the consolidation of our high-end companies; Drexel Heritage, Henredon and Maitland-Smith under the leadership of Jeff Young. This has been an important first step in eliminating the redundant cost in our fragmented operating structure and in taking advantage of the leverage we should enjoy in the marketplace.

And lastly, as I mentioned earlier, our search continues for our Marketing Executive. In many respects, these personnel changes represents the foundation upon which the future of our company will be built. Each of these personnel changes has been an important step in implementing the strategic vision I have outlined for you this morning. And I know that there are analysts here today, and I know that you have expectations of seeing, particularly, this marketing role and some support underneath that being fulfilled. But my message to you is, until we get the right person in the job, then we're not going to make any moves. We are not going to make any moves that we don't believe measure up to the expectation level that we have determined.

To summarize, these are the strategic imperatives that we are currently driving and that you will hear us talk about going forward. We are committed to developing a clearly defined position for each key brand, and bringing the brands closer to the consumer with continuing emphasis on fashion, forward product development and innovation. We will ensure a proper distribution of our branded products through an intelligent focus on both dedicated channels and for additional distribution. We will continue to shift the sourcing of our products to lower cost options, we will optimize all of our logistics operations, including distribution and warehousing, and we will thereby generate sustained annual gross margin expansion to free up more funds to grow our business. We will leverage our size to minimize cost by consolidating back office functions and by maximizing our purchasing power. We will continue to invest our cash flows wisely. We will continue to maintain a keen focus on management development in our own companies, and we will continue to bring in management talent from other industries where appropriate, creating an organizational structure that drives results.

To conclude my remarks, we still face a number of significant challenges. Offshore manufacturers will continue to be both an important resource, and at the same time a competitive threat, as some produced their own lines of furniture to compete with us and others. We will continue to fill the stream with major retailer relationships as we drive our own retail distribution system.

Smaller retailers will continue to fail and will create a challenge in maintaining and growing revenues. Manufacturers will continue to fail, going down fighting through aggressive promoting and discounting, keeping pressure on pricing. Increased raw material cost will pressure margin gains in a market not receptive to price increases. But we've got a plan to address all of these issues, and we are moving forward aggressively. Remember, we have the leverage of our size and a fragmented industry of too many small players. We have strong cash flow in this company to help us fund our initiatives and to grow this business.

We have management talent on board in an industry suffering greatly from a shortage in that regard. We have a design talent in an industry of knockoff artist as an issue; we just have to stay ahead of the game. And perhaps, most importantly, we have some of the best-known and most respected brands in an industry with very few others. For all the challenges that we face and all the hurdles that we have overcome and have yet to overcome, there is still no company where I would rather be than right here. I've got every confidence that we're doing the right things today, and that we will drive this company to the growth and profitability levels that our investors truly deserve.

Thank you for being here with us this morning. We'll take your questions after the presentation about comment in these. So, for now, I'll turn the program back over to Lynn.

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**Lynn Chipperfield** - Furniture Brands International Incorporated - SVP & CAO

Thanks, Mickey. It's now about 5 minutes to 10:00. Lets take about a 15-minute break, so you can refresh your coffee, check your email, your voicemail, and we'll reconvene at about 10 after 10:00.

(BREAKOUT SESSION)

**Lynn Chipperfield** - Furniture Brands International Incorporated - SVP & CAO

Okay. We'll get started again. Tom Foy began his furniture career in retailing in 1970. He joined Action Industries in 1985 as Vice President of Sales. He was named President and Chief Executive Officer of Action in 1996 and at Lane Furniture Industries in January of 2000. In February of 2004, he was named President and Chief Operating Officer of Furniture Brands. So here is Tom Foy, President and Chief Operating Officer of Furniture Brands International.

**Tom Foy** - Furniture Brands International Incorporated - President & COO

Thank you, Lynn. And let me add my good morning to each of you for being here with us today. Mickey has addressed the major strategic issues based in our company today. I'll spend some time on the operational side; focus on how we are positioning the company to implement those strategic initiatives, and we'll do that shortly.

You know, you as investors invest in Furniture Brands as a single company, but as you know, we are made up of 11 individual operating companies in four reporting groups across a large segment of the furniture industry. One of our frustrations over the past several years has been in any one time one of our groups of companies may be doing well, while others are lagging behind. Offset the first half of the year 2000 of all our companies experienced really solid business conditions at the same time. Each of our operating companies faces their own distinct challenges as well as opportunities.

This morning I'll briefly discuss how each of these companies is doing and what our plans are for each as we continue to transform Furniture Brands as a whole. Broyhill represents about 20 to 25% of our overall corporate revenues, and it is regarded in our system as one of our middle priced point companies. Broyhill is a full line manufacturer that makes furniture for every room in the home. These products include both, wood furniture, which is bedroom, dining room, occasional tables, as well as wall units, and the upholstery side of business which is sofas, loveseats and chair. Today, Broyhill's product line is more heavily skewed toward case goods. Broyhill is the company today where we struggle the most. Their written business was off last year in the low double digits and it's been all significantly in both the first and second quarter of this year.

Broyhill has lost some \$100 million in revenues from retail failures over the past several years, business that went to other companies with vertical models or low overheads. Broyhill simply did not adapt its business model quickly enough. We also have a price value issue of Broyhill as a result of strong competition from imports and promotional players who are literally turning the lower end of our industry into a commodity based business on price alone.

Our ability to continue in this environment is complicated by Broyhill's cost structure and its heavy reliance on domestic manufacturer of case goods. As you have seen from our press release, we have taken steps to remitting those problems with the announcement of two Broyhill case goods facility and the conversion of an upholstery plant into an import warehouse. I'll talk to you a little bit more about that in just a few moments.

In addition to the plant closings, Harvey Dondero, as our new CEO has brought in fresh ideas about products that will help resolve some of these value issues. He has made important managerial changes of his own and we really are encouraged by the excitement and probably most importantly the urgency that exists today at Broyhill. And in a mean time, we are getting

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our arms around the cost issue to enable us to grow our revenues once again. This is the primary focus at Broyhill. The brand name is still incredibly strong and with the right product lines and solid values we will see a positive turnaround for this company.

Broyhill is also focused on a higher end margin upholstery business, which has been weak. The weakness in the upholstery business has affected our margins in upholstery, but also affects our case goods sales and stores traditionally will display around upholstery offerings. Some of Broyhill's recently announced personnel changes in this area will address this critical area.

On the distribution side, we believe that Broyhill's move to establish its single branded stores may have impacted some of its traditional retail distribution. In the near term, you'll see Broyhill taking steps to sure up those traditional retail distributions and to rebuild those critical relationships. The stores program will continue, albeit, in a slower pace. There will also be a renewed emphasis on gallery program that Broyhill really instituted back in the mid-70. This dedicated space that set aside exclusively for Broyhill products in our multiple lined stores. Broyhill today remains a challenge, but it's also a great opportunity. The incredibly strong Broyhill brand gives us a solid foundation which to reenergize this company and this business.

Lane, company near and dear to my heart, is also one of Furniture Brands middle priced companies. It represents some place in the neighborhood between 25 and 30% of our corporate revenues. Today Lane serves many of the same customers as Broyhill, but actually the Lane land runs from the lower middle where some of our recliners are almost promotional in pricing to the upper middle where some of our case goods and our stationary upholstery really could compete on the floors with the lights of the Thomasville.

Today, Lane is still primarily an upholstered company with case goods representing less than 15% of its overall revenue. Lane is trailing last year's written business as well, but not as badly as Broyhill. Lane's written business was all from the mid-single digit for the year of 2004 and in similar amounts for the first and second quarters of this year. Lane has experienced some margin compressions largely due to increasing raw materials that were building faster than the company could include those into the price of our products. I think everyone here knows, that steel prices rose substantially during the year 2004 and they have continue to rise in the first quarter of 2005.

Lane is a large consumer of steel in its recliners, motion and sleep sofas lines. And on a positive note, we have seen some pullback in steel pricing and that will benefit Lane greatly for the balance of 2005. At the same time, however, energy cost as you certainly well know every time you pull up to fill your car up, have increased prices in Polyurethane Foam, as well as other energy related raw materials.

Since most of Lane's business is upholstery, this increase in poly and fiber has affected this company greatly. The competitive environment is very tight in Lane's price point, as well as its market niche, so it's difficult for us to pass along these raw material increases to the retailer. We simply have to find savings elsewhere and wait for moderation in prices, but we've already affected some significant cost reduction at Lane.

Eliminating some 150 jobs in both management and hourly has been a significant help to our SG&A cost. Like Broyhill, the Lane stores program get up to a very bad start and we are little concerned about those effects that we have on relationships throughout our traditional retail channels. Lane will continue to operate and open stores in areas where there is no conflict, but you will see a renewed focus on their traditional retail base including the focus on gallery presentations within multiple lined stores.

On the manufacturing side, Lane has benefited greatly from a successful offshore cut and sew program. And for those of you in the audience today who may not be aware what a cut and sew program is, it's where we cut and sew leather or fabrics in the Far East, after which it's bundled tightly and shipped over here, so our skilled craftsmen can assemble it on a frame domestically. This gives us the benefit of having the low cost on those labor-intensive parts of this process. And it reduces our freight cost dramatically, since we are not trying to ship fully assembled items from offshore. You can expect to see cut and sew programs expanding throughout all of our companies, but especially on the fabric side of the business.

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A little on Thomasville. It represents some 15 to 20% of overall corporate revenues today and it's one of our high-end companies. Thomasville like Broyhill has a full line of manufacturer of furniture for every room in the home. Real opportunities exist today at Thomasville for the kind of revenue and margin growth that we need to move our earnings and revenue needle. We have made some key personnel changes in Thomasville that have had a positive effect on the Thomasville business.

We brought in a new vice president at upholstery and Thomasville receives an outstanding reception to the new upholstery line at the most recent furniture markets in North Carolina. I said earlier that a strong upholstery line is critical to the success of the case goods side of the business. This is particularly true in single branded store environment, like Thomasville has today. We have also made positive changes in our personnel, in our wood side of the business and manufacturing, as well as in the procurement.

These will help us improve the efficiency in our manufacturing and outsourcing efforts. It will help us control our raw material costs and benefit us greatly. We recently announced reduction in Thomasville's domestic case goods manufacturing capacity. I'll visit with you about that little more in just a minute. As of today, Thomasville import case goods products represent north of 50% of the total product line.

The big story today at Thomasville, however, is the major success that they have had in improving their in-stock position on case goods. Not long ago, Thomasville business was impacted by their inability to get these products into the consumer's hands on a timely basis. As Mickey said earlier, the consumer today has high expectations and she is really unforgiving, if she doesn't get her furniture when she expects it.

This is critical in a company like Thomasville where price has to justify that high level of expectation. Today, Thomasville, I am happy to tell you, we have reversed that problem. Every day we get a report of the Thomasville status with respect to their in-stock position for case goods. That number today is approximately 97% in-stock, that means that the consumer orders an item of Thomasville Furniture, the order can be filled within a matter of days. I can't overstate how critical this has been for the credibility of the Thomasville storeowners, the programs that exist today and we have some Thomasville storeowners with us today. Thomasville will continue to focus on a single branded stores as his distribution vehicle of choice, with traditional retailers only in those areas where stores don't make sense. We understand the key to the store success, is getting the value, price, equation right and Thomasville is working on that as well, as we speak. It's important to us that our independent storeowners grow and are profitable.

On May, the 23, we announced the consolidation of our high-end companies, Henredon, Drexel Heritage and Maitland-Smith under the leadership of Jeff Young. It's really been less than three weeks since this announcement, so we really don't have any concrete results to report at this time, but I can tell you this move will enable us to eliminate redundancy in our back office operations and to assist all of our high-end company in improving more efficient and more cost effective service to their customers. We've had a price value issue at some of our high-end companies and this will go a long way to resolving some of those price value issues.

In the meantime, I would like to say a few words about each of these high-end companies. Henredon, as you probably know, is one of our most upper-end companies in our stable brand but also well within the industry. Henredon serves a market that represents about 2 to 3% of the households in United States today. The Henredon target customers, consumers, are few in number, but they are loaded with buying power. The air is pretty thin up there and the opportunities for expansion are somewhat limited. But Henredon knows exactly who their customer is and they are highly focused on marketing programs to attract that high-end consumer.

The big news at Henredon this year was the major launch of the new Barbara Barry collection. We expect sales in the near-term to be in the 13 to \$15 million range with potential to be upward of \$30 million. That would represent an increase to Henredon's '04 numbers of about 15% year-over-year, a huge boost to revenues. Henredon is also focused on its upholstery business, which did not experience the type of growth, we should have been seeing. We have brought in a new Vice President of Upholstery

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from the retail side of the business to help in this area. The new upholstered offerings were well received at the recent furniture market in Highpoint. And we expect to see strong growth from this side of Henredon's business.

On the operational side, we just completed the closing of one of Henredon's few case good facilities. One is located in Spruce Pine, North Carolina and was consolidated all of their case good into our main facility in Morganton, North Carolina. On the distribution side, Henredon recently entered into agreement with Robb & Stucky, whose President happens to be with us today and we are delighted to have him. And they are one of the best high-end retailers of furniture in the country, with 9 stores located in the states of Florida, Texas and Arizona. This agreement with Robb & Stucky to open five Henredon stores, one of which is currently opening Coral Gables, Florida and four, which will be opened within the next 18-months with an additional one in Florida, two in Texas, and one in Arizona.

Drexel Heritage is also one of our operating companies. When we bought Drexel in -- at the end of 2001, it was a company that was in critical condition. It was strictly on live support, one that had suffered unfortunately through years and neglect and for which there were really only two options. Fix it or closure it. We brought in Jeff Young and his team and we told them we needed 24-months to have a turnaround. And I am pleased to say that Drexel is now growing faster than any of our other company and is on the road to become a one of our best performers.

The transformation at Drexel Heritage has been dramatic and there is two things, I think that really have helped turned Drexel around along with our new management team there, the first is the incredible stream of the Drexel Heritage brand name. The second is the gratifying support that we receive from the Drexel Heritage dealer base, had grouped who had every justification to abandoned us years ago. But you stuck with us because of their faith in the brand. Drexel had outstanding April furniture markets with a launch of the Vera Bradley collection and several other new product launch. And we also had -- we also added Drexel Heritage at new talented a forceful product manager.

I'm sure you're getting the same here, as Mickey told you earlier, we have replaced four out of five product managers and our operating companies for upholstery. This is incredibly important to the overall success of our programs. In doing so, Drexel Heritage is upholstery business, for those markets were up some 35%. I want to concern now is the Drexel is that the profit margins are still in the mid single-digit levels, which isn't bad, and certainly they actually loss money for the first two years in Henredon. But it does have our attention in the recent actions that we've taken to consolidate HDM as it move more production offshore, will help us realize significant earnings improvements not only at Drexel but all of our HDM companies on a go forward basis.

Maitland-Smith is a very different company from the others that I had described this morning. Maitland-Smith is less of a case goods and upholster manufacturer than they are a marketer of high-end accessories, lighting and accent furniture. Maitland manufactures a wide variety of furniture for their own customers and consumers, and they even do a lot of work for some of our sister -- some of their sister companies. Maitland style is eclectic. You'll seldom find a bedroom or an entire living room that has just their products in it. They manufacture individual items rather than a complete line of furniture. New orders at Maitland at the recent furniture market were up over 20%, largely due to the more relax expenditures that their management have put in place into a more moderate pricing.

Maitland enjoys manufacturing capacity in both the Philippines and in Indonesia, and including in this capacity, we've just come online additional facilities in both locations. Maitland is becoming a resource of choice for all of our companies, (inaudible) has been using them almost exclusively. I think you'll be seeing more of that inter-company cooperation on a go forward basis as well.

And lastly, I would be remised if I didn't talk about some of the other business unit we have. We don't talk about them a lot, but they are strong players in their own business segment. Hickory Chair is a high-end manufacturer with its own distinct retail base. Largely due to the efforts of their President, Jay Reardon and its dedicated workforce, hickory Chair has been performing extremely well over the past two years, merging two manufacturing facilities into one, with a true focus on lean manufacturing.

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Pearson is a high-end upholstery manufacturer, largely serving the design frame. Under the leadership of Sam Boyd they've also been doing well, and continue to contribute to both our top and our bottom line.

Hickory Business Furniture is our company's only unit that operates outside the residential furniture industry. It manufactures high-end office furniture. HBF experienced some of the same softness in business conditions as most office manufacturer companies after 9/11. Headed by Steve Gane and a strong management team, I'm happy to tell you that today they are having an excellent, solid 2005. Laneventure is a leading producer of superior casual furniture for both indoors and outdoors. It's led by Art Thompson, and Laneventure has a tremendously talented design team, with outstanding resources and designers like Raymond Waites, Cabana Joe and Eddie Bauer.

And lastly, I'd like to talk to you a little about a company that really have reported responsibly to Thomasville called Creative Interiors. It's a stark contrast to our other companies because it is the only Furniture Brands company in a promotional, ready-to-assemble segment of that industry. This portion of the industry is a very competitive area. The Creative Interiors has been performing well largely due to a terrific management team there, led by Phil Miller, and a strong culture of innovation. We don't talk about these companies much but the five businesses; Hickory Chair, Pearson, HBF, Laneventure and Creative Interiors, are very, very important part of our company, and their consolidated revenues in 2004 exceeded \$300 million. That's why we like them and the profitability is also attached to that \$300 million.

Now, a little bit about the Furniture Brands side that covers our operating companies and at the Furniture Brands levels. We have a recent announcement, as Mickey mentioned earlier, in the hiring of Joe McClelland as our Vice President of Logistics and Supply Chain Management. Joe's challenge will be more than just getting products from point A to point B as cheaply and quickly as possible. His charge is to help us take logistics cost out so that we can be more competitive. Joe's background at Home Depot will be a big benefit for us.

Logistics cost today are extremely high due to fuel, handling and warehouse expenses, and these costs sometimes are not always fully recoverable in the price we charge our retailers. The key is to minimize these costs, gaining the advantage of the low cost labor as a unique product design in the Far East does no good if we have to give it back in a form of freight cost or we cannot get it to the consumer in a timely fashion. The more we can do to take costs and time our logistic process the better will be toward helping our consumer and her long-term goals. On a short term goal for logistics is to ship our products to our dealers in a container direct program to those dealers who can afford to take containers in time, to unload our products from a container or a truck only once rather than three or four times, and deploy the products on a timely basis when needed, rather than having this product in warehouses.

There is also a great opportunity for us to consolidate products from among our companies to ship to the same retailer or even a geographical area, and break out the container from that point. In short, we will develop a world-class logistics systems that satisfies our consumers expectations for prompt and damage free delivery. Mr. McClelland's marching orders and his goal is to make Furniture Brands logistics operation the absolute best-in-class, and he is moving aggressively in that direction.

I told you we would review the plant closings. You know that this past Tuesday, we announced several plant closings and I'll give you an update on those. Thomasville announced the closing of its A plant. It was a case goods manufacturing facility, located in Thomasville, North Carolina. In addition to the A plant, there were several support plant that lend credibility to that plant and those plants have been closed as well.

In the same announcement, we told you that Broyhill had closed two case goods facilities located in Lenoir, North Carolina and the conversion of an upholstered manufacturing facility located in Rutherfordton, North Carolina as a distribution point for our imports. In the aggregate, these two announcements entail the elimination of over 2 million square feet of production space and some 1200 jobs.

In addition to the four plants, we just announced, I am sure you are probably aware that we closed five plants last year, also close to 2 million square feet with some 800 jobs affected. There really are only two reasons that we close a plant. The first is

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that we may combine two or more plants into one to optimize our domestic capacity utilization and absorb those fixed costs. The second is that we may close the domestic plant in favor of offshore production to increase our gross margin opportunities.

In the case, the announcements we made on Tuesday, some of the production will be consolidated into our remaining facilities and some of the production will be sourced from offshore. All this has done with a great -- with a view to getting greater value into our product and ultimately to the consumer.

In response to any questions that you should have about further closures, I'll only say that we'll continue to evaluate our domestic production needs and we will do, what we must do to control our cost, to remain competitive and to provide value to the consumer. For now, we'll work through the closings that have already been announced, which have obviously been difficult for us.

In conclusion, I would say that these strategic initiatives that make the outline of this presentation, present their own unique operating challenges. We have to keep our business running on a day-to-day basis seamlessly while we are engaging in these major strategic changes. It is true we've encountered a few bumps in the road, but I'll credit our strong management team of each of our operating companies for the great work they've done in adapting to these changes while continuing to run the business.

I am very comfortable that we have the operational issues under great control. And we're taking positive steps to return this company to consistent and growing profitability while adding value to our product line to become more competitive, and in doing so, move our revenue line in a very positive direction.

Thank you very much and I will turn it back over to Lynn.

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**Lynn Chipperfield** - Furniture Brands International Incorporated - SVP & CAO

Thank you, Tom. Before coming to our company, Denise Ramos had served since 2002 as the Chief Financial Officer of the KFC division of Yum Brands. Prior to that, she was Senior Vice President and Treasurer of Yum Brands itself and prior to that, she was employed by Atlantic Richfield Company for 21 years in positions of increasing responsibility. In February 2005, she was named to her current position with Furniture Brands.

It is my pleasure to introduce Denise Ramos, Senior Vice President, Treasurer and Chief Financial Officer of Furniture Brands.

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**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

Thank you, Lynn. Good morning. I'm pleased to be here and I'm pleased to be meeting most of you for the first time. It is nice to be able to put some faces to the names that I heard so much about over the past four months. Since most of you don't know me, let me first say that prior to coming to Furniture Brands, I spend my time in a consumer focused company, where the consumer is front and center in all decisions made and that is the mindset that I bring to Furniture Brands.

In that context, I will start this morning by giving you my thoughts on the role of a Chief Financial Officer. First, the CFO must be a strategic thinker, focusing on both the long-term and the short-term success of the business. I believe the strategy drives the numbers, not the other way around. And the CFO must play a very important role in formulating that strategy.

Second, the CFO is the keeper of the company's financial integrity. That means respecting commitments to made to the financial community and the CFO is directly accountable for the company's financial results and I take that responsibility very seriously.

Third, the CFO must be a productivity hog, galvanizing the management team to keep it focus on cost control and margin improvements. And lastly, the CFO must develop strong finance talent and evaluate it constantly so the financial department

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is always stronger tomorrow and today. These commitments involve a dedication to performance, integrity and change. My vow is to reinforce that culture in Furniture Brands at every opportunity.

I do want to spend my time this morning looking forward, not backward, but I think it's important to lay a foundation for our thinking as we move ahead. Furniture Brands is a solid company, but the financial results over the past five years have not been good. Our research shows that over the past five years the furniture industry in this country has had compound annual growth rate of about 3%, with the past three years, showing even stronger growth.

Industry growth has been evident in varying degrees across all major product categories. However, over the last five years, Furniture Brands has shown no organic growth, even in revenues or in units. Our growth since 2000 has been due solely to our acquisition at the end of 2001 of Henredon, Drexel Heritage, and Maitland-Smith. We have been opening freestanding stores and galleries aggressively. And our sales through dedicated space have increased by some 30% since the end of 2000. But this growth has only offset the decline in sales through other channels. Our retail strategy has generated no incremental growth. As a result, Furniture Brands has been losing market share. Our market share presently stands at just under 7%, down from 7.6% in 2002.

As Mickey pointed out, we have been adjusting our business model to address the drivers of this market share loss. Furniture Brands imports as a percentage of net sales have increased 400% in the last five years, rising from less than 10% in 2000 to 34% in 2004 and approaching 40% today. This will allow us to become more competitive on price. But despite the transition to import, our operating margins are decreasing. Low utilization rates and raw material price increases have reduced our gross margins. Operating expenses are increasing as well, both in dollars and as a percent of net sales. We are taking steps to reverse this trend.

In the meantime, we have been successfully pursuing several financial strategies that have affected our reported results in a positive way. Interest expense was as high as \$45 million in 1996. It will be less than \$13 million this year because of debt reduction and favorable interest rates. Our effective tax rate has been declining. This year it will be in the range of 34 to 35%, largely due to reduce rates and effective tax planning initiatives. Outstanding shares have been reduced through the repurchase of 3.5 million shares in 2004 and nearly 1 million shares year to date in 2005. This represents a reduction of 8% in our outstanding shares since the end of 2003.

These financial strategies have offset to some extent our decline in operating earning, but the net result is that this company's 5-year earnings per share still has not grown. Financial markets have reacted to our performance in a very predictable way. We have seen some volatility in our stock, but generally our stock is trading today at the same price where it was trading at this time 5 years ago. We have returned no incremental value to our long-term shareholders. Now all that is history.

Let's talk about what has been happening this year. We hit our earnings guidance in the first quarter of this year, but the operating environment continued to be difficult. Our sales performance was not strong, largely due to the loss of volumes from independent retailers at the middle price points. Broyhill and Lane, our middle-priced companies were the main contributors to the sales decline.

At the same time, gross margins were hit by higher raw material cost. Operating margins were impacted by high fixed cost. Once again, Broyhill and Lane were the main contributors to the earnings decline. On the plus side, lower interest rate, lower tax rate and lower outstanding shares did help mitigate some of this poor operating performance. That was the first quarter.

On Tuesday, we announced the closing of several manufacturing facilities; Tom has just reviewed those plant closings in his comments. And in the short-term these closings together with previously announced restructuring and severance charges will result in an estimated charge to our second quarter earnings of \$0.19 per share. As the plant closings progress charges for severance and other out of pocket expenses will be taken and we currently estimate those charges will amount to \$0.09 per share in the third quarter and 4 cents per share in the fourth quarter.

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In the long-term these plant closings, particularly at Broyhill will increase capacity utilization rates and reduce fixed cost. We'll not see all the positive effect this year, for Broyhill should certainly begin to improve its operating margin. This will also enable Broyhill to get its price value issues back inline and reverse the negative trends in top-line growth.

On Tuesday, we also announced updated guidance for the second quarter of the current year. Net of the restructuring charges, which I'll talk about in a minute, we brought our guidance down to a range of 30 to 32 cents. The fall off in earnings is attributable to the challenges we are facing at Broyhill and the changes we are making to address those challenges. The Broyhill brand remained strong, but our delay in addressing those challenges has made some of their product line non-competitive, and this has manifested itself in the current earnings performance. These earnings results are unacceptable to me and to our entire management team. And I'll remind you of what I said earlier about accountability, you have the right to expect credible guidance and we are committed to providing it.

So with that in mind, let's talk about what we are doing to fix this. I'll walk through the strategic milestones that Mickey spoke up earlier and I'll discuss what I perceive as the financial implications of those strategies. Mickey's first strategic imperative, it's to differentiate our brands and make them more relevant to the furniture consumer. A strong brand is a solid financial end curve providing stability and predictability to revenues even in a volatile fashion business like ours. Brand investment will result in better financial forecasting and consistency in sales growth.

Today we spent 2 to 3% of our revenues on advertising and retailers spend millions more. We will continue to invest our money on advertising to accomplish our long-term strategic initiatives, but we will allocate the advertising dollars wisely among our operating companies and we will exercise intelligent oversight of advertising by our independent retailers. We will also track our results and use our findings to guide products and other marketing decisions. For brand building is not limited to advertising. We also need to build our brands with extensive consumer research, a focus on product development, a more efficient distribution pipeline and a better shopping experience for the consumer. These brand building investments must be balanced against a responsible SG&A cost structure. Funding those investments must come from cost reductions elsewhere.

Mickey's second strategic imperative is proper distribution of our branded products through an intelligent focus on both dedicated channels and traditional distribution. I have been spending a great deal of my time on the retailers since I joined this company. I do believe the strategy to gain greater control of product distribution is the right one. There is no doubt the sales per square foot are higher in dedicated space than in a general retail environment. There is also no doubt that we can better protect our brands and create a more pleasant shopping experience in a retail environment over which we have more control.

For a number of years, our operating companies have been building a single brand stores programs primarily through independent dealers and this has been a good approach, because we are dealing with experienced retail talent and in effect, we have created a retail structure without our own capital investment. To help some of the smaller retailers compete for AAA retail space, we have offered the landlord a lease guarantee for a period of time, or we may lease the property ourselves and sublease it to the retailer. These lease obligations, these lease guarantees and other obligations are reported in our 10-K, as contingent liabilities.

In providing the support though, we have not been as disciplined as we should have been. That is changing. We will have a focused, thoughtful and well-monitored process in place to handle this, and we will be disciplined in our involvement in leases with our independent dealers. We are establishing standard guardrails and guidelines for the retail development process, including dealer selections, financial approvals, trading area analysis, right guidelines and standard legal instruments. This is an area in which we will have oversight at the corporate level.

At the end of April, we had 249 single brand retail stores, an increase of 19 this year. We currently own and operate 12 of those stores and we are closely monitoring their performance. We are still very early in the process of operating our own stores, profitability by store comparisons are not meaningful at this point because most of them are new and geographically isolated. Nevertheless, out of the 12 stores we operate, our most experience is with the six stores operated by Thomasville in Northern California. And the recent trends in profitability and sales at those stores have been encouraging.

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We are still on target to open 55 to 60 net stores this year. And going forward, we will monitor the success of these stores and we will adjust, as appropriate, in keeping with the process and discipline I have outlined. Our goal is to be sure we are realizing real revenue growth out of the stores programs and that the financial return is justified by that commitment.

Mickey's 3rd strategic imperative is to continue to shift the sourcing of our products to lower cost options and to optimize distribution and warehousing. The margins that can be realized on imported products, both in gross margins and in operating margins, are significantly better than the margins on domestic made products. In fact, we can realize 8 to 10 percentage points better margins on imported products than on domestic made products.

Including the closings we announced on Tuesday, we have closed 21 of our domestic case goods manufacturing plants and six of our domestic upholstery plants since January 2001. But we have not closed plants fast enough. And as a result, our capacity utilization has been down. It has averaged less than 80% over the past year, and this has had a significant negative impact on margins. We are addressing that with the most recent plant-closing announcements.

Our challenge is to be sure that our sourcing infrastructure is in place, as we continue to curtail our domestic production. Both Mickey and Tom have addressed this issue in depth from on a management perspective. And the appointment of Joe McClelland is an important step in managing the business aspects of this.

From the financial perspective, we are concerned with managing the risk. We will be sure we continue to produce quality goods in our domestic plants, even if we are closing them. We will make sure our inventories do not rise above acceptable levels.

We will improve our sales forecasting where we run the risk of buying too little, in which case, we lose potential sales or too much, in which case you lose margin potential as we discount products to move them out of our warehouses.

And lastly, we will be sure our warehousing and distribution system contributes to better margins. We are taking steps to address all of these issues. They are critically important, as the business shifts to a much greater reliance on imports rather than domestic production. And Joe McClelland and I will be working closely together to manage both the process and the financial effect.

Mickey's fourth strategic imperative is to leverage our size to minimize cost by reducing back-office functions and by maximizing our purchasing power. Both Mickey and Tom have spoken at some length about this leverage issue. So I'll mention it only briefly.

In 2004, our SG&A was approximately \$470 million, which represented over 19% of our net sales. That is too high, and it must be addressed. The consolidation of Henredon, Drexel Heritage and Maitland-Smith into one operating structure is an important first step, although it is likely that the actual cost savings will not be apparent until 2006.

Nevertheless, the opportunities for cost savings and operating efficiencies, as we bring these companies together is significant. We have already identified about \$5million of cost savings in just two weeks, and that's about -- 3.5 of that is SG&A related. This comes from leveraging our costs across all of the HDM companies and areas such as IT accounting, credit, customer service, and products development.

This represents about 3.5% of HDM's total SG&A, and I am confident that there is more to come. But consolidating companies is not the only way to realize cost savings. We have realized savings using shared services.

For example, we have saved significantly by combining our medical care programs and under one provider, by centralizing our risk management programs and by negotiating carrier and container rates across our company. There are many other similar opportunities, we will be exploring, as we go forward. My comments on cost control initiatives are brief, but the issue is critical. A reduction in operating expenses is one of my high priorities.

The final strategic imperative I'll address is that we will continue to invest our cash flow wisely. Mickey has c'd (ph) this one of to me, so I'd like to cover this issue in a little bit more detail. Our strong cash flow is an important part of our financial picture.

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Over the last 5 years we have averaged over \$100 million per year in pre cash flow net capital expenditures and as you know, until the end of the third quarter of 2003, we used our free cash primarily to reduce our debt. Paying down \$615 million in long term debt in less than 6 years. Starting in the fourth quarter of 2003, we announced commencement of a dividend program at the initial rate of \$0.50 per share on an annual basis. The dividend was raised to \$0.60 per common share a year later.

In 2004 we also began repurchasing using our cash to repurchase shares, repurchasing 3.5 million shares in 2004 and another 1 million shares this year. We have board authorization to purchase 30 million more of our stock through July of this year and we plan to return to our board for additional authority at their next meeting.

Going forward as our domestic asset base is reduced, our free cash generation will grow and we will continue to generate on average \$100 million per year. We will continue to pay a dividend subject of course to our board's discretion and we will also address the amount of that dividend in the future as appropriate. We will also continue to repurchase shares on an opportunistic basis just as we have so far this year.

But the highest use of our operating cash flow is reinvesting the cash back into the business and there are several alternatives. We could make a small acquisition, possibly of an accessories company to service our single branch stores in our galleries. We could also invest in some off shore manufacturing but this is something we will have to analyze carefully because there is an excess in offshore capacity today and we already have close relationships with the best off shore manufacturers. We could also invest in our own stores but keep in mind that our single brand stores development model of choice continues to be with independent retailers.

The bottom line is that we have a tremendous amount of flexibility to use our available free cash to grow this business and to return real value to our shareholders. In closing let me leave you with a few thoughts on my guiding principal. I believe in consistency in sales growth. I believe in growth margins that are reasonable to make a good profit. I believe in an operating cost structure that is justified by the revenues and that doesn't spend ahead of revenues. I believe at the end of the day a company should produce healthy and consistent EPS growth. And finally I believe it is management's responsibility to deliver predictable results and to be accountable for those results.

I came to furniture brands because I believe there is an incredible amount of opportunity here. And after 4 months on the job I believe that even more strongly. There is much to be done but I have 3 primary strategic priorities.

1) Enhance the strategic planning and the budget process. 2) Ensure discipline in the stores program. 3) And 3 reduce costs.

These are occupying much of my attention right now. I have great faith in this management team. I believe in the strength of the brand and I am confident that we are on the right strategic path. I appreciate the opportunity to be here with you this morning. Thank you.

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**Lynn Chipperfield** - Furniture Brands International Incorporated - SVP & CAO

Thank you Denise. I'll now ask Mickey to return to the podium for some concluding remarks after which we will take your questions. Mickey?

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**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Thank you Lynn. I would - typically when you have meetings that are somewhat lengthy like we have had here today, people tend to get up and move around and things. I want you to know how much I appreciate everyone being very attentive in this meeting today and really no movement hardly at all throughout the entire morning, which allows us to tell our story without any disturbance and that has been beneficial. So thank you very much for that.

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We're a different company today than we were when I took this job 8.5 years ago. We've got a strengthened management organization and I pledge to you that in days to come you will hear of a further strengthening of the brainpower within this company. We've got 6 primary brand names versus 3 at the time when I came on board. We have 28 domestic manufacturing plants that are now closed. We source revenues; we're sourcing revenues approaching 40%. We have over 200 offshore quality control and logistics personnel - let me just pause for a moment there. I think this company has the largest concentration of oversight when it comes to quality of products being made 5000 miles removed from our shores than anybody else in this industry and I think the longer term benefit of that will be huge because the marketplace is indeed engaged in difficulty with product quality and consumer reaction to that contributes to this whole element of confidence that we hear about so much in this industry.

We have over \$600 million in debt pay down that has taken place. I believe that the tough environment in the 5 years since the middle of 2000 has made us a much better company. We're leaner today. We are much more focused than we have ever been in the past and with a strong sense of where we need to be and how we need to get there.

We really appreciate all of you being here this morning. I asked Lynn how many people were in attendance, we have some 100 people in this room this morning and we certainly appreciate the support of our shareholders. We've got a lot of shareholders as well in this room today that represent large percentages of the outstanding shares of furniture brands and we're delighted to have all of you here this morning. We also have shareholders that don't have ownership in our stock and hopefully you will have had an opportunity to draw some conclusions about maybe you're need to consider that. In either case this concludes our prepared remarks for this portion of our presentation this morning. As promised we will take as much time as is necessary to respond to all of your questions or comments and you can ask them of anyone sitting up here or of me and we've got executives across these 3 tables that are in front of me here so we're not bashful about taking on anything you've got that you'd like to talk about.

I believe that we are webcasting this conference so microphones are provided and I believe they are in the room, I can't see them but - okay, yes I do. Okay, so please use them so we can pick up your question.

When asking a question, I would ask that you would identify yourself so we will know who you are and from that point who would like to be the first one? And could we turn the lights up, or is that a problem? Yes, thank you. And okay, we'll take them. I know we're going to have a lot so let's go into the back of the room. Becky?

## QUESTIONS AND ANSWERS

**Todd Danker** - *Credit Suisse Asset Management - Analyst*

Todd Danker(ph) from Credit Suisse Asset Management. In terms of the product resourcing could you speak as to how fast that will ramp up and how you see it between cased goods and the impulse start and where that is now.

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

I'd like to recommend on that, or to add to that. That we've already told you that the percentages as we speak are in the 40% range, a year ago they were in the lower 30s, so its moving at the rate of about 5 or 6% per year. That pace in the very near term could be accelerated a little bit over the norm of the last 2 or 3 years. Its skewed in a major way to case pieces, wood products today. But upholstery is coming on and Furniture Brands in upholstery is primarily in cut and sewn products even though we do import some limited amounts of finished product in some of our companies. More so at the upper end but that is a small piece of the total.

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So, at the moment, and this will continue to grow, its more concentrated in wood than it is upholstery, upholstery is moving ahead. Tom?

**Tom Foy** - Furniture Brands International Incorporated - President & COO

I think the only thing I would add to that is as the plants continue to close the acceleration will continue to ramp up on a more faster pace. As Mickey said, we're up about 6% year over year from '03 to '04 and from '04 to '05 and its going to continue to grow so the plant closings will dictate that and along with the necessity to add value to the consumer level that import products provide along with the gross margin opportunities which is significant.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Next question. Laura.

**Laura Shampine** - Morgan Keegan - Analyst

From Morgan Keegan, Laura Shampine(ph). My questions are for Denise, there are 2. First you talked about cost cutting as a strategic imperative, what's your ball park estimate at this time of your total cost cutting opportunity and secondly, you talked about over \$100 million in free cash flow annually. You've done that in bad years. What do you think is the potential free cash flow generation on an annual basis as you start to execute on some of your strategic imperatives.

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

On the cost - on the cost setting side, as I said that's one of those things I'm going to be spending a lot of my time looking at. It is something that we've got to focus on in all the back office operations. I did indicate in my prepared remarks that when you looked at just the HDM companies, that in 2 weeks time we've identified \$3 to 4 million on the SG&A side, another million in purchasing opportunities, 3.5% of their cost structure. I mean you can do the math on that to figure out what the opportunities would be.

The challenge right now is that the company is in a state of change and a lot of moving parts right now with HDM and then some of the restructuring that is taking place at Broyhill and Thomasville. Very difficult at this point to pull all that together and to give you a point estimate. We will be working on that.

In terms of the cash flow generation. This year we, as we go through some of these restructurings we will have some incremental cash costs associated with some of the severance and other opportunities, other challenges that we have here. So that we'll be using up some of the cash for this year and possibly into next year but we still believe that \$100 million at least for the immediate term is a good number until we can execute against these initiatives and get beyond the transition phase for us.

I know you want a more definitive answer; it's just very difficult to give right now.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Okay. Right here. Becky.

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**Keith Hughes** - *Central Straubus and Humphrey - Analyst*

Keith Hughes(ph), Central Straubus and Humphrey. Just talk a little bit about Broyhill and Lane and the stores they're filling in geographic gaps where you don't have good retail presence. What kind of opportunity are you trying to fill here with these stores? How big a gap is this? Do you have any feel the number or and even just qualify this comment.

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

The large number of, I think we've - to date I think we've opened 19 to 20 stores this year. Most of those are Broyhill Lane and there's a larger number at Lane than there is in Broyhill. We have suggested to you in the past that we felt that number by comparison to the Harion(ph) companies and I'm talking specifically to Thomas and Drexel Heritage that that would be a much lower or number in total as we moved forward because of the high concentration of focus on the dedicated distribution that does not include the stores.

The retail network, some 2000 to 2500 retailers that these 2 companies have been doing business with in the past. So we may have been a little bit over enthusiastic about some earlier dialogue we've had with you about Broyhill Lane but I think the pace at which those stores, those 2 brands will open will be somewhat more limited than what we talked about and they bottom line is as we have indicated, its in markets where we don't have good penetration from those brands that we feel we're entitled to more market share than we want from them - than what we're getting. So we're opting there to do that.

A good example is that we're focused on the market of Los Angeles for Lane and for Broyhill and to some degrees in a similar fashion up in San Francisco. Right here in this city, we need a lot of development for those 2 brands, where as in the case of Thomasville and Drexel and Henredon, its in much better shape. So I think that over the next few years you'll see the primary focus of those 2 companies for retail stores being concentrated in markets like Los Angeles, San Francisco, and New York. Anybody got anything you want to add to that?

There was another question at that table.

**Susan McClarick** - *Nivea - Analyst*

Susan McClarick, Nivea. Can you give us any sense of long term operating margin goals that you've set?

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Let me kind of answer that and then I'll ask Denise to comment as well. In the late 90's when things were really good we were sort of rocking and rolling, we weren't faced with all of these failures and bankruptcy filings and credit issues that we're confronted with today. We had our EBITDA numbers up in the 12, north of 12%, between 12 and 13%. We've been there and done it and with the strategic direction that we have established in this company, I don't see any reason why over a reasonable period of time I'm not prepared to give you that, I don't think its long years but out in the next couple 3 years I don't see any reason why this, you cant expect this company to return to those kind of levels. Would you like to add to it?

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

Yes, I, I would say I agree with Mickey. I thought a lot about that question as to what I'm going to target and where I want to go and as Mickey said, when you look back in 2000 and you look at how this company was performing particularly in the 4th quarter of that year it was great performance. There was no reason we can't be back there again. And at that point in time I think our EBITDA margins were about 12% for the year and about 10% operating margin. I mean, that, that at least should be a goal that we have out there and then to grow from there.

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**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Alright. That was a question - okay lets get the other side of the room. Got plenty of questions and that's great. If you will, Chuck, I think its you. I'm just trying to see which arm goes up first.

**Charles Crom** - JP Morgan - Analyst

Yes, Charles Crom(ph) JP Morgan. Now that you've realigned the HDM side of the equation, or are beginning to realign. Can we expect some more changes at Broyhill Lane and even Thomasville and if so when will that be, later this year? In '06?

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Once again I'll give other members an opportunity to comment. My reaction to the question is let us digest HDM, big undertaking. We're talking about a \$500 million, half billion-dollar piece of revenue here. So we got a little swallowing to do here before we want to wrestle with the next piece of it. But you can rest assured that we won't stop at HDM. I think I'll leave it at that. Anybody have anything to add?

All right, next question. Bud. And then I'll go to the back of the room.

**Bud Bougets** - Raymond James - Analyst

Bud Bougets(ph) with Raymond James. A couple of questions, Denise can you give us, or Mickey can you talk a little bit about where you think gross margin can wind up if - and what other restructuring - we've got this year at least going forward in this second, third and fourth quarter, if our math is right, about \$0.32 worth of restructuring with the \$0.19 in this quarter and what's going in the third and fourth. What are the savings from that? And with the, the increased imports what do we look like for gross margin at least into 2006, can we get some way to quantify that?

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

Want me to take that?

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Yes.

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

Yes, let me just address the restructuring charges. We mentioned \$0.19 for Q2, \$0.09 for Q3, \$0.04 for Q4. In terms of how that splits out between cost of sales and SG&A, SG&A is about \$0.10 in Q2 and that's because of the impairment related charges. And then in Q3 and Q4 its pretty much all cost of sales. When we looked at this and looked at these 2 actions alone at Broyhill and Thomasville, what it would mean if it all flowed through to gross margin from an FVM perspective, its about 80 to 100 basis points.

**Bud Bougets** - Raymond James - Analyst

Of negative impact.

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**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

If it all -- no, no, no. What I'm saying is going forward in 2006. Improvement in gross margins that you get from sourcing your product import versus domestic. Okay, so that addresses the savings side of your equation there.

**Bud Bougets** - Raymond James - Analyst

Okay -

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

Do you have anything you want to add?

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

I don't think so.

**Bud Bougets** - Raymond James - Analyst

And can you both talk a little bit about financial goals. You gave us, you know, consistent sales growth and good EPS growth but I didn't hear any numbers at the beginning of each of those.

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

Yes, and I purposely didn't give you any numbers Bud. The reason is because one of the things I mentioned to you is that when I make a commitment for numbers I have to - I'm very accountable for that. And until I get through some of these changes that are taking place in the company right now and I go through some more details on the financial numbers I'm very reluctant to throw out what those numbers should look like. Which is why I told you what my guiding principals would be. And just in general what I believe in terms of what gross margins need to look like in a healthy and consistent EPS growth for a company.

I looked back 2 years ago and there was this investor conference and there were a lot of numbers that were thrown out that we've not been able to meet and I don't want to go there again.

**Bud Bougets** - Raymond James - Analyst

So if we don't get the numbers can we get a time when we might get those numbers?

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

I think that's probably a fair question but I don't know what the date is. What would you give him? What would give him Denise?

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

Next year.

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**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Its out. It's out a little ways but not that far.

**Bud Bougets** - *Raymond James - Analyst*

So June of next year. Is that what you're saying Denise? I mean -

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

No, maybe - no, I think we could do better than that, maybe.

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

Give me some time Bud.

**Bud Bougets** - *Raymond James - Analyst*

All right. And my last question is, can you give us a hurdle rate for what you're looking for in Cap-ex expenditures, what kind of hurdle rate do you want to put out there in terms of the way you want to do it. And is that now process going to be centralized or is it coming up through the divisions?

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

Well, usually we look at like a ten -- we look at a 10% cost to capital if that's what your question is relative to the Cap-Ex. Its something that the operating companies still pull together, what they need from a cap-ex perspective but then it comes to us for approval and we have a budget process where we evaluate those needs.

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Back of the room.

**Carl Jacario** - *Jacario Partners in New Jersey - Analyst*

Good morning. Carl Jacario with Jacario Partners in New Jersey. With regards to the move offshore, which is apparent not only in your industry but in many industries in this country right now. I'm curious how you feel a revaluation in the Chinese currency would effect your operating results and I don't mean just a 5% revaluation, lets say a, something on the magnitude of a 20 or a 25% revaluation?

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

Well in terms of a revaluation, what would happen to us is our products that we get from China would be, they would be more costs associated with those products. The challenge is how much of that do you think you'd be able to pass through to the consumer and therefore what would be the bottom line impact on that. We haven't quantified that number but what we do think that reevaluation would be a higher cost to us and we would just have to monitor it and see what happens over time, but I do think the question is how much that you would have to pass through to the consumer if you could, if that happens.

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**Unidentified Corporate Representative**

I might also add to that the, I assume that you know that today we're faced about a 50% case goods tariff, which we have absorbed. And the other thing that happened in that tariff process was that about \$3.5 or 4 billion worth of production developed in the country of Vietnam. So I would sense that depending on what that fluctuation does and the currency rate it could impact where the product would move. Manufactures are manufactures. They typically turn -- tend to chase low cost environments. So if it's a huge impairment in China it could find itself being placed in Vietnam.

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**Mickey Holliman - Furniture Brands International Incorporated - Chairman & CEO**

I'm not a predictor of the future but I would tend to believe that - and I don't know the, like none of us here, know and understand what takes place in the halls of the governing body in that part of the world but I would be somewhat surprised if we saw numbers that reached those kinds of levels?

Where's the next question? Lets go right here. Okay, was he first? We'll get you; we'll get you next okay?

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**Justin Mauer - Lord Abbott - Analyst**

Justin Mauer, Lord Abbott. Just a couple questions on the retail strategy if you use Ethan Allen just as a base of discussion since they've been doing both for a while, plus or minus about 300 stores, really haven't been growing stores for a long time, plus the fact that I think they've been pretty adamant about not wanting to finance the dealers through lease guarantees or any inventory help. Maybe discuss that a little bit relative to Denise's comments about tightening that up. Do you sense that there's some trouble in the way past deals have been structures or are you just trying to ensure that there aren't any problems going forward and maybe use them as a basic comparison to say we feel there's more opportunity for stores?

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**Mickey Holliman - Furniture Brands International Incorporated - Chairman & CEO**

Well, she has spent an unusually amount of her time since she's been on board in this regard so I'll let her comment to it and then I may have a follow up.

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**Denise Ramos - Furniture Brands International Incorporated - Treasurer, SVP & CFO**

Is your question specifically to what we've done in the past, is that what your question is?

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**Justin Mauer - Lord Abbott - Analyst**

Well, I think just the history and for whatever reason on the Ethan Allen side where they just have not wanted to go there, maybe have gotten burned in the past, whatever and just fitting with your comments about wanting to tighten that up a bit. Do you see the existing deals that are out there, that there is some potential for trouble or are you just trying to ensure there isn't any?

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**Denise Ramos - Furniture Brands International Incorporated - Treasurer, SVP & CFO**

It's more I'm trying to ensure that there's not going to be a future problem. You know when you think about Broyhill and Lane, the store's program is so new, there hasn't been a lot of testing and you really have to develop a pacing and sequencing for this store program to know how you need to tweak it, how you need to adjust it, what you need to do differently going forward so my concern more for Broyhill and Lane was just the pace at which this was proceeding without getting that information and feedback mechanism in place first. So that was more my concern and my issues around that.

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**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

And my follow up comment has to do one versus the other. Ethan Allen is certainly the mature one in this regard, we're the new kid on the - new kid on the street because remember Thomasville's been in the stores program business for a lengthy period of time, lots of years. Now we've stepped the pace up in the last few years, and we have a lot more Thomasville stores open but when you look at Broyhill and you look at Lane and to a lesser degree even with Drexel heritage we just started coming out of the gate. Fairly new in this program. We talked to you about the fact that we got 250 stores, but 160 of those are Thomasville stores and then another 50 are, or so are Drexel Heritage and a few Henredon stores thrown in there, so what's left, it doesn't amount to much when it comes to Broyhill and Lane and we'll be, we'll be, I think going to go for it basis we'll be a lot more disciplines than what we've been in this short window time up to now. But one is mature, one is young. I do think that bodes well for the young guy here as we look to the future.

Now we had - yes?

**Peter Burn** - *Austin Capital - Analyst*

Peter Burn(ph) from Austin Capital. I actually have 3 questions. First question, you talk a lot about changes to distribution infrastructure collapsing back office, this question is for Denise. How do you think your systems IT in particular are relative to where you need to be to do all the very ambitious things that you've set out to do? This is my first question.

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

The answer to that is we've got some work to do on the IT standpoint. The - Mickey had mentioned that the operating companies had been on a very autonomous basis and that has also been the case with IT systems. And HDM is in the process now of trying to figure out what you need to do from an IT standpoint to combine those 3 companies and then what we'll need to do is go from there and figure out what else we need to do so there is work to be done on the IT side.

**Peter Burn** - *Austin Capital - Analyst*

So does that mean you need to do one company-wide SAP implementation or..

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

Oh, I hope not. I mean, I don't like to do that, what we need to do though is to figure out what is the road map we need to have going forward so that we can make sure that as we do these the consolidations that we can do it in a most efficient manner. I would not like to do a whole enterprise wide revamp of the IT system right now.

**Peter Burn** - *Austin Capital - Analyst*

Alright, next question is so imports went from 10 to 40% and you said imports tend to have an 8 to 10% higher incremental margin and yet your operating margins are basically flat over the last 4 years. What's -- so that means 80 basis points a year of decline in the core business, what's been the source of that?

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

Raw material cost increases. Also..

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**Peter Burn** - *Austin Capital - Analyst*

But the raw materials really are only the last 18 months right? So what was it before that?

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

The other piece of it is you have the deleverage of your fixed costs when you're look from it at an operating margin basis because you have costs that have been going up and you've not had revenue from, so that's been the other big component that's embedded within there. Where you look at the cost structure, you think about this pension cost and how much that has escalated over the past 4 years. So you have this increasing base cost that's out there and you've not been able to grow your revenues.

**Peter Burn** - *Austin Capital - Analyst*

Do you expect that to change going forward or is there going to be a consistence or an, I don't know inflation, inflationary egress in labor and pension and health care?

**Denise Ramos** - *Furniture Brands International Incorporated - Treasurer, SVP & CFO*

Well, in general what need to happen is we need to get a cost structure that's more in line with our revenues. And that's what we need to focus on and that's what I've said I'm going to do.

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

And then if, not only that but then getting the revenue line to move.

**Peter Burn** - *Austin Capital - Analyst*

And then the final question is that there was a Target put out a big furniture book in New York area, I don't know it was 6 weeks ago and there was some product actually from Thomasville. Can you talk about sort of your desire, lack of desire feelings towards going product branded or sub-branded at Target, Wal-Mart, others like that?

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Well, what we've got at Thomasville is a, what do we call that product, do we call it renovations but there's a tag line underneath it that says by Thomasville Furniture Industries. It's a \$40 million piece of business but it's a nice profit attached to it. The downside is that the store program owner are not totally comfortable with that. And that's an ongoing dialogue that some future point may get resolution but at this point in time we're staying with the relationship with Target.

Okay, Ray?

**Ray Alecres** - *Furniture Today - Analyst*

Thank you Mickey. Ray Alecres(ph) of Furniture Today. I'm clearing coming away with you being a leaner company looking for greater efficiencies, while looking to reduce redundancies, which in itself is a little redundant. But just to the bottom line, since you want to go eyeball to eyeball with the consumer, which is where we all live and die, what might this study in redundancies and efficiency mean to the actual number of products you bring to market each year?

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**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Well, that touched a lot of different things. One of the things that we're doing, all of these businesses have very broad product lines. That doesn't mean to say that they fully egress at each of the brands what the consumer is looking for. But they're very, very broad. So I think in looking to the future in response to your question, one of the things that we have to do is to be a lot better in our, in the development process on the private side, the private developed side of the business and be much more, more of a rifle shot as opposed to a shot gun. Bringing less product to market, less SKU's and then being much more efficient in the management of new product and making sure that we do the appropriate research so that when we do bring product to market we're pretty much connected to what the consumer's interested in. that would be one example. Anybody else want to add anything else?

**Jeff Young** - HDM - President and CEO

I'd just say Ray that focus groups are important. We do that in advance to bringing product to market. You heard Mickey mention that one of the things that Drexel Heritage when we brought the Vera Bradley line out, was we had actual consumers look at the product a couple of things they told us was particularly in a chest, was that the chest was too high for a female consumer. It needed to be lower. The colors in the fabrication side of the business were too bright and maybe somewhat offensive. So that pre-analysis before it gets into the market place only adds to the success of product development and its very, very critically important and you'll see that on a go forward basis.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Any of the executives want to comment? Okay. Jeff are you about to get up? Would you like to make a remark?

**Jeff Young** - HDM - President and CEO

Ray, the only thing I'd say to that is one thing we don't want to do is add the general motors models, Buicks, Oldsmobiles and Chevrolets all looking alike so product segmentation is going to be key. I think Mickey's right; there will be fewer SKU's, but more productive SKU's as a result of consumer research.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Next question. Okay we've got a repeat here, Bud? Oh, I'm sorry. Bud you'll have to wait, we've got a lady here. Maggie, what have we got?

**Maggie Gillian** - Gillian Company - Analyst

Maggie Gillian(ph), Gillian Company. I still have a hang up on the retail side of things. I mean it seems that you don't have a very good strategy apart from just opening stores and apropos to Denise's comments, the site selection doesn't seem to be necessarily the greatest and I'm just wondering what is going to be your game plan. I mean working with dealers is an expedient way to get started but they represent the old way of doing things and I still go into a lot of your stores and find that even the company controlled stores are three prices that are facing the consumer, Thomasville's, ours and the sales price. And that doesn't do much for customer confidence.

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**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

I'll (inaudible - no microphone) the opportunity but I'll make a response to that. We've got one of our companies, I believe, Jeff is it - when is it, August? August 1st that will be changing their program to where there'll be a one price house product will be in all vehicles of communication and the internet and whatever else. Coast to coast, I think that the movement that will gain further momentum so that these 3 prices that you're talking about will be eliminated. Would you like to add anything to that in your - in your specific situation? As far as HDM is concerned?

**Jeff Young** - HDM - President and CEO

Maggie, I think the big issue here is that we have credible brands but we don't have credible pricing behind those brands and 48% of all consumer calls that we have received at Drexel Heritage, the primary focus of the call is to find out what is the retail price of the product. As more and more consumers go to do their preliminary research on the internet before they actually do their shopping we feel like we've got to be there with credible prices. Now we'll still have sale patterns twice a year as we've always had but we're anxious to see if once we go to one price, which will be August 1st with the Landon Freight program, we think we're going to get more consumers in our stores that are qualified themselves by doing the research on the internet. Also when you have luxury brands, the perceptions of the consumer is that you're expensive and if you don't have your price out in front of them then they're going to think you're expensive. When we put prices on, particularly in the Drexel line they're going to find out quickly that there's a lot more value there than maybe they perceive so those are what we're headed for.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

The other point about your comment about location. We're taking, already discussed with you at length what our intentions are relative to the marketing role and in addition to that we've already had some discussion I think with you, with most of you and that that probably will be a 2 tiered corporate role in one involving the marketing side the second one the operational side for store development and there could be some information forthcoming if not in both those situations, one maybe too far future.

One of the things we have to do with the brands is we want to make sure that the, that marketing leadership sends us in the direction of the unified message that goes out to the marketplace for each of these brands, that we deliver on the brand promise, that there's pricing continuity and that in the case of luxury and we could watch Henredon in that class is that we don't allow things to detract from the strength of that luxury brand. Those are a few of the - just a few of the bullet points that I'm thinking about that the marketing goal will fix.

Now, okay. Bud.

**Bud Bougets** - Raymond James - Analyst

With all due respect, Jeff. Thomasville is actually the big horse in that issue where are they in the idea of landed cost or one landed cost throughout the country and going to a price program that the consumer can find their value. That's question 1, I have another question for Denise, which is any thoughts to segment reporting issue and can you give us kind of a breakdown maybe divisionally where the difference in logistics costs are by division, who's got the highest cost, who's got the lowest costs? Thanks.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

First I'll (inaudible - no microphone)

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**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

You're question on segment reporting and you're question there are we going to segment report. The answer is no. We're comfortable the way that we do it today and so at this point in time I don't have any desire to change what we're currently doing. We did give you some guidance on what the revenues in general are based on each one of the brands here and so that gives you a sense of the size of the company. In terms of logistic costs by company, I don't have that available information. Do you know Tom?

**Tom Foy** - Furniture Brands International Incorporated - President & COO

No.

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

I'll have to get back to you on that Bud.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

On the other question. I think I'll put it this way. We know that the consumer today is spending a lot of time on the internet in researching her thoughts about what she wants to do in her home about furniture. And the result of that is we like very much the strategy that Drexel has employed in addressing this situation because that helps, that helps to clarify a lot of questions in the consumers mind that if that one price is not available she's left sort of in a holding pattern. So my suggestion to you is that we will be looking at that very, very carefully as it relates not only to the other companies in addition to Drexel but all these companies. And if there is merit there then we'll probably take advantage of it. I'm not prepared to suggest to you today that Thomasville is more into that same system that Drexel has done but I'm telling you we have a keen interest in what they have done. That's the facts. All right, where is the next question? Where?

**John Paul** - Lloyd Mason - Analyst

John Paul with Lloyd Mason. You talk about the higher margins on the imports. Does that ratio you're quoting include the inventory carrying costs and if you're in stock at 98% or whatever it is for example in Thomasville case goods it means you've got finished goods inventory sitting here and inevitably you've got too much of the stuff that doesn't sell and too little of stuff that is selling. That ratio you're talking about of higher margins does that incorporate that back end issue and any other costs? The hidden costs used to like to talk about.

**Denise Ramos** - Furniture Brands International Incorporated - Treasurer, SVP & CFO

No, the answer to that is no, it does not.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

And the answer to that is also is the fact that one of the places we have to get a lot better as an industry and we at Furniture Brands have to get a lot better is we cant just bring lots of product to the marketplace and whatever sticks so be it and what does it take the market out and get rid of it. We can't - we're going to have to stop that as industry. And what we're going to have to do is be much more highly focused and much more tuned in with what the consumer wants so that these SKU counts are tightly drawn down from where they had been in the past and where they are currently. Any other questions? All right, we'll stay with you as long as you want to ask them. I've got 3 here, they're 2 right here and then we've got one in the back. Who wants to go first? The lady always goes first.

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**Paris Sturdevent** - Wellington Management - Analyst

Hi, Paris Sturtevant(ph) with Wellington Management. Can you elaborate on your comments about relevance in 3 dimensions in terms of pricing? You talked about the price value relationship in Broyhill, how off is it. Is it a 10% issue, is it a 30/40% issue in terms of delivery are you talking about going from 8 weeks to 2 days or do you think the tolerance is more like 6 weeks rather than 8 weeks and in terms of just product, formal and traditional versus maybe a more casual product line so how much room there in getting to the relevant product you need to get to?

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Thank you. Tom I think probably should comment those specific points she asked about Broyhill.

**Tom Foy** - Furniture Brands International Incorporated - President & COO

The Broyhill price value issue isn't off a lot, it is impactful. I told you earlier and we made the comments that Broyhill did not react fast enough to the vertical model and to the impact that the importers were placing up on us. They are in the process of remedying that situation as we speak with the closure of these 2 plants that's going to do 2 things. It's going to allow Broyhill to get fixed costs out of their business, its going to allow those plants that are remaining to be utilized and efficient.

That will help with the price value equation. It's just not going offshore. That doesn't fix everything. That's not a fix. That's not an end all be all. The plants that are remaining must be at capacity levels that will create efficiency and gross margins for us. So relative to a price value equation, they may be 10% higher than the market place is today. Someplace in that neighborhood and I think these changes that have just been enacted will play a great role in helping us reduce our costs and become much more price competitive.

**Jeff Young** - HDM - President and CEO

There's 2 issues here on the price side for Broyhill. One is on its imported product, we haven't to date been competing on a level playing field with our competition in the sense that we've not been sending our product direct from our sources to the retailer in the direct container program. When you do that traditionally you bypass your domestic distribution network and pass those savings on to the consumer.

We will start one of those very soon and that will give us, that will give us the right price value relationship in the marketplace for our imported product and at the same time we will be able to dispense with a lot of the costs of our domestic logistics. I feel very comfortable that that will help us on our imported side, which is about 40% of our case biz sales.

On the domestic side as Tom said, we had to first of all get our manufacturing basis right, its interesting that the consumer has been paying for Broyhill domestically made product, a lot higher price than similar products that would be sourced overseas, so that is - shows you the strength of the brand.

I think what we're trying to determine right now is exactly what that premium will be and we, as we straighten out our cost structure and reduce our SG&A costs and do some importing of components of these products, I think we're going to find that the consumer will pay a premium, its just probably not as much as it is and I think if I had to quantify that I would say its in the 10 to 15% range.

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**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

The, I think we, that was addressing one piece of that question, but I don't think it got all of it. Do you mind repeating the other parts?

**Paris Sturdevent** - Wellington Management - Analyst

The other 2 dimensions of relevance were the delivery time, how close do you need to cut it to when she stops into the store, what are the expectations, is it a couple of days or is it a couple of weeks and where are you now and then the third dimension is just product design and does it need to be more contemporary and casual?

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Okay, I'm going to comment and open it up to anybody else that wants to. We were in on Monday, we were in Atlanta, visited 2 stores, and 2 Furniture Brands company stores in Atlanta on Monday and then we're in Greensboro, North Carolina Monday afternoon there were 2 more Furniture Brands company stores, this was Thomasville and Drexel Heritage and we also visited some other stores, Crate and Barrel, Pottery Barn, what did we miss? Ethan Allen.

This was on Monday of this week, we're in the market place all the time, every time I go into a furniture store it seems to me that the window of expectation goes down. The consumer that waited 30 days for an upholstered sofa a year ago, that may be coming down. And in case we have product the same way, I mean every time I go in and ask questions, expectation levels, we've got retailers in here that may take issue to what I'm saying, but Fred Burke seems to be - we've got an Indianapolis based (inaudible - no microphone) here - are there other types of retailers here? I guess not.

Anyway, maybe you fellows would like to comment on this. My answer to your question is, her expectations for quick response to what her decision is for furniture is gaining momentum. You know the automobile people can turn an automobile purchase even if they don't have it on their lot, they can turn it in a matter of hours, not days. So I think the automobile industry in this case (inaudible - no microphone) get something whenever she wants it and quickly. And I think in our case we've got to learn from that and we have to get better and better and be more responsive when we talk to you about case good products that at Thomasville and at Drexel today we are north of 90% on reliability and we can turn it as quick as the order can be processed and shipped. But that's not the case in all of our companies and it's not the case on the upholstery side of our business. I tell you we're going to get better on that.

Lastly, on product development. We're still decentralized on product development efforts, meaning that Drexel does (inaudible - no microphone) now that we've got some consolidation there in this (inaudible - no microphone) concentrated longer term, I believe that I have addressed this with this management organization but I think longer term we have to have a product development concentration somewhere (inaudible - no microphone) where we're creating, we're designing and creating products for SBMA. As a step down the road from where we are right now but that's just a personal thing and that we have to move with the market, the market has moved the product has been close enough parts of the world, thinking we'll be in the long haul in the furniture industry. I think that the design, product development design point of view, I think we have close to good that's where we are right now to look into the future. That's where we are right now.

Meanwhile, I will say this. You go into the Chinese factories and the knock off, the competitors that are knocking the price off are knocking Furniture Brands product more than anybody else in the industry, any factory we go into in China be rest assured with the fact that that factory they've got box tools that have Furniture Brand's companies on the face of their products. What we see now is we get up there in the interest of all this is the knock offs of all the products so what we have to do - we can't change that because it isn't proprietary so what we have to - unless there's something unique in the, in the - unusual (inaudible - no microphone) and then design what we have to do is stay out in front.

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Where the product is. I've talked with some of you yesterday, we have to be out in front bringing new product to market (inaudible - no microphone) There was I think one other - time is unfortunately, a few people are leaving, so I don't think we want to run this forever. But lets see if we can, and I'll try to type up on the answers on here, let's type up all the questions.

There's a question in the back of the room, and then Maggie did you have a follow up?

**Kevin Sauers** - *Tiger Management - Analyst*

I've got a question right back here actually. Kevin Sauers(ph) over at Tiger Management. The first question is you mentioned imports are 40% of your business now, since you started importing, how much less capacity do you have here in the US, I'm presuming it's a lot less than 40% less and kind of in the future if it goes by 5% points a year does that mean you're affecting the shut down 5% of your capacity here per year? And my second question would be, you were talking about the margin differential on the imports for you. how much of that does the consumer see and say you take a piece of merchandise that was made here that was \$100 in retail, if you make it over seas how much is the - how much is the customer paying for it at retail.

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Okay, who wants to deal with those questions?

**Jeff Young** - *HDM - President and CEO*

Well, I will, I will tell you that the typically a Chinese product represents some rule of thumb between 40 and 50% less than FOB China. And of course we've got freight associated with those costs. But we try to look at the import factor to help our overall our margins and the plant closings, there's been 28 through the year 2001, I just told you this morning that we've closed essentially 4 million square feet over the last 2 years. Actually over the last 18 months. So we don't know where that bottom is. I can tell you that today, essentially we're, many of our companies have 1 manufacturing or 2 manufacturing facilities left. And I don't, I'm not sure exactly where the bottom is but as I told you in my remarks, we're constantly evaluating that capacity level need and we certainly have sped that up somewhat by announcing the 4 plant closings in just the second quarter alone.

Mickey. I would add to that remark that in the upholstery side domestically there's still a considerable amount of capacity that has been untapped and wood with the -- has been of the presence of the logistics program now. I think the pace at which we can respond there is strengthened by that change that we made organizationally so I think there's a good bit of flexibility here and even in light of what we're doing with the closures to address any kind of near term surge that we might see in our business under new management.

**Jeff Young** - *HDM - President and CEO*

Mickey, one other thing I might address and I think your question was where is that cost benefit going to find itself. It's going to come back in the profit or is it going to go back into the retail environment. I think probably what we'll do is do what we need to do, we've talked to you much today about a price value relationship. A lot of that will be contingent upon what we're able to do from an import basis and certainly we've also talked to you about the necessity for us to grow our gross margins. So we'll take a little bit and give a little bit to our dealers and ultimately the consumer which I think is important, how much I can't tell you at this point. We'll do it on an as need basis.

**Maggie Gillian** - *Gillian Company - Analyst*

I have 2 final questions. First of all Tom alluded a lot to the management changes in that whole street side of the business and apart from the need to shorten the lead time there I was wondering if he would talk a little bit about what were the goals in

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this and second of all I'm just curious with the growth in the low end side of the furniture business, is there any thought of trying to intensify your positioning in that sector of the market?

**Tom Foy** - Furniture Brands International Incorporated - President & COO

Our goal for our upholstery business corporately is to be at 50/50 and today that's weighted because Lane is such a heavy influence on the upholstery side of the business. Today our other businesses will run a gamut of a 75/25 up to a 35/65 ratio. They have made significant changes in all of the management. And the management we talked about this morning.

The 4 out of 5 were all the operating companies with exceptive length. And the reason for that is because we've got to get the upholstered side of our business growing. There's 2 distinct reasons for that. 1) Is upholstery offers a significant betterment in gross margin. It's also the fashion side of the business. You know a dresser is a dresser is a dresser and it rarely changes relative to turn over. The upholstery side of the business is the fashion side of the business and it has a much more frequency to turn.

So that's the importance here of talking about growing our upholstery business and its apparent by what we told you this morning in the significance of us changing those marketing heads, merchandising heads at each one of these companies. I'll also tell you that there was a high propensity of women in that change because women, as you know, buy the product line. So that's why we're excited about the change Maggie is the fact that it does represent gross margins and it represents the more fashion side of our business.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Harvey, do you want to comment on the (inaudible - no microphone) addressing the anywhere in the (inaudible - no microphone) in the promotional side of it?

**Harvey Dondero** - Broyhill - President and CEO

I think the simple answer to the question is that there's an opportunity there as long as they, makes sense for the brand. I mean, for Broyhill for instance to create an entry level price point that competes more aggressively against some of the names that Mickey mentioned early on, we can do that but again it has to make sense with the brand, you cant compromise your brand strength in your core to do that but I think we will be able to offer some more promotional activity at the entry level price point for Broyhill.

**Maggie Gillian** - Gillian Company - Analyst

(inaudible - no microphone)

**Harvey Dondero** - Broyhill - President and CEO

yes, under the Broyhill name I think there's - as I said earlier, I think when we reassert our value price relationship into the marketplace and some of the things we're doing structurally with our imports and our cost structure we're going to be come more competitive in that field anyway.

**Mickey Holliman** - Furniture Brands International Incorporated - Chairman & CEO

Okay, what have we missed? Okay, back in the back. Mike?

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**Mike Massude** - - *Thomasville Furniture Store Owner*

Hi, Mike Massuede(ph), Thomasville Furniture Store Owner. With Thomasville and Drexel Heritage being somewhat competing lines monetarily when you're developing your Drexel Heritage program wont you be sharing dollars within marketplaces with the Thomasville Homes, or Thomasville Stores?

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Jeff, do you want to speak to that?

**Jeff Young** - *HDM - President and CEO*

Mike that's a good question, I think that gets back to the over initiative of Furniture Brands which is to have clearer definition of each of these brands and right now we do have some overlap with Thomasville and probably Drexel, not so much Heritage and we do plan to address that in the months ahead to make sure that their stores can stand side by side and do well together. We do have cases in Scottsdale and a couple other areas where we have Drexel and Thomasville stores side by side, Boca Raton's another location and at the moment they're doing well but from my vantage point there is too much overlap between the lines and that's what we've got to change.

**Jeff Young** - *HDM - President and CEO*

The only thing I would add to that Mike is to say that Thomasville does need to become more inline on a price value relationship. They are doing that; they're working on that. That means perhaps having some better values at the starting price points, which I think will differentiate from the Drexel heritage line. Tom's in the process of doing that with his merchants. You'll see that on a go forward basis, we made a significant change in our upholstered area to do that, so yes it is a valid question, its something that we have recognized and are working on to fix it.

**Mickey Holliman** - *Furniture Brands International Incorporated - Chairman & CEO*

Any others? Thank you so much for being here today, we're going to, Lynn, I think you take over from here.

**Lynn Chipperfield** - *Furniture Brands International Incorporated - SVP & CAO*

this concludes the formal portion of our conference. I want to thank all of you for being here, for those of you who are listening to the broadcast, if you have any follow up questions you know how to reach us. Lunch is being served outside and we hope you get some lunch and come on back and join us. The company representatives will fan out and we'll try to cover all the tables if you have any follow up questions. Thank you very much.

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