FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third-quarter 2009 -- Furniture -- Brands earnings call. My name is Katina and I will be your coordinator for today.

At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this presentation. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to your host for today's call, Mr. John Hastings. Please proceed.

John Hastings - *Furniture Brands International Inc. - VP Communications & IR*

Thank you, Katina. Good morning, everyone. Welcome to our third-quarter earnings conference call. With us today are Ralph Scozzafava, Chairman of the Board and Chief Executive Officer, and Steve Rolls, Senior Vice President and Chief Financial Officer.

During our prepared comments and the question-and-answer session that follows, we will be making statements expressing the beliefs and expectations of management regarding future performance. Any such statements are forward-looking statements which reflect our current views with respect to future events and are based on assumptions, and therefore are subject to risks and uncertainties. These risks and uncertainties include, without limitation, the risk factors set forth in our most recent annual report on Form 10-K filed with the SEC and all of our subsequent SEC filings. We do not undertake or plan to update these forward-looking statements even though our situation may change.

In today's call, we will also use certain non-US GAAP financial measures to supplement our US GAAP disclosures. Whenever we disclose such non-US GAAP financial measures, we provide in the company's earnings release a reconciliation of such measures to the most closely applicable US GAAP measure.

Thank you. I will now turn the call over to Ralph.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Thanks, John. Good morning, everyone. We appreciate you being with us again today. I will make a few brief remarks and then turn it over to Steve Rolls to talk about our results in a little bit more detail.

Yesterday's earnings release reported that our topline sales declined 28.9% from a year ago and that our gross margin was 23.1%. That compares to 16.3% gross margin in the 2008 quarter.

On a sequential basis, sales for the quarter were up 1.9% versus Q2. Reported results in all periods include selected items that are detailed in our earnings release.

Excluding those selected items, we achieved strong gross margin improvement this quarter compared to the 2008 quarter. That improvement, in the face of some very serious economic conditions, speaks to the significant progress we are making in taking costs out of the business while further strengthening our brands and investing in the success of our dealers.

I will discuss a little more about what we are doing to grow sales and control costs in just a couple of minutes, as Steve takes us through the financials. Steve?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Thanks, Ralph.

As Ralph said, sales for the quarter were down 29% versus the year-ago quarter and were up nearly 2% on a sequential basis. This is consistent with the effects of the economic downturn and the seasonal revenue patterns that Furniture Brands has historically experienced.

Our year-over-year results also reflect lower sales levels due in part to the company's decision at the end of 2008 to exit unprofitable licensing agreements that represented approximately 3% of our third-quarter 2008 sales. The remainder of the year-over-year sales decline can be attributed to two factors, generally weak consumer demand and the company's decision to focus resources on driving longer-term business relationships with customers that can provide a fair return for our shareholders.

I'd like to help our investors understand how sales have been affected by our focus on credit quality. Our approach has been to take a view towards customer relationships that balances our sales goals with a professional assessment of credit worthiness.

Not all sales are good sales, but that's not to say we abandon our dealers who are under financial pressure. Instead, we work with them to help halt the decline in their credit standing while continuing to support their business. While this position reduces our potential sales volumes, we have also eliminated the extraordinary bad debt write-offs that totaled more than $35 million in 2008.

Our reported gross margin of 23.1% compared to 16.3% in the 2008 quarter. Results for both quarters included selected items that are detailed in the press release. As Ralph said, our gross margin improved significantly after adjusting for the selected items detailed in the earnings release.

One metric that we provide in the selected items is factory down time, which is the direct cost incurred when we idle plants on a short-time basis to match capacity with demand. Factory down time for the third quarter of 2009 was $1.4 million. That's less than half of what down time totaled a year ago.

We understand that many investors view managing factory down time as a normal part of a manufacturing business, so we include it as a metric to measure our progress and how we are scaling capacity to reflect market demand. We are now in a good position to meet increased production demand as we implement more efficient lean manufacturing and through the use of multiple shifts where appropriate.

On a reported basis, SG&A is down $40 million from last year. The reduction reflects a number of charges taken in the 2008 quarter, lower compensation expense in 2009, as well as the sustainable benefits of lower headcount and a more efficient shared services organization.

Cash flow for the quarter was a positive $26.3 million, excluding the paydown of $27 million of debt. Year-to-date, we've paid down $88 million of debt. Our current net debt is $25.5 million, down nearly $200 million from the end of September of 2007.

We have ample liquidity from our cash balance of $76.5 million. We have an additional $20.8 million in availability under our asset-based lending facility.

We continue to expect to achieve our guidance of being cash-positive for the year, excluding tax refunds and debt paydowns.

Our company-owned retail store program continues to reflect the generally poor consumer economy. The end of the third quarter of 2009, we were operating 48 Thomasville stores and an additional 16 stores under other brands, predominantly Drexel Heritage.

Our long-term retail strategy is to own multiple Thomasville stores in good markets where we can leverage the benefits of warehousing, advertising and management. Of our 48 Thomasville stores, only 23, which is less than half, have been under our management for more than 15 months. These stores reported a same-store sales decline of 18% in the third quarter. This compares favorably to a 31% same-store sales decline from the 20 stores we had managed for more than 15 months during the second quarter of 2009. The sequential improvement illustrates the improved store operations as well as the effectiveness of strong product introductions, better sales efforts, and the support of Thomasville's strong national advertising. The 10-Q will contain additional exposure on our retail performance.

That concludes our comments on financial results. We will address specific questions at the end of the call. Now, I will turn it back to Ralph.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Thanks, Steve. I will make a few closing comments before we open up for questions.

Furniture Brands continues to make good progress on our strategic plan of building our brand power, winning with customers, delivering operational excellence, and growing and developing our people.

The worst economic downturn in our lifetimes has more than offset our achievements. Like others in our industry, we have been delevered significantly from when we announced the plan in the fall of 2007, which was also the start of the current recession. Since then, we've worked relentlessly to manage through the new reality.

Now, unlike our peers, we have not only resized our manufacturing footprint to drive costs down, we've transformed from a holding company to an operating company. That work was largely invisible outside of our company, but the task was huge. We've completed much of the transition to the new shared services structure, and today we are seeing the benefits of a much lower SG&A cost base with additional opportunities still ahead.

As much progress as we made on SG&A, our improvements in gross margin are more important. That's where we are going to get real operating leverage, and that's the measure that tells you if Furniture Brands will be able to achieve the earnings power of our brands and exceed the historical profitability of our old business model.

Since the end of the third quarter of 2008, we've reduced our net debt by $65 million, driven improvements in our Days Sales Outstanding, Days Payable Outstanding, and overall in our cash conversion cycle. We've grown our gross margin in the face of severe economic deleveraging. That could have only been done by a team that has a sense of purpose and urgency, and I'm quick to say we are not satisfied and we are not done.

We use three primary levers to increase gross margin, profitable sales, improved purchasing and manufacturing productivity. I'm going to touch on all three.

First, our dealers -- our best customers are the ones who value what we bring them -- high-quality products with great brands at a great value. We marry consumer insights and extensive prelaunch testing on our products with feedback from our dealers, our sales reps, our designers to create outstanding product that consumers want to buy. We have been trailblazers for more than a year in consumer insights and product testing, and our dealers like the products that test well.

Broyhill Lane, Thomasville and Drexel Heritage all introduced products at last month's High Point market that had been through this development process and the reception was very favorable. As more of these new products get on our dealers' showroom floors, it will help our topline sales and theirs as well.

Now, our company is built on brands. We support our brands and our customers with a combination of national TV and print advertising, innovative marketing such as the Lane mobile showroom, the tour that's going on right now across many of our dealers, state-of-the-art websites that we brought to market, express ship programs, sales trainings, and significant co-op and business development budgets to drive our dealers' business.

The customers that get it will leverage the value that we bring and use our brands to make a strong profit for themselves and their stores. The ones that don't often sell at price points that are too low, at poor retail margins, and end up having problems. We continue to work diligently with our customers every single day to help them win in this challenging time.

Earlier, I mentioned the transition to our shared services. One of the key benefits of a centralized organization is that we can leverage the buying power of a $1 billion annual spend on things like healthcare, raw materials, source goods, shipping, and other goods and services. We are just beginning to see the benefits of the consolidated procurement program as we cycle through older contracts. Going forward, we should be able to see and achieve sustainable improvement in purchasing relative to anything that we've done in the past.

Now, our other main controllable for gross margin is manufacturing productivity. In the past two years, we've reduced our direct manufacturing overhead to meet market demand. You can see our progress in the factory down time costs of $1.4 million this quarter. That compares to $4.2 million a year ago, when we had an oversized infrastructure and simply too many square feet of factory space.

Of course, we want to grow ourselves back to prosperity, so we are implementing lean manufacturing sales at our Lane, Broyhill, and Thomasville domestic upholstery and case goods plants. Lean manufacturing also gives more productivity from our existing workspace and force, and also allows more flexibility in production runs with lower inventory, higher first-pass quality, and fewer workplace injury. It's better for us on every key measure.

Well, with the World Series just finished, I'll use a baseball metaphor and tell you that we are probably in the third inning of getting our lean manufacturing initiatives where they need to be for us. We've built a very strong supply chain organization, and I expect this team to make great strides over the next 12 months.

Lastly, I will finish with some observations on last month's High Point market and where I see the industry heading today. The fall market was solid for us with good attendance from our key accounts. Our orders written to market were stronger than in the recent past. I think one reason is that our new product testing delivered our strongest new product lineup in quite some time, and it is really beginning to resonate with our dealers and our national accounts.

It will take more time before I am ready to call "full recovery," but we are seeing some real stabilization in the industry from where we sit.

Well, that concludes our prepared comments for today. We would like to thank you again for being with us and open up the lines for questions. John?

John Hastings - *Furniture Brands International Inc. - VP Communications & IR*

So Katina, if you could prompt for questions now.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bud Bugatch, Raymond James.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Good morning. Questions -- one, I see the inventory is significantly lower; I think it is as low as I've seen it back I feel about 1999, I think, on a dollar term, even though the metric on a flow term is still not as low as it has been I guess the third quarter of last year. My question is, is it too low? Can you give us some color on the quality of the inventory now? What are you thinking about it?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, I guess that what I would say, it's not too low. I think we are getting a lot better at our sales and operations planning process and really better at our demand and supply planning. So I would look for continued improvement from that standpoint.

The real measure I like to use with it is, while inventory is declining, is customer service increasing? Our orders delivered in full and on time to our dealers are really at the highest level that I've seen since I've been here. So, we like the productivity that we are getting, and we think we are managing it and the folks in the field are doing a good job.

As far as the quality of the inventory, it continues to get better and more current. You've seen us take a lot of old inventory out in 2008, earlier in 2009, so I think the quality of the inventory is getting better as well. So on every key metric, that's one we spend a lot of time on and we are happy with.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Are there any metrics you can share with us? Customer service, on-time and completes, or how about excess and obsolete? What are you -- the number?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Not really, but it is actually very different by business, as you imagine. So in those businesses where we didn't have issues across the portfolio, but in those businesses where we had some challenges with on time and in full and things like that, we've made substantial improvements. We will continue to focus on that across the company, and getting better. I mean, every little improvement you can make adds on.

I think one other thing, over time, that will help us continue to get our inventories down is what Ralph talked about in product testing. As we become more successful in introducing products that consumers want to buy, because we've asked them in advance, we will have less slow-moving inventory. You know, as I think you know, as you source some product overseas, you order something new because you believe it will sell well and if it doesn't, you have a lot of inventory that you have to work down. So the more successful we are at introducing products that people want to buy, the tighter our inventories can be. So we will keep focusing on becoming more efficient there.

You are right. If you relate it to sales, it is not as big an improvement as it looks just on an absolute dollar term, given that deleveraging in the marketplace, it has been pretty good.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

What -- can you give us an idea of how much of the inventory is on the water, and how much of it is coming and --?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, we don't really break it out that way. We have tightened up what's on the water a bit, so we are looking at all aspects of that supply chain, if you will. We're not just looking at what's in the warehouses.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

You did see, Bud, at market, when you came through the show rooms, had a little bit more product, particularly case goods that are being made domestically. That does take a little bit of product off the water, too.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

I understand that. When I look at SG&A, and I notice the improvement year-over-year, and then I look at it sequentially and even on an adjusted or normalized basis, I think it's up sequentially by about $9.5 million from the second quarter to the third quarter. What's going on there? What's -- anything in these numbers? Anything in a normalized number that is unusual, or how do we think about it going forward?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes, no, as I mentioned I think in my comments here, there are some compensation differences quarter-over-quarter, different reserves going in different directions. So perhaps -- and there are a lot of things in the third quarter as you can see, so it's probably the third quarter is a little bit high relative to a going rate, but it's probably closer than the second quarter.

The other thing we've had throughout the year is additions of retail which adds to SG&A, so that's the good and the bad of it, right? You have higher SG&A levels with retail. We do want to grow our retail presence, but when you take over a store, it takes a little while to become fully productive.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

So can you quantify any of that for us, please?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No. I mean we will break out in the Q -- continue as you know a couple quarters ago, we started to break out retail wholesale consolidated for the company. So, you'll be able to see that in the Q when it comes out shortly.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

What about the compensation differences quarter-over-quarter, and how do we think about that going forward?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

I think you just see that in the accruals, right, on the balance sheet.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

I think one of the things --

Bud Bugatch - *Raymond James & Assoc. - Analyst*

After the fact, not before the fact. We won't know how to project -- how do we do it for modeling purposes?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

You know, as I look at it, Bud, the next two quarters are going to be more normal quarters for us, look probably more like an average of what you are seeing for the past three, so you can smooth them. That's how I'm thinking about it.

I can tell you we are not done yet with SG&A and taking costs out of the system. We still have some inefficiencies and we are working against that as we speak.

One of the things that Steve did mention about retail, as you know, as we take in stores, we are just seeing more rent expense and all of the labor and costs that go along with that. So up now to the 60 or so stores that we're dealing with, you see a little bit of that in the SG&A line.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

So if we smooth the last couple of quarters, you got about $80 million a quarter. Is that about where you are thinking the SG&A will (multiple speakers)?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

No, I think it will be higher than that. We are working every day to get it down. It will be higher than that.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

How do you think about it fixed versus variable now?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

In the SG&A?

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Yes sir.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

I mean ultimately it is all variable; it's just a question of timing. You know, as -- you've got sales commissions in there which are very volume dependent, so you can make an estimate of what a sales commission percentage looks like. That's clearly variable.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Your average sales commission today is what?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

It is probably 3% to 4%, given in that range.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, we are right in the average.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Two other quick questions -- when will the 10-Q be out?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

It's probably within the next, either tomorrow or Monday if we haven't -- (multiple speakers) that but tomorrow or Monday.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

The next couple, yes.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

And the $20.8 million of availability, I take it that's above the cash dominion, $75 million cash dominion?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, that's above the $62.5 million threshold.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Of the $62.5 million threshold.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes, that other one is $75 million; those are the two. So there is a $12.5 million difference between those. So if you take the higher threshold, it is $8 million a right around that (multiple speakers).

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Okay, and your LCs were $20 million outstanding last quarter. What are they this?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

It's about the same.

Bud Bugatch - *Raymond James & Assoc. - Analyst*

Okay, thank you very much.

Operator

John Baugh, Stifel.

John Baugh - *Stifel Nicolaus - Analyst*

Good morning. The items that are broken out, selected items, are those -- can you help us, between the SG&A, tax and cost of goods line, where these various pieces go?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes. Actually, we broke them out that way. The cost of goods, you've got the factory down time and severance charges for these (multiple speakers) the latest quarter. You know, as I said, factory down time, arguably you're always going to have some portion of that. We've really worked hard to get down and we will continue to do that. So it's not a huge number but it's higher than we want to see it.

Severance charges are just us again readjusting our cost structure. We will keep doing that to the extent that there are opportunities to do that.

Then you go to SG&A, you've got the closed store expense. Some of that would represent stores that we've taken over and have marked to market for other SG&A-related expenses. Some of it is the dark stores that we continue to have that we will either buy out of at the right time, at the right price, they will sublet -- tough in this market, as you imagine -- or they will just expire. You know, they will go away. So over time, they will go away, just it takes a little while.

The same thing with severance charges on there that we talked about earlier and impairment charges. That's just for assets that we are preparing to sell.

John Baugh - *Stifel Nicolaus - Analyst*

Then the tax, I guess the valuation allowance as opposed to having a big tax credit, would your loss then offset that?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes, yes those are just because we can't take credit for those. The good news is that's just accounting and that doesn't mean that credit goes away. They are long-tailed and you are able to use them in the future to offset profits. Who knows if the government decides to do a longer tax loss carry back. We have a substantial amount that could go that way.

John Baugh - *Stifel Nicolaus - Analyst*

How do we think about the closed store expense number? It's, nine months to date, running at $10 million. It was $23 million the year-ago nine months, so it has come down considerably. I understand it ultimately goes to 0. What would be your guess as to how to track the next one, two, three years?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes, it's -- probably the run rate is around $10 million a year today, so that is basically assuming we didn't take on any more closed stores. The P&L impact of those dark stores for us today is about $10 million for a year. That will dissipate over time.

I can't give you those numbers right now but they just go away. They will be in the Q where we kind of show the tail-off of those liabilities.

John Baugh - *Stifel Nicolaus - Analyst*

Then sort of following up on Bud's question on the sequential rise in SG&A throughout one of the reasons being compensation reserves, I guess that implies compensation reserve went up in the third quarter versus the second quarter. I'm just -- do I have that right and if so, why?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Actually, John, it went down in the second quarter just a hair. Let me give you just might take on SG&A, and this will help I think you and Bud.

You know, we pretty much went along here at Furniture Brands for -- and you can go back and number of years, and our run rate and SG&A was about $430 million, give or take. So we've taken some pretty large chunks out of that cost structure. You see the numbers, you know, $200 million and what? $48 million year-to-date, and you can kind of project out from there.

We will continue to take costs out. It's not going to be smooth. Every quarter, it is not going to go down sequentially. There are some charges that come in and come out, but we've demonstrated we took a large piece out of the cost rupture. Working against us of course is when we take back more retail, but we know where the costs are and it's just a matter of continuing to get to them. So we are in what I'm calling continuous improvement mode, and we are moving as fast as we can.

John Baugh - *Stifel Nicolaus - Analyst*

Okay. Bad debt you mentioned was a huge number, $35 million I think a year ago. What is it for the quarter or year-to-date in '09?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

That will be in the Q, but it's probably maybe an average in the $2 million in a quarter range. So we've gotten it down considerably. We are just managing it much better. As you can see, our DSOs are down pretty significantly. So it's just much better management.

You'll always have bad debt, even in good times, as we know, but it has come down a lot.

John Baugh - *Stifel Nicolaus - Analyst*

Then, where do you -- where is your EBIT breakeven revenue number today? Where do you think it will be after you implement whatever restructuring or cost reductions efforts you have underway now?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes, I'm not sure I can give you that number. There's a lot of variables. We've talked about this before. We have initiatives going on all the way down the income statement from the top line, cost of goods sold and the SG&A, so I think you would probably have to do that math.

John Baugh - *Stifel Nicolaus - Analyst*

Then where -- give us a flavor for the trend in the quarter, Labor Day, what you've seen since Labor Day. You noted the sequential sales improvement. I don't know how that, precisely how that has tracked seasonally, but usually the Labor Day period and the kickoff for fall is stronger than the dead summer months. But give us some kind of color for what you're seeing in October as well as the trend in the last quarter.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Sure, John, I can give you a shot at that. It is kind of what you saw a little bit in High Point, other than the emotion, which is much more optimistic now than I've seen it in the last, call it two years.

I think, tangibly, a lot of folks have talked about Labor Day was solid increases. We saw that in our stores; we saw good performance on a relative basis. Coming out of High Point, we had what I would consider the best market for us that I've seen. We've gotten good response to new product and so on from dealers.

So we are seeing our order rates ticking up, which is a good early sign for us. So we are encouraged. We are coming into, as you mentioned, a period that for us seasonally is good. So we will look forward to more in Q4 and a stronger Q1 on a sequential basis. That's how we're thinking about our business.

John Baugh - *Stifel Nicolaus - Analyst*

Any quantification on orders? You mentioned that it improved, improved relative to what? Second quarter, year-over-year?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, just improved. We look at orders, as you can imagine, every week and we are just seeing order rates tangibly increase over the last number of weeks, and it's probably the last couple of months.

Now, many of those orders shipped, as you know, are longer lead times. Some will ship this quarter; some will ship next quarter. If it's case goods, it will ship a little later, usually, but we are seeing our backlog going in the right direction, which we haven't seen in a while.

John Baugh - *Stifel Nicolaus - Analyst*

I'm sorry. Is that comment year-over-year or is that let's say the orders of September being -- ?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

It's a sequential, John. I think the main thing is we are managing the business. As you ask about breakeven points and so on, we are interested in run rates, we really are. With all that's happened economically and things that are outside of our control, we are looking at run rates as it relates to getting down expenses, increasing sales. And then of course beyond that, it's always the balance sheet, too.

Operator

[Timothy Stabbles], [Stabbles] Asset Management.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Good job on the gross margins. That's heartening.

I'm going to harp, though, on the SG&A and follow-up with the other two questioners. I am concerned about it, and I think that we need more information. We've got a net asset charge as we get a net sequential increase of about $9 million. I personally would like some more information on what that is breaking that into buckets or whatever, because that is a material increase and it concerns me.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Again, as I mentioned, some of that is due to compensation changes from quarter to quarter. I think, if you go back to the first quarter, the third quarter is a little more similar to that. So we keep focusing on reducing SG&A. We will keep making progress, I think, in the fourth quarter and throughout next year and the next couple of years, frankly, doing that.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

$80 million is too low? Is $85 million too high, or what's -- you know -- our models are kind of shot, you know. When you get a $9 million increase, it is hard to model this thing.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Right, and that's why I don't think you pick any specific quarter. You have to look over longer periods of time, so (multiple speakers).

Timothy Stabbles - *Stabbles Asset Management - Analyst*

So could we get some number or no? I mean, $85 million or -- quarterly or annualized of $330 million or something, or --?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

I think, if you wanted to use a range of somewhere between Q1 and Q3, you would be -- you would have numbers that would be close.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Take the three previous quarters, add them up and divide by three?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

I think Steve's point about Q1 being one end of the spectrum and probably Q3 being another end.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Okay, that's helpful. The window for insider buying for common stock, when does that open to the open market?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Insider buying?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Monday.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Three days from (multiple speakers) Monday or Tuesday.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Do you anticipate it will open then?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, that's the plan.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Will we see insider, some insiders stepping up and buying?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

We can't answer that.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Can't answer that, but I can tell you that I am our largest individual shareholder, so I have stock that I bought with my own money. So, I don't know. I think we have ownership requirements for our leadership team and our Board. If folks want to step up, I think that's a good thing.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Net debt, can you give a net debt number at year end, anticipated?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, but we continue to look to reduce that. We've kept it, we've kept a high cash balance; we've done that for, what, geez, a year or two now. We expect to continue to do that so we made good progress, we will keep making progress.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Do we anticipate net debt still under $25 million?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Again, I can't give you that number but I (multiple speakers)

Timothy Stabbles - *Stabbles Asset Management - Analyst*

You don't anticipate that number significantly growing from where it was at Q3?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

The net debt number? No.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Yes, okay. CapEx next year, any preliminary notions significantly below depreciation and amortization in 2010?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, again, I cannot give you guidance there. We have been very careful in our -- it's not a very capital intensive business today because we don't need to add a whole lot of capacity, as you can imagine. So a lot of our expenses are maintenance expenses. Things that we would see going forward are perhaps capacity in Asia that we have. We've talked about expanding, and perhaps systems expenses in terms of modifying our systems environment. So other than that, nothing really of note.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Even asking a question that is as open-ended to whether it's -- the CapEx is going to be more or less than depreciation and amortization?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Well, it has tended certainly to be less than depreciation.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Can you comment more broadly on your faith in the long-term value of this business to earn returns in a more normalized environment? Do we have the operating leverage now where, if you get back half the sales you lost, the company is seeing almost historical levels of profitability. I'm not looking for specific earnings projections but just some other comment on your own faith in the cost-cutting that has been done and just generally where that gets you in a more normalized business environment.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes, that's a good question and a little bit similar to something Bud asked earlier in terms of the fixed and variable nature of our SG&A.

So if you look at that, I mean, the more you grow, obviously you have to add costs, but we are pretty lean and we're trying to get leaner on SG&A side and we will. We won't be adding a lot of that cost into there anytime soon.

So if you look at that, you've got sales commissions, so just do some of your own math on that. I'm not tell you these are the numbers. Even if you had $100 million of sales, you've got a gross margin; much of that drops to the bottom line.

So we truly have built a lot of leverage ability into the business. We don't need to add a lot of assets -- obviously an increase in sales, you get an increase in AR and inventory, but we continue to focus on improving at that level as well. So that's the -- and I don't think we are different than a lot of companies and a lot of industries. You've got a lot of leveragability built into the business, and we're going to keep trying to put more in.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, and one thing to think about with leverage -- we've seen sales a decline in the range of a lot of our peers. You've seen our gross margins actually grow in this period. As we do that and continue to work on SG&A, which we know is critical, to me the leverage point becomes very, very powerful. It's a matter of predicting and estimating what the revenue will be.

I go back to 2008, which was also a very tough year in the recession, and we were $1.740 billion. I think we were a better company today; I think our products are getting better; I think we are getting more capable. When the market returns, we are going to get more than our fair share of it. It's a matter of leverage.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Even if you think about the COGS side of things, we are predominately single-ship today and are intent over time would be to leverage our factories and move into second shifts or possibly even third shifts. So there is some leveragability there for volume. We do have relatively fixed overhead, so as you add volume, you tend to do even better than your gross margin because it's really your variable costs that go up for those produced goods as opposed to source goods.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

One follow-up and I'll get back in the queue if I have anything else -- on the insider -- I'm sorry, on the concept of a stock buyback, with your net debt levels so low, is your financial management so conservative that approaching your banks or your financing agents or whatever and asking for the possibility of buying back stock is not something you really want to do, or is that an absurd notion, or what?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

That's something we couldn't comment on, as you could imagine.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

I'm sorry, no. Why couldn't you comment on that? I don't quite understand that. I'm talking about the company buying back stock, not insiders buying in the open market.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

I understand that. That's a pretty large signal that I don't think you usually talk about unless you've actually made a filing.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

What is a pretty large signal?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Whether the company is intending to buy or wanting to buy back stock.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Okay, so it's not yes or a no, it's just a --?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

That's right. That's right.

Operator

(Operator Instructions). Barry Vogel, Barry Vogel and Associates.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Good morning, gentlemen. I want to go back to that closed store expense issue. I wrote down, when you were talking about it, Steve, that it is a run rate of about $10 million a year. If we look at the first three quarters, it is about $5.3 million, which would imply, if you are right, a very sizable fourth-quarter number, like $4 million to $5 million. I just want to understand the difference between the $10 million run rate and what -- if you get to that, you have another large closed-store expense in the fourth quarter?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, that's a good question, Barry. There are actually charges that go both ways. So occasionally -- this doesn't happen very often -- but occasionally where we have a dark store, we will open it back up as something else, as a Thomasville store. For example, you may have had a Lane store that shut down and then you open it back up as a Thomasville store.

Also occasionally, we will buy out of our remaining lease obligations if the price looks right to us. So there are things that can kind of go both ways on that.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

But $10 million seems like a large number, considering things are stabilizing a little bit, and it seems that the worst of the recession is behind us.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, I agree with you, but that's the legacy in terms of the stores that we have had to take over that are dark, so we are on the lease. Until the lease runs out or we buy out or we open that back up, it is a dead store cost for us. It is predominantly leased; there are some other costs in there but it is predominantly lease expense.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Now is this non-company-owned stores as well as company-owned stores?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Well, they are all company-owned at this point. I mean, they were -- most of those would have been stores that we were on the lease. We were either the lessor and then sublet or we guaranteed the lease for one of our customers. When they went out of business, we decided do we keep the store open or not? So we do have kind of a rigorous financial analysis. If we can't do better than that dead store cost, we will close it down and simply mark to market the lease.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

But you are including the 64 company-owned stores. Am I correct?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, no, if they are open, that's not part of that. These are closed stores.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Okay, closed stores. So you commented, I think in the last call or the last two calls ago, that there are about 90 stores that are involved in your guarantees. Is that accurate?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

We will have -- I mean the Q will have more information in the next day or two.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Oh, okay. Since we have you on the line here, could you tell us what that closed-store expense liability is at the end of September?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes. It is going to be in the 10-Q as well.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

You won't give it to us on the call?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

You will get it tomorrow or the next day.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

All right. I want to ask you another question about the number of plants you have right now because sometimes it is hard to keep score. How many case goods plants are operating in the United States right now?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

We have a total of 13 plus 2 overseas. Case goods, we have case goods in North Carolina. We've got two or three that are running full tilt now.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Hickory Chair as well.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, Hickory Chair as well (inaudible).

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

How many stores, how many case goods plants do you have in the United States?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

A total of three.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

That's it? Three?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

And how about upholstery plants in the United States?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Well, you've got some that are combined plants.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Oh, you can combine them. How many? I am just looking for a number.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, I'm going to have to --

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

A total of 13.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

A total of 13, and of those 13 -- I will break it all the way out for you -- a total of 13. Two of those are dedicated exclusively to case goods, one is dedicated pretty much to ready-to-assemble There is one that does case goods and upholstery, and the balance are upholstery.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Looking at it realistically do you think you really have any more closures in the future, potentially?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

We will always evaluate that, so we can't kind of give you what that looks like. But we are always evaluating potential synergies in our manufacturing.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Barry, I can tell you that what we've done in the past, the future will not look that way.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Okay, one last question -- what was your capacity utilization in the third quarter of your factories in the United States?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

We haven't really given that.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

Okay, thank you very much. Oh, one other question on inventories -- you sort of did not tell us what your goal for inventories was at the end of December, you know, versus where it is now.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, we don't do that.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

We haven't done it, Barry, but I can tell you it will be lower. Then of course our business at some point will grow and then our challenge is going to be to continue to hold and reduce inventory. So that is a fluid discussion and we're just looking to be really, really productive.

Barry Vogel - *Barry Vogel & Assoc. - Analyst*

All right, so I guess you get an A plus plus for balance-sheet management, but the sales management you still need a lot of improvement is the way I look at it. So best of luck, keep on doing -- you're doing a good job.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Thanks, Barry. We appreciate it.

Operator

Timothy Stabbles, Stabbles Asset Management.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

A follow-up on Barry's question -- you guys have a rock-solid balance sheet. I haven't seen anything quite like it. It's current assets at 3.5 times current liabilities. You've got to feel pretty good about your financial position. No?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

We do. You know, we're always -- we will keep focusing on it, I can tell you that. It's never good enough from our perspective.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

It certainly provides a certain context for my point about a company stock, looking for the company to buy back stock. You can appreciate that, I take it.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, I understood your question.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes, absolutely.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

It's a great way to add long-term value. I mean, frankly, there is people like me that look at this business and the brand names and the value in this business and think the Street is, frankly, crazy for pricing it at $3.75 or $3.85 a share when you look at the long-term value, you can -- historically what you've earned, and some of these cost cuts obviously are permanent. That goes without saying.

It seems a bit crazy to me, when you look at the strength of the balance sheet, to think that Furniture Brands is not going to be around when we've reached the inflection point of a recession.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Right.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

It sounds like you're a buyer, Barry.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Well, I am not Barry, but Barry is probably a buyer too, I'm thinking. I'm Tim.

Let me just follow up. Because maybe the Street is partly looking at this. What are the execute fees? Talk about the execution risks on some of these consolidation and centralization moves of, you know, the cost-cutting moves. Your time-to-market is going to be longer because of distribution center closings, higher shipping costs because of longer distances the freight is going.

Can you comment on some of the execution risks and reassure the market that you've got that under control and the analysis you've done on all of these things, centralization of accounts receivable collection and/or payable handling of receivables and payables, etc.?

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

Yes. I guess I can take a shot and then Steve can talk to you about a couple of areas. A lot of the centralization that we did and have completed is now all behind us, and we have been able to manage the business without, I would say, any hiccups. A lot of the reason for that really, Tim, is that we did a lot of back-office consolidation. So you can imagine going from nine HR systems to one, how efficient that is, centralizing credit and collections and accounts payable. You see our cash balance because we are able to manage it in one location very professionally.

What that allows our brands to do is to focus on the commercial things that they do best, which is designed great product, take that product to market, work with dealers, those kinds of things. So it is a little bit of a separation of duties, and it allows our folks to focus on the things that they are expert at. So, that's really what that it's been about. That gives you a ton of efficiency because you eliminate the duplication, you aggregate your scale, you are able to do things once instead of nine times, and you are able to get better pricing for anything that you outsource.

Now, as far as any executional risk about product flowing and moving, I think we are better at moving product, both within our facilities and also source products today, than we ever have before. We are on the ground with our own operations in Asia, not just our factories but our sourcing operations. We are able to do things now again through one central best-practices resource than nine brands trying to do it ad hoc themselves. So there's a lot that goes with that executionally that's hopefully.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Just so I'm clear, this was a strategic imperative that began before -- and a strategic vision that began -- or operational vision or whatever -- that began before the recession?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes, but it didn't start implementing before the recession. On the HR side did but --.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

In concert.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Yes.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

In concert. You know, what's funny is and I mentioned in my comments -- we introduced the strategic plan in October of '07 and now we all know that December of '07 is I guess what has been earmarked as the start of the recession, so here we are.

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

We will keep focusing on making further improvements there, both in cost as well as perfecting the way we do things, standardization, so we keep looking at that.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Okay. My final question is, is there any estimate of the additional annualized savings to be gotten from cost savings, [whether] it was across the organization, the entire organization?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, we really haven't done that.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Is that single-digit millions, or is that double-digit millions? How much more there is to be squeezed, potentially, (inaudible)?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

Well, again, we haven't done that, other than to say we continue to focus on getting cost out, so --.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

You won't bite on that wonderful question of single-digit versus double-digit?

Steve Rolls - *Furniture Brands International Inc. - SVP, CFO*

No, sorry.

Timothy Stabbles - *Stabbles Asset Management - Analyst*

Okay. Any other comments there? I heard Ralph wanting to comment.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

No, I was just chuckling, Tim. It's a great question. It is a question I ask around here every day. Then your earlier comment about -- I think Barry made about sales management. I'm going to invite him to our next leadership team meeting and talk to our guys about driving revenue. I think it would be very motivating.

Operator

With no further questions in queue, I would now like to turn the call back to management for closing remarks.

Ralph Scozzafava - *Furniture Brands International Inc. - Chairman, CEO*

I think we had a good Q&A session. I want to thank everybody for being with us today, for being interested in our business and our company. We are making progress. We've got a lot of work to do, so we're going to get back to it. Thanks, everyone.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.
