

HAVERTY FURNITURE COMPANIES INC  
Form 10-Q  
November 10, 2008

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the quarterly period ended September 30, 2008  
**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the transition period from to  
Commission file number: 1-14445

**HAVERTY FURNITURE COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of incorporation or organization)

**58-0281900**  
(I.R.S. Employer Identification No.)

**780 Johnson Ferry Road, Suite 800**

**Atlanta, Georgia**  
(Address of principal executive office)  
**(404) 443-2900**  
(Registrant's telephone number, including area code)

**30342**  
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

(Check One)    Large accelerated filer                        Accelerated filer                              
                  Non-accelerated filer                                Smaller reporting company               

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

Yes     No

The numbers of shares outstanding of the registrant's two classes of \$1 par value common stock as of October 31, 2008, 2008 were: Common Stock 17,232,096; Class A Common Stock 4,088,931.

---

HAVERTY FURNITURE COMPANIES, INC.

INDEX

	<b>Page No.</b>
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements (Unaudited)</b>	
Condensed Consolidated Balance Sheets	
September 30, 2008 and December 31, 2007	1
Condensed Consolidated Statements of Operations	
Three and Nine Months ended September 30, 2008 and 2007	2
Condensed Consolidated Statements of Cash Flows	
Three and Nine Months ended September 30, 2008 and 2007	3
Notes to Condensed Consolidated Financial Statements	4
<b>Item 2. Management's Discussion and Analysis of</b>	7
<b>Financial Condition and Results of Operations</b>	
<b>Item 3. Quantitative and Qualitative Disclosures</b>	12
<b>about Market Risk</b>	
<b>Item 4. Controls and Procedures</b>	12
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1A. Risk Factors</b>	13
<b>Item 6. Exhibits</b>	13

---

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 18,724	\$ 167
Accounts receivable, net	31,773	58,748
Inventories	99,830	102,452
Prepaid expenses	8,529	8,732
Other current assets	10,685	8,837
Total current assets	169,541	178,936
Accounts receivable, long-term	2,536	8,003
Property and equipment, net	201,565	209,912
Other assets	23,562	25,086
	\$ 397,204	\$ 421,937
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Notes payable to banks	\$	\$
Accounts payable	21,351	29,396
Customer deposits	18,671	17,183
Accrued liabilities	33,630	37,948
Current portion of long-term debt and lease obligations	15,191	8,353
Total current liabilities	88,843	92,880
Long-term debt and lease obligations, less current portion	7,265	20,331
Other liabilities	29,546	29,881
Total liabilities	125,654	143,092
Stockholders' Equity		
Capital Stock, par value \$1 per share:		
Preferred Stock, Authorized: 1,000 shares; Issued: None		
Common Stock, Authorized: 50,000 shares; Issued: 2008 25,013;		
2007 24,874 shares	25,013	24,874
Convertible Class A Common Stock,		
Authorized: 15,000 shares; Issued: 2008 4,612; 2007 4,659 shares	4,612	4,659
Additional paid-in capital	61,086	59,819
Retained earnings	258,913	265,952
Accumulated other comprehensive loss	(1,895 )	(1,989 )
Less treasury stock at cost - Common Stock		
(2008 7,783; 2007 7,566 shares) and Convertible Class A Common Stock (2008 and	(76,179 )	(74,470 )
2007 522 shares)	271,550	278,845
Total stockholders' equity	\$ 397,204	\$ 421,937

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

See notes to these condensed consolidated financial statements.

1

---

## HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2008	2007	September 30, 2008	2007
Net sales	\$ 175,579	\$ 200,666	\$ 529,243	\$ 578,843
Cost of goods sold	85,104	101,141	256,079	292,980
Gross profit	90,475	99,525	273,164	285,863
Credit service charge	468	591	1,530	1,853
Gross profit and other revenue	90,943	100,116	274,694	287,716
Expenses:				
Selling, general and administrative	92,879	99,798	278,139	288,638
Interest, net	273	(571 )	348	(723 )
Provision for doubtful accounts	432	407	1,044	786
Other (income) expense, net	(359 )	(77 )	(479 )	(728 )
	93,225	99,557	279,052	287,973
Income (loss) before income taxes	(2,282 )	559	(4,358 )	(257 )
Income tax benefit	(767 )	(84 )	(1,566 )	(380 )
Net income (loss)	\$ (1,515 )	\$ 643	\$ (2,792 )	\$ 123
Basic and diluted earnings (loss) per share:				
Common Stock	\$ (0.07 )	\$ 0.03	\$ (0.13 )	\$ 0.01
Class A Common Stock	\$ (0.07 )	\$ 0.03	\$ (0.13 )	\$ 0.00
Weighted average shares basic:				
Common Stock	17,213	18,460	17,163	18,501
Class A Common Stock	4,090	4,146	4,107	4,174
Weighted average shares				
assuming dilution:				
Common Stock	17,213	22,725	17,163	22,827
Class A Common Stock	4,090	4,146	4,107	4,174
Cash dividends per share:				
Common Stock	\$ 0.0675	\$ 0.0675	\$ 0.2025	\$ 0.2025
Class A Common Stock	\$ 0.0625	\$ 0.0625	\$ 0.1875	\$ 0.1875

See notes to these condensed consolidated financial statements.



## HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash Flows from Operating Activities:		
Net income (loss)	\$ (2,792	) \$ 123
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,217	16,889
Provision for doubtful accounts	1,044	786
Loss (gain) on sale of property and equipment	8	(219
Other	794	1,588
Changes in operating assets and liabilities:		
Accounts receivable	31,398	3,201
Inventories	2,621	31,007
Customer deposits	1,488	2,136
Other assets and liabilities	146	(6,273
Accounts payable and accrued liabilities	(12,363	) (4,048
Net cash provided by operating activities	38,561	45,190
Cash Flows from Investing Activities:		
Capital expenditures	(8,307	) (10,173
Proceeds from sale of land, property and equipment	256	888
Other investing activities	141	110
Net cash used in investing activities	(7,910	) (9,175
Cash Flows from Financing Activities:		
Proceeds from borrowings under revolving credit facilities	128,365	362,525
Payments of borrowings under revolving credit facilities	(128,365	) (375,125
Net increase (decrease) in borrowings under revolving credit facilities		(12,600
Payments on long-term debt and lease obligations	(6,228	) (8,306
Treasury stock acquired	(1,806	) (5,213
Proceeds from exercise of stock options	186	319
Dividends paid	(4,246	) (4,531
Net cash used in financing activities	(12,094	) (30,331
Increase in cash and cash equivalents during the period	18,557	5,684
Cash and cash equivalents at beginning of period	167	12,139
Cash and cash equivalents at end of period	\$ 18,724	\$ 17,823

See notes to these condensed consolidated financial statements.



**HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE A Business and Reporting Policies**

Haverty Furniture Companies, Inc. ( Havertys, the Company, we, our, or us ) is a full service home furnishings retailer. The Company operates its stores using the Havertys brand and does not franchise its concept. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. The financial statements include the accounts of the Company and its wholly-owned subsidiaries and one variable interest entity under FIN 46. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe all normal, recurring adjustments considered necessary for a fair presentation have been included.

The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Company is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. We believe that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on our financial condition or results of operations.

For further information, refer to the consolidated financial statements and footnotes thereto included in Havertys Annual Report on Form 10-K for the year ended December 31, 2007.

**NOTE B Recent Accounting Standards**

In September 2006, Statement of Financial Accounting Standards 157, Fair Value Measurements ("SFAS 157") was issued. SFAS 157 defines fair value, establishes a market-based hierarchy for measuring fair value and expands disclosures about fair value measurements. SFAS 157 was effective for us on January 1, 2008, for all financial assets and financial liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in our financial statements on a recurring basis (at least annually). For all other nonfinancial assets and liabilities, SFAS 157 is effective for us on January 1, 2009. The adoption of SFAS 157 did not have a material impact on our financial statements. We are in the process of evaluating the impact of SFAS 157 on our pension related financial assets and our nonfinancial assets and liabilities not valued on a recurring basis (at least annually).

We have a self-directed, non-qualified deferred compensation plan for certain executives and other highly compensated employees. The investment assets are valued using quoted market prices multiplied by the number of shares held, a Level 1 valuation technique under SFAS 157, and totaled \$1.5 million at September 30, 2008. The related deferred compensation liability is recorded at the same amount given the rights of the participants.

## Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

In February 2007, Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ) was issued. SFAS 159 allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value ( fair value option ). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, SFAS 159 specifies that unrealized gains and losses for that instrument be reported in earnings at each subsequent reporting date. SFAS 159 was effective for us on January 1, 2008. We did not apply the fair value option to any of our outstanding instruments and, therefore, SFAS 159 did not have an impact on our Condensed Consolidated Financial Statements.

**HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**NOTE C Accounts Receivable**

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. Portions of the receivables are classified as long-term based on the specific programs' historical collection rate, which is generally faster than the scheduled rate. The portions of receivables contractually due beyond one year classified as current and long-term are estimates. The timing of actual collections that are contractually due beyond one year may be different from the amounts estimated to be collected within one year. However, based on experience, we do not believe the collection rate will differ significantly. At September 30, 2008 and December 31, 2007, the accounts receivable contractually due beyond one year from the respective balance sheet dates totaled approximately \$6.1 million and \$12.1 million, respectively.

**NOTE D Interim LIFO Calculations**

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on actual inventory levels and recent costs. Accordingly, interim LIFO calculations must necessarily be based on management's estimates. Since these estimates may be affected by factors beyond management's control, interim calculations are subject to the final year-end LIFO inventory valuations.

**NOTE E Earnings Per Share**

We report our earnings per share using the two-class method as required by the Emerging Issues Task Force (EITF) Issue No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share (SFAS 128). EITF 03-6 requires the income per share for each class of common stock to be calculated assuming 100% of our earnings are distributed as dividends to each class of common stock based on their contractual rights.

The Common Stock of the Company has a preferential dividend rate of at least 105% of the dividend paid on the Class A Common Stock. The Class A Common Stock, which has ten votes per share as opposed to one vote per share for the Common Stock (on all matters other than the election of directors), may be converted at any time on a one-for-one basis into Common Stock at the option of the holder of the Class A Common Stock.

The amount of earnings used in calculating diluted earnings per share of Common Stock is equal to net income since the Class A shares are assumed to be converted. Diluted earnings per share of Class A Common Stock includes the effect of dilutive common stock options and awards which reduces the amount of undistributed earnings allocated to the Class A Common Stock.

The following is a reconciliation of the number of shares used in calculating the diluted earnings per share for Common Stock under SFAS 128 and EITF 03-6 (shares in thousands):

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2008</b>	<b>2007</b>	<b>September 30, 2008</b>	<b>2007</b>
Common:				
Weighted average shares outstanding	17,213	18,460	17,163	18,501
Assumed conversion of Class A Common shares		4,146		4,174
Dilutive options, awards and common stock equivalents		119		152
Total weighted-average diluted Common shares	17,213	22,725	17,163	22,827

5

---

## HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

For the three and nine months ended September 30, 2008, 153,000 and 205,000 shares, respectively, underlying stock options, awards and common stock equivalents were not included in the computation of diluted earnings (loss) per share because inclusion of such shares would be anti-dilutive. For the three and nine months ended September 30, 2008, 4,090,000 and 4,107,000, respectively, incremental shares from assumed conversion of the Class A Common stock were excluded from the computation of diluted earnings (loss) per share due to their anti-dilutive effect.

**NOTE F Comprehensive Income (Loss)**

Total comprehensive income (loss) was comprised of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2008	2007	September 30, 2008	2007
Net income (loss)	\$(1,515	) \$643	\$(2,792	) \$123
Amortization of expired derivatives, net of applicable income tax	31	31	94	95
Total comprehensive income (loss)	\$(1,484	) \$674	\$(2,698	) \$218

**NOTE G Pension Plans**

We have a defined benefit pension plan covering substantially all employees hired on or before December 31, 2005. The pension plan was closed to any employees hired after that date. The benefits are based on years of service and the employee's final average compensation. Effective January 1, 2007, no new benefits are earned under this plan for additional years of service after December 31, 2006.

We also have non-qualified, non-contributory supplemental executive retirement plans (SERP) for employees whose retirement benefits are reduced due to their annual compensation levels. The total amount of annual retirement benefits per the plans that may be paid to an eligible participant in the SERP from all sources (Retirement Plan, Social Security and the SERP) may not exceed \$125,000. Under these supplemental plans, which are not funded, we pay benefits directly to covered participants beginning at their retirement.

Net pension income included the following components (in thousands):

Three Months Ended	Nine Months Ended
--------------------	-------------------

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

	September 30, 2008		September 30, 2007	
Service cost-benefits earned during period	\$ 27	\$ 12	\$ 80	\$ 86
Interest cost on projected benefit obligations	988	1,061	2,964	2,904
Expected return on plan assets	(1,167 )	(1,177 )	(3,501 )	(3,532 )
Amortization of prior service costs	52	52	157	157
Amortization of actuarial (gain) loss	(96 )	14	(289 )	23
Net pension income	\$ (196 )	\$ (38 )	\$ (589 )	\$ (362 )

As a result of significant declines in the fair value of our pension plan assets during 2008, it is possible our future pension plan contributions may be much greater than our projected 2008 contributions.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion of Haverty's financial condition and results of operations should be read together with the accompanying condensed consolidated financial statements and related notes thereto and our 2007 Annual Report to Stockholders.

**Net Sales**

Our sales are generated by customer purchases of home furnishings in our retail stores and beginning in March 2008 via our website. Revenue is recognized upon delivery to the customer.

Total sales decreased \$25.1 million or 12.5% and comparable stores sales decreased 14.9% or \$29.2 million in the third quarter of 2008 compared to the prior year period. The remaining \$4.1 million of the change in sales in the third quarter of 2008 was from new and otherwise non-comparable stores. Sales for the first nine months of 2008 decreased \$49.6 million or 8.6% and comparable stores sales decreased 11.3% or \$64.4 million. The remaining \$14.8 million of the change in sales in the first nine months of 2008 was from new and otherwise non-comparable stores. Stores are non-comparable if open for less than one year or if the selling square footage has been changed significantly during the past 12 full months. Large clearance sales events from warehouse or temporary locations are excluded from comparable store sales, as are periods when stores are closed or being extensively remodeled.

During 2008, we have promoted longer term no interest financing and special pricing on select merchandise to help stimulate sales. We plan to remain competitive, but not overly aggressive, with our general merchandise pricing as we strive to maintain our gross profit margins. We will continue having promotional offers to drive store traffic and discounts during periodic sales events.

Housing sales, which is one driver of home furnishing purchases, is at historically low levels. Home values have declined and mortgage lending has tightened such that consumers have less access to funding for large discretionary purchases for the home. Higher gasoline and food prices have also contributed to consumers' reluctance to increase spending for big-ticket furniture items. More recent turmoil in the financial markets has further reduced consumers' inclinations towards spending. We do not anticipate a significant rebound in demand for the remainder of 2008 and well into 2009.

**Gross Profit**

Gross profit for the third quarter of 2008 was 51.5%, an increase of 193 basis points as a percent of net sales compared to the prior year period. Better inventory management reduced the levels of damaged and close out merchandise during the third quarter of 2008 compared to 2007. The level of sales financed internally using long-term no interest credit promotions also affects our gross profit. During the third quarter of 2008, a third-party finance company funded more of these promotions, positively impacting gross margins.

These changes, along with improvements generated by new products, product mix and better pricing discipline affected our gross profit year to date. Gross profit for the nine months ended September 30 improved from 49.4% in 2007 to 51.6% in 2008.

## Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

Substantially all of our occupancy and home delivery costs are included in selling, general and administrative expenses as are a portion of our warehousing expenses. Accordingly, our gross profit may not be comparable to those entities that include these costs in cost of goods sold.

We have carefully managed our inventory and warehouse operations to reduce costs and maintain service levels. Many of our suppliers have experienced price increases and we are working diligently with them on our product costing. Our LIFO provision estimates for the remainder of 2008 are such that we currently expect our gross profit margin to be similar to the first nine months of this year and above last year's comparable period.

7

---



**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

**Selling, General and Administrative Expenses**

Selling, general and administrative ( SG&A ) expenses are comprised of five categories: selling; occupancy; delivery and certain warehousing costs; advertising; and administrative.

Our total SG&A costs were approximately \$6.9 million and \$10.5 million lower in the third quarter and first nine months of 2008, respectively, compared to the prior year periods.

The cost of the promotional credit programs offered through a third-party finance company is included in selling expenses. These charges fluctuate in part due to the types and frequency of promotions offered through the third-party and the levels of usage of those programs. The cost for these programs decreased \$1.6 million in the third quarter of 2008 as compared to the prior year period as the amounts financed and cost of the programs through the third-party decreased. For the first nine months in 2008, the third-party creditor expenses increased \$2.0 million over the comparable prior year period as usage of the programs during the first half of 2008 was much greater than in the first half of 2007.

Occupancy costs are a significant portion of our SG&A costs and are generally fixed. Store rents represent slightly less than one-third of our occupancy costs. We are evaluating several locations with leases reaching renewal for potential renegotiations of option terms or possible closures. Currently, we lease ten properties we have exited prior to the end of their terms and have sub-leases on eight of these locations. During the third quarter we increased our reserve for store closing costs, which includes amounts related to sub-leased properties and potential defaults by sub-tenants, by \$1.1 million.

Delivery and certain warehousing expenses were down in the third quarter as compared to the prior year period. In response to the lower sales levels we adjusted our routes in many of our markets, reducing total headcount and related delivery expenses. The effect of these decreases were partially offset by higher fuel costs. Delivery expenses for the first nine months of 2008 were down approximately \$0.7 million compared to the prior year period.

Our advertising and marketing expenses decreased by \$2.1 million and \$5.6 million for the quarter and nine months ended September 30, 2008, respectively, compared to the prior year periods. We have adjusted our advertising spending in 2008 using more targeted methodologies designed to reach our customer.

Our administrative costs were down \$0.6 million and \$1.5 million in the third quarter and first nine months of 2008, respectively, as compared to 2007. This decrease is due in large part to a reduction in insurance costs and management non-equity incentive compensation.

**Credit Service Charge Revenue and Allowance for Doubtful Accounts**

The in-house financing offer most frequently chosen by our customers carries no interest for 12 months and requires equal monthly payments. This program generates very minor credit revenue, but incurs lower bad debts relative to our deferred payment in-house credit programs. In

## Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

addition, we offer our customers different credit promotions through a third-party credit provider. Sales financed by this provider are not Havertys' receivables, accordingly, we do not have any credit risk or service responsibility for these accounts, and there is no credit or collection recourse to Havertys. The most popular program offered through the third-party provider for the third quarter of 2008 was a no interest offer requiring 36 equal monthly payments.

8

---

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

We elected to shift the offering of the longer term no interest promotions to the third-party provider during 2008. The following highlights these changes and related accounts receivable and allowance for doubtful accounts (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2008	2007	September 30, 2008	2007
Credit service charge revenue	\$ 468	\$ 591	\$ 1,530	\$ 1,853
Amount financed as a % of sales:				
Havertys	7.8%	13.4%	8.5%	16.7%
Third-party	34.9%	37.4%	36.7%	28.7%
	42.7%	50.8%	45.2%	45.4%
% Financed by Havertys:				
No Interest for 12 months	65.8%	14.0%	61.5%	17.9%
No Interest for > 12 months	1.8%	64.2%	6.1%	62.0%
No Interest for < 12 months	9.5%	7.6%	11.3%	7.6%
Interest bearing	22.9%	14.2%	21.1%	12.5%
	100.0%	100.0%	100.0%	100.0%

	September 30, 2008	2007
Accounts receivable	\$ 36,009	\$ 76,983
Allowance for doubtful accounts	1,700	2,000
Allowance as a % of accounts receivable	4.7%	2.6%

Our allowance for doubtful accounts as a percentage of receivables is higher in 2008 due to an increase in the delinquency and problem category percentages compared to 2007. The dollar amount of the allowance is down slightly compared with the year ago balance due to the large reduction in total accounts receivable.

**Interest, net**

Interest expense (income), net is primarily comprised of interest expense on the Company's debt and the amortization of the discount on the Company's receivables which have no interest terms for greater than twelve months. The following table summarizes the components of interest expense (income), net (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2008	2007	September 30, 2008	2007

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

Interest expense on debt	\$ 517	\$ 755	\$ 1,747	\$ 2,861
Amortization of discount on accounts receivable	(167 )	(1,179 )	(1,260 )	(3,321 )
Other, including capitalized interest and				
interest income	(77 )	(147 )	(139 )	(263 )
	\$ 273	\$ (571 )	\$ 348	\$ (723 )

9

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

Interest expense on debt decreased in the third quarter and first nine months of 2008 as compared to the 2007 periods due to lower levels of average debt.

We effectively stopped offering in-house interest free credit programs in excess of twelve months in January 2008. Previously, we made available to customers in-house interest free credit programs, which mostly ranged from 12 to 18 months. In connection with those programs which are greater than 12 months, we are required to discount the payments to be received over the expected life (considering prepayments) of the interest free credit program. The discount is recorded as a charge to cost of goods sold and as a contra receivable and is amortized as a credit to interest expense over the life of the receivable. The amount of amortization will decrease as the receivables generated under longer term, free interest financing promotions are collected.

**Provision for Income Taxes**

The tax rate, which includes the effect of discrete items, was 35.9% for the nine months ended September 30, 2008. In addition to the impact of discrete items, our rate is also affected by the Texas taxing scheme which is based on gross margin and not pre-tax income.

During the nine months ended September 30, 2008, the Company settled certain state audits related to state taxation issues resulting in a \$0.3 million recognition of benefits. The remaining cumulative tax benefits at September 30, 2008 that would favorably affect the effective tax rate of future periods if recognized was approximately \$0.8 million and is classified as long-term.

During the nine months ended September 30, 2007, the Company recognized approximately \$0.3 million in benefit from the settlement of certain state tax audits and revisions in assessments related to state taxation issues.

**Balance Sheet Changes for the Nine Months Ended September 30, 2008**

Our balance sheet as of September 30, 2008, as compared to our balance sheet as of December 31, 2007, changed as follows:

increase in cash of \$18.6 million;

decrease in gross accounts receivable of \$32.9 million as we shifted more of our longer term credit offers to a third-party provider;

decrease in inventories of \$2.6 million as sales demand has been less than expected;

decrease in accounts payable of \$8.0 million due to a lower level of purchases in the third quarter of 2008 as compared to the fourth quarter of 2007; and

decrease in accrued liabilities of \$4.3 million, primarily as liabilities for accrued payroll and commissions, related taxes, benefits and non-equity incentive pay declined due to lower net sales, reduced head count and normal seasonality.

**Liquidity and Capital Resources**

## Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

During the first nine months of 2008, our principal source of cash was \$38.6 million derived from operations. Our primary uses of cash were (1) capital expenditures totaling \$8.3 million; (2) repayments on debt of \$6.2 million; (3) dividend payments totaling \$4.2 million; and (4) acquisition of treasury stock totaling \$1.8 million.

10

---

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**

Our cash flows provided by operating activities totaled \$38.6 million in the first nine months of 2008 compared to \$45.2 million for the same period of 2007. This decrease was primarily the result of working capital changes and the net loss of \$2.8 million in 2008 compared to net income of \$0.1 million in 2007. For additional information about the changes in our assets and liabilities, refer to our Balance Sheet Changes discussion.

Our cash flows used in investing activities totaled \$7.9 million in the first nine months of 2008 versus \$9.2 million in the first nine months of 2007. The \$1.9 million difference in capital expenditures was offset by a \$0.6 million difference in proceeds from sale of property and equipment.

Our cash flows used in financing activities totaled \$12.1 million in the first nine months of 2008 compared to \$30.3 million for the same period of 2007. This decrease is primarily due to a \$12.6 million decrease in net repayments of our bank revolver, \$2.1 million less in payments on long-term debt and lease obligations and \$3.4 million less in treasury stock purchases.

**Financings**

Our revolving line of credit is available for general corporate purposes and as interim financing for capital expenditures. This credit facility is syndicated with five commercial banks and terminates in August 2010. At the end of the first quarter of 2008, we eliminated our subsidiary's \$20.0 million unsecured revolving line and amended certain of the covenants on the remaining \$60.0 million credit facility. Borrowings under the facility are unsecured and accrue interest at LIBOR plus a spread that is based on a fixed-charge coverage ratio. We had letters of credit in the amount of \$5.7 million outstanding at September 30, 2008 and these amounts are considered part of the facility's usage. Our unused capacity was \$54.3 million at September 30, 2008. We are currently exploring other financing alternatives which provide greater flexibility given the uncertainty of the economic environment.

**Store Growth and Capital Expenditures**

Our current store growth plans for 2008 include two new stores, one which opened in Orlando, Florida in the first quarter and one which will open in an existing market in the fourth quarter. We are relocating stores in Murfreesboro, Tennessee and Mobile, Alabama in the fourth quarter and are closing three additional stores during 2008. These changes should result in net selling space being down 1% in 2008 compared to the end of 2007.

Many of our new stores under development are leased locations which reduces our capital investment. Our planned expenditures for 2008 are \$7.2 million for stores and store improvements and \$3.1 million for distribution and information technology. Capital expenditures for stores do not necessarily coincide with the years in which the store opens. Cash balances, funds from operations, proceeds from sales of properties and our bank line of credit are expected to be adequate to finance our planned capital expenditures.

**Forward-Looking Information**

## Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-Q

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies and similar matters, and those that include the words believes, anticipates, estimates or similar expressions constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Havertys claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in industry conditions; competition; merchandise costs; energy costs; timing and level of capital expenditures; introduction of new products; rationalization of operations; and other risks identified in Havertys SEC reports and public announcements.



**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes with respect to our financial instruments and their related market risks since the date of the Company's most recent annual report. We have exposure to floating interest rates through our revolving line of credit. Therefore, interest expense will fluctuate with changes in LIBOR and other benchmark rates. We do not believe a 100 basis point change in interest rates would have a significant adverse impact on our operating results or financial position.

**Item 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure.

**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Recently, the capital and credit markets have become volatile as a result of adverse conditions resulting in failure, or near failure, of several large financial institutions. If the markets remain volatile, we may incur increased costs of borrowings and our access to credit may be limited.

**Item 6. Exhibits**

(a) Exhibits

The exhibits listed below are filed with or incorporated by reference into this report (those filed with this report are denoted by an asterisk). Unless otherwise indicated, the exhibit number of documents incorporated by reference corresponds to the exhibit number in the referenced documents.

**Exhibit  
Number**

**Description of Exhibit (Commission File No. 1-14445)**

- |       |  |
|-------|--|
| 3.1   | Articles of Amendment and Restatement of the Charter of Haverty Furniture Companies, Inc. effective May 26, 2006 (Exhibit 3.1 to our Second Quarter 2006 Form 10-Q). |
| 3.2   | By-laws of Haverty Furniture Companies, Inc. as amended effective April 30, 2007 (Exhibit 3.2 to our First Quarter 2007 Form 10-Q).                                  |
| *31.1 | Certification of Chief Executive Officer pursuant to sec. 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. sec 7241).  |
| *31.2 | Certification of Chief Financial Officer pursuant to sec. 302 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. sec 7241).  |
| *32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. sec 1350).                    |

**SIGNATURES**

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

**HAVERTY FURNITURE COMPANIES, INC.**

(Registrant)

Date: November 10, 2008

By: /s/ Clarence H. Smith  
Clarence H. Smith  
President and Chief Executive Officer

By: /s/ Dennis L. Fink  
Dennis L. Fink  
Executive Vice President and  
Chief Financial Officer