

HAVERTY FURNITURE COMPANIES INC  
Form 10-Q  
November 08, 2007

**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, 2007  
**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.

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(Check One)      Large accelerated filer       Accelerated filer       Non-accelerated filer

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 November 6, 2007 were: Common Stock 17,694,321; Class A Common Stock 4,139,181.

**HAVERTY FURNITURE COMPANIES, INC.**

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## 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, 2007 (Unaudited)	December 31, 2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 17,823	\$ 12,139
Accounts receivable, net	64,708	63,996
Inventories	93,757	124,764
Prepaid expenses	15,821	6,693
Deferred income taxes	1,297	2,035
Other current assets	10,262	9,682
Total current assets	203,668	219,309
Accounts receivable, long-term	10,275	14,974
Property and equipment, net	214,700	221,245
Other assets	13,102	14,226
	\$ 441,745	\$ 469,754
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Notes payable to banks	\$	\$ 12,600
Accounts payable	40,069	40,851
Customer deposits	21,810	19,674
Accrued liabilities	36,593	38,975
Current portion of long-term debt and lease obligations	8,289	10,334
Total current liabilities	106,761	122,434
Long-term debt and lease obligations, less current portion	22,457	27,515
Other liabilities	27,527	27,882
Total liabilities	156,745	177,831
Stockholders' Equity		
Capital Stock, par value \$1 per share:		
Preferred Stock, Authorized: 1,000 shares; Issued: None		
Common Stock, Authorized: 50,000 shares; Issued: 2007 24,867; 2006 24,717 shares	24,867	24,717
Convertible Class A Common Stock,		
Authorized: 15,000 shares; Issued: 2007 4,662; 2006 4,724 shares	4,662	4,724
Additional paid-in capital	59,336	57,195
Retained earnings	265,764	269,873
Accumulated other comprehensive loss	(2,332)	(2,427)
Less treasury stock at cost (Common Stock (2007 6,737; 2006 6,245 shares) and Convertible Class A Common Stock (2007 and 2006 522 shares))		
	(67,297)	(62,159)

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Total stockholders' equity	285,000	291,923
	\$ 441,745	\$ 469,754

See notes to these condensed consolidated financial statements.

## HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data Unaudited)

	Quarter Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Net sales	\$ 200,666	\$ 222,940	\$ 578,843	\$ 643,063
Cost of goods sold	101,141	113,892	292,980	325,349
Gross profit	99,525	109,048	285,863	317,714
Credit service charges	591	682	1,853	2,135
Gross profit and other revenue	100,116	109,730	287,716	319,849
Expenses:				
Selling, general and administrative	99,798	103,774	288,638	300,897
Interest, net	(571 )	(206 )	(723 )	(144 )
Provision for doubtful accounts	407	151	786	268
Other (income) expense, net	(77 )	(100 )	(728 )	(1,337 )
	99,557	103,619	287,973	299,684
Income (loss) before income taxes	559	6,111	(257 )	20,165
Income tax (benefit) expense	(84 )	1,975	(380 )	7,335
Net income	\$ 643	\$ 4,136	\$ 123	\$ 12,830
Basic earnings per share:				
Common Stock	\$ 0.03	\$ 0.18	\$ 0.01	\$ 0.58
Class A Common Stock	\$ 0.03	\$ 0.17	\$ 0.00	\$ 0.54
Diluted earnings per share:				
Common Stock	\$ 0.03	\$ 0.18	\$ 0.01	\$ 0.56
Class A Common Stock	\$ 0.03	\$ 0.17	\$ 0.00	\$ 0.54
Weighted average shares basic:				
Common Stock	18,460	18,410	18,501	18,295
Class A Common Stock	4,146	4,237	4,174	4,259
Weighted average shares assuming dilution:				
Common Stock	22,725	22,807	22,827	22,715
Class A Common Stock	4,146	4,237	4,174	4,259
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,	
	2007	2006
Cash Flows from Operating Activities:		
Net income	\$ 123	\$ 12,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,889	16,092
Provision for doubtful accounts	786	268
Deferred income taxes	190	293
Gain on sale of property and equipment	(219 )	(1,178 )
Other	1,398	802
Changes in operating assets and liabilities:		
Accounts receivable	3,201	16,198
Inventories	31,007	(10,457 )
Customer deposits	2,136	(6,141 )
Other assets and liabilities	(6,273 )	2,960
Accounts payable and accrued liabilities	(4,048 )	(5,258 )
Net cash provided by operating activities	45,190	26,409
Cash Flows from Investing Activities:		
Capital expenditures	(10,173 )	(17,968 )
Proceeds from sale of land, property and equipment	888	3,651
Other investing activities	110	215
Net cash used in investing activities	(9,175 )	(14,102 )
Cash Flows from Financing Activities:		
Proceeds from borrowings under revolving credit facilities	362,525	543,605
Payments of borrowings under revolving credit facilities	(375,125 )	(547,905 )
Net decrease in borrowings under revolving credit facilities	(12,600 )	(4,300 )
Payments on long-term debt and lease obligations	(8,306 )	(8,114 )
Treasury stock acquired	(5,213 )	)
Proceeds from exercise of stock options	319	2,026
Dividends paid	(4,531 )	(4,506 )
Other	)	96
Net cash used in financing activities	(30,331 )	(14,798 )
Increase (decrease) in cash and cash equivalents during the period	5,684	(2,491 )
Cash and cash equivalents at beginning of period	12,139	11,121
Cash and cash equivalents at end of period	\$ 17,823	\$ 8,630

See notes to these condensed consolidated financial statements.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE A Basis of Presentation**

Haverty Furniture Companies, Inc. ( Havertys, the Company, we, our, or us ) is a full service home furnishings retailer. The Company operates all of 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. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to the current presentation.

The preparation of condensed consolidated financial statements in conformity with accounting principles in the United States 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.

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, 2006.

**NOTE B Recent Accounting Standards and Pronouncements**

In July 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2004. The examination of the Company's U.S. federal income tax return for 2003 was completed during 2006 and there were no resulting adjustments required.

With respect to state and local jurisdictions, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for years before 2003. Although the outcome of tax audits is always uncertain, we believe that adequate amounts of tax, interest and penalties have been provided for any adjustments that are expected to result from these years.



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We adopted the provisions of FIN 48 effective January 1, 2007. As a result of the adoption of FIN 48, we recorded a \$300,000 positive cumulative effect adjustment to the January 1, 2007 balance of retained earnings. As of January 1, 2007, the gross amount of unrecognized tax benefits was \$1.4 million. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. Included as a component of the unrecognized tax benefit of \$1.4 million, the Company had accrued interest and penalties of approximately \$0.4 million. The resulting reserve at January 1, 2007 for unrecognized tax benefits on an after-tax basis that would favorably affect the effective tax rate of future periods if recognized was approximately \$0.9 million.

During the three months ended September 30, 2007, the Company settled certain state tax audits and revised its assessments related to state taxation issues resulting in a \$0.3 million recognition of these tax benefits. The remaining cumulative tax benefits at September 30, 2007 that would favorably affect the effective tax rate of future periods if recognized was approximately \$0.6 million.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

It is reasonably possible that the amount of the unrecognized benefit with respect to our uncertain tax positions will increase or decrease within the next 12 months. These changes may be the result of settlement of ongoing audits related to certain state taxation issues. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

**NOTE C Accounts Receivable**

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. A portion 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, 2007 and December 31, 2006, the accounts receivable contractually due beyond one year from the respective balance sheet dates totaled approximately \$15.6 million and \$22.1 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.

## HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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):

	Quarter Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Common:				
Weighted average shares outstanding	18,460	18,410	18,501	18,295
Assumed conversion of Class A Common shares	4,146	4,237	4,174	4,259
Dilutive options, awards and common stock equivalents	119	160	152	161
Total weighted average diluted Common shares	22,725	22,807	22,827	22,715

**NOTE F Other (income) expense, net**

Other (income), expense, net includes any gains or losses on sales of land, property and equipment and miscellaneous income or expense items which are non-recurring in nature. The following are the significant gains that have been included in other (income) expense, net. We had gains of approximately \$0.2 million and \$1.2 million from the sales of properties during the nine months ended September 30, 2007 and 2006, respectively.

**NOTE G Comprehensive income**

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

	Quarter Ended		Nine Months Ended	
	September 30 2007	2006	September 30 2007	2006
Net income	\$ 643	\$ 4,136	\$ 123	\$ 12,830
Amortization of expired derivatives, net of applicable income tax	31	31	95	94
Changes in minimum pension liability				224
Total comprehensive income	\$ 674	\$ 4,167	\$ 218	\$ 13,148



## HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

**NOTE H 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.

During the three month period ended September 30, 2007, we adjusted pension cost for the effect of changes in certain mortality assumptions. Net pension cost included the following components (in thousands):

	Quarter Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Service cost-benefits earned during period	\$ 12	\$ 863	\$ 86	\$ 2,589
Interest cost on projected benefit obligations	1,061	918	2,904	2,754
Expected return on plan assets	(1,177)	(1,107)	(3,532)	(3,321)
Amortization of prior service costs	52	36	157	108
Amortization of actuarial loss	14	110	23	330
Net pension cost (income)	\$ (38)	\$ 820	\$ (362)	\$ 2,460

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Forward-Looking Information**

Certain statements we make in this report, and other written or oral statements made by or on behalf of the Company, may constitute forward-looking statements within the meaning of the Securities Act of 1933, and the Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995, 15 U.S.C.A. Sections 77Z-2 and 78U-5 (Supp. 1996). Examples of such statements in this report include descriptions of our plans with respect to new store openings and relocations, our plans to enter new markets and expectations relating to our continuing growth. The forward-looking statements regarding future events and our future results are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and the beliefs and assumptions of our management. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statement. Such statements speak only as of the date they are made and we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise. The following are some of the factors that could cause Havertys' actual results to differ materially from the expected results described in our forward-looking statements: the ability to maintain favorable arrangements and relationships with key suppliers (including domestic and international sourcing); any disruptions in the flow of imported merchandise; conditions affecting the availability and affordability of retail and distribution real estate sites; the ability to attract, train and retain highly qualified associates to staff existing and new stores, distribution facilities and corporate positions; general economic and financial market conditions which affect consumer confidence and the spending environment for big ticket items; competition in the retail furniture industry; and changes in laws and regulations, including changes in accounting standards, tax statutes or regulations.

**Operating Results and Financial Condition**

The following discussion of Havertys' financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes thereto included herein.

**Net Sales**

Our sales are generated by customer purchases of home furnishings in our retail stores and revenue is recognized upon delivery to the customer. The following outlines our sales and comparable store sales increases or decreases for the periods indicated:

	2007			2006			2005		
	Net Sales	% Increase (decrease)	Comp-Store Sales % Increase (decrease)	Net Sales	% Increase (decrease)	Comp-Store Sales % Increase (decrease)	Net Sales	% Increase (decrease)	Comp-Store Sales % Increase (decrease)
Period Ended	Dollars (000)s	over prior period	over prior period	Dollars (000)s	over prior period	over prior period	Dollars (000)s	over prior period	over prior period
Q1	\$ 191.0	(8.6)%	(10.4)%	\$ 209.1	0.7%	(0.6)%	\$ 207.6	9.1%	4.7%
Q2	187.1	(11.3)	(12.7)	211.0	9.7	7.8	192.4	7.1	2.3
Q3	200.7	(10.0)	(11.6)	223.0	10.3	8.2	202.1	2.3	(1.0)

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Q4				216.0	(4.2)	(6.7)	225.6	4.1	1.2
Year	\$ 578.8	(10.0)%	(11.6)%	\$ 859.1	3.8%	1.8%	\$ 827.7	5.5%	1.8%

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

Total sales decreased \$22.3 million or 10.0% and comparable stores sales decreased 11.6% or \$25.6 million in the third quarter of 2007. The remaining \$3.3 million of the change in sales in the third quarter of 2007 was an increase 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.

The housing industry has shown significant weakness and the financial markets have undergone recent turmoil associated with the sub-prime mortgage sector. Higher energy costs and geo-political concerns have contributed to consumer's reluctance to increase spending for big-ticket furniture items.

During the third quarter of 2007, we promoted longer term no interest financing and special pricing on select merchandise to help stimulate sales. We do not plan to be overly aggressive with our general merchandise pricing, except during sales events as we do not believe such stimulus would be sufficiently accretive to earnings to offset the risk of negatively impacting our everyday low pricing integrity with our customers over the longer term.

We adjusted our purchases due to slower business conditions resulting in a reduction in inventory of \$24.3 million or 20.6% as compared to a year ago and \$31.0 million from year-end levels. These are slightly leaner than optimum but we expect to move toward more normalized levels in the fourth quarter.

**Gross Profit**

Cost of goods sold consists primarily of the purchase price of the merchandise together with inbound freight, handling within our distribution centers and transportation costs.

Our gross profit is largely dependent upon merchandising and warehousing capabilities, vendor pricing, transportation costs and the mix of products sold. The continued improvements related to the products imported from Asia have also generated good values for us. Many retailers have used the decreased costs to support their heavy promotional pricing. Our approach has been to offer products with greater value at our established middle to upper-middle price points.

Gross profit for the third quarter of 2007 was 49.6%, an increase of 69 basis points as a percent of net sales compared to the prior year period. This increase is due in part to clearance activity during the prior year's quarter. Gross profit for the nine months ended September 30, 2007 was 49.4%, virtually flat with the prior year period.

Our gross profit is affected by the level of sales financed using our in-house long-term no interest credit promotions. During the nine months ended September 30, 2007, this impact was \$0.8 million less than the comparable year ago period. We also used pricing promotions as part of a ticket building effort as an additional sales stimulus. Comparatively, gross profit for the first nine months of 2006 benefited from a favorable adjustment related to inventory valuation of \$0.5 million.

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.

**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. Selling expenses primarily are comprised of compensation of sales associates and sales support staff and fees paid to credit card and third party finance companies. Occupancy costs include rents, depreciation charges, insurance and property taxes, repairs and maintenance expenses and utility costs. Delivery costs include personnel, fuel costs, and depreciation and rental charges for rolling stock. Warehouse costs include demurrage, supplies, depreciation and rental charges for equipment. Advertising expenses are primarily media production and space, direct mail costs and market research expenses. Administrative expenses are comprised of compensation costs for store management, information systems, executive, finance, merchandising, supply chain, advertising, real estate and human resource departments.

Our SG&A costs decreased \$4.0 million compared to the prior year quarter and \$12.3 million for the nine months ended September 30, 2007.

Selling expenses decreased as the primary component, sales commissions and related costs are directly linked to sales volume. Commissions for the third quarter were down \$1.2 million and \$3.9 million for the first nine months of 2007 as compared to the 2006 periods. The costs of the promotional credit programs offered through a third-party finance company increased \$1.5 million and decreased \$0.5 million compared to the prior year quarter and nine months ended September 30, respectively. 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. Credit program costs are expected to continue to be higher for the remainder of 2007 relative to last year due to greater anticipated usage.

Occupancy costs increased \$0.6 million in the third quarter as compared to the prior year period and \$2.8 million for the nine months ended September 30, 2007. The majority of the increase is due to six new retail locations opened or soon to open since September 30, 2006.

Delivery and certain warehousing expenses were down as expected 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. These decreases were partly offset by the costs generated due to the operations of new stores.

We have adjusted our advertising spending in 2007 using methodologies designed to reach our target customer based on historical data points. This decreased our costs by \$1.4 million and \$3.7 million in the quarter and nine months ended September 30, compared to the prior year periods, respectively.

Our administrative costs were down \$1.7 million in the third quarter and \$3.9 million for the first nine months of 2007 as compared to the 2006 periods. This decrease is due in large part to a reduction in compensation expenses partly offset by increased insurance costs.

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

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The in-house financing offer most frequently chosen by our customers carries no interest for 18 months and requires equal monthly payments. This program and the similar 12-month program generate very minor credit revenue, but incur lower bad debts relative to our deferred payment in-house credit programs. In addition, we offer our customers different credit promotions through a third-party credit provider. Sales financed by this provider are not Havertys' receivables, and 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 programs offered through the third-party provider for the third quarter of 2007 were no interest offers requiring 30 to 41 equal monthly payments.

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

The following summarizes our credit offerings and their credit service charge revenue and related accounts receivable and allowance for doubtful accounts (in thousands):

	Three months ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Credit Service Charge Revenue	\$ 591	\$ 682	\$ 1,853	\$ 2,135
Amount Financed as a % of Sales:				
Havertys	13.4%	16.5%	16.7%	15.4%
Third-Party	37.4%	27.9%	28.7%	27.6%
	50.8%	44.4%	45.4%	43.0%
% Financed by Havertys:				
No Interest for 12 months	14.0%	25.8%	17.9%	27.6%
No Interest for > 12 months	64.2%	51.7%	62.0%	46.4%
No Interest for < 12 months	7.6%	9.3%	7.6%	10.9%
Other	14.2%	13.2%	12.5%	15.1%
	100.0%	100.0%	100.0%	100.0%

	September 30, 2007	2006
Accounts receivable	\$ 76,983	\$ 76,445
Allowance for doubtful accounts	2,000	1,800
Allowance as a % of accounts receivable	2.6%	2.4%

Our allowance for doubtful accounts as a percentage of receivables is slightly higher in 2007 due to a modest increase in the delinquency and problem category percentages in the third quarter.

**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):

	Quarter Ended		Nine Months Ended	
	September 30, 2007	2006	September 30, 2007	2006
Interest expense on debt	\$ 755	\$ 859	\$ 2,861	\$ 2,903
Amortization of discount on accounts receivable	(1,179)	(920)	(3,321)	(2,620)
Other, including capitalized interest and	(147)	(145)	(263)	(427)

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interest income

\$ (571)

\$ (206)

\$ (723)

\$ (144)

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

We make available to customers in-house interest free credit programs, which generally range from 3 to 24 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. On the basis of the credit worthiness of the customers and our low delinquency rates under these programs, we discount the receivables utilizing the prime rate of interest at the date of sale. 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 has increased as the level of receivables generated under longer term, free interest financing promotions has increased.

**Other (income) expense, net**

Other (income) expense includes any gains or losses on the sales of real estate and miscellaneous income or expense items which are non-recurring in nature. We had gains from the sale of certain properties of \$0.2 million and \$1.2 million in the nine months ended September 30, 2007 and 2006, respectively.

**Provision for Income Taxes**

We adopted the provisions of FIN 48 effective January 1, 2007. As a result of the adoption of FIN 48, we recorded a \$300,000 positive cumulative effect adjustment to the January 1, 2007 balance of retained earnings. As of January 1, 2007, the gross amount of unrecognized tax benefits was \$1.4 million. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. Included as a component of the unrecognized tax benefit of \$1.4 million, the Company had accrued interest and penalties of approximately \$0.4 million. The resulting reserve at January 1, 2007 for unrecognized tax benefits on an after-tax basis that would favorably affect the effective tax rate of future periods if recognized was approximately \$0.9 million.

During the three months ended September 30, 2007, the Company settled certain state audits and we revised our assessments related to state taxation issues resulting in a \$0.3 million recognition of these tax benefits. The remaining cumulative tax benefits at September 30, 2007 that would favorably affect the effective tax rate of future periods if recognized was approximately \$0.6 million.

Based on current tax laws, the Company's effective tax rate for 2007 is expected to be 40.8% before considering the effect of any discrete items.

As of September 30, 2007, the Company's accrued liability for unrecognized tax benefits which includes related interest and penalties was \$0.6 million and is virtually all current. These amounts are related to various state tax audits and related issues which we expect will be concluded within the next twelve months. The Company will include its income tax liabilities in the Contractual Obligations table in its Annual Report on Form 10-K for the year ending December 31, 2007.

**Balance Sheet Changes for the Nine Months Ended September 30, 2007**

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Our balance sheet as of September 30, 2007, as compared to our balance sheet as of December 31, 2006, was impacted by the following:

increase in cash of \$5.7 million;

decrease in inventories of \$31.0 million as adjustments in purchasing have been made to reflect lower current and anticipated sales volumes and a weaker selling environment;

increase in prepaid expenses of \$9.1 million, primarily due to required payments of estimated income taxes; and

decrease in notes payable to bank of \$12.6 million as all borrowings under line of credit were repaid.



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

**Liquidity and Capital Resources**

During the first nine months of 2007, our principal source of cash was \$45.2 million derived from operations. Our primary uses of cash were (1) capital expenditures totaling \$10.2 million; (2) net payments on revolving credit facilities of \$12.6 million; (3) repayments on debt of \$8.3 million; (4) acquisition of treasury stock totaling \$5.2 million; and (5) dividend payments totaling \$4.5 million.

Our cash flows provided by operating activities totaled \$45.2 million in the first nine months of 2007 compared to \$26.4 million for the same period of 2006. This increase was the result of working capital changes, primarily the reduction in inventories offset by a reduction in net income. 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 \$9.2 million in the first nine months of 2007 versus \$14.1 million in the first nine months of 2006. This decrease is primarily due to a \$7.8 million difference in capital expenditures offset by a \$2.8 million difference in proceeds from sale of land, property and equipment.

Our cash flows used in financing activities totaled \$30.3 million in the first nine months of 2007 compared to \$14.8 million for the same period of 2006. This increase is primarily due to an \$8.3 million increase in net payments on revolving credit facilities and a \$5.2 million increase in treasury stock purchases.

**Financings**

We have revolving lines of credit available for general corporate purposes and as interim financing for capital expenditures. These credit facilities are syndicated with five commercial banks and are comprised of two revolving lines totaling \$80.0 million that terminate in August 2010. Borrowings under these facilities are unsecured and accrue interest at LIBOR plus a spread that is based on a fixed-charge coverage ratio. There were no amounts outstanding under these facilities at September 30, 2007. We did have letters of credit in the amount of \$5.3 million outstanding at September 30, 2007 and these amounts are considered part of the facilities usage. Our unused capacity was \$74.7 million at September 30, 2007.

**Store Expansion, Website Development and Capital Expenditures**

We have opened new stores and entered new markets during the past twelve months and made continued improvements and relocations of our store base. Our total selling square footage has increased an average of approximately 4.2% annually over the past 10 years.

We will add approximately 2.8% retail square footage during 2007 by opening a net of three new stores. During the first quarter we opened a new store in Austin, Texas and entered the Huntsville, Alabama market in early May. During the third quarter we opened an additional store in Tampa, Florida and closed a store in Jacksonville, Florida. In October we opened an additional store in the Metro-DC market and a replacement store in Wilmington, North Carolina. A replacement store in Birmingham, Alabama is expected to open in early November. Our strategy is to

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pursue opportunities in markets which we can serve using our existing distribution. Assuming continuation of the difficult macro environment for residential furniture sales, the opportunities for store locations are likely to rise sharply as weak retailers are unable to withstand a prolonged decline in business.

We have made significant investment during 2007 to upgrade and improve our website. The first stage of the improved website went live in early October and features enhanced shopping, product review and delivery availability. It has already proven to be useful in reaching the growing number of consumers that use the internet to pre-shop before going to a store. The site also provides our sales associates a tool to further engage the customer while she is in the store and extend her shopping experience when she returns home. The second stage under development will allow consumers to order and set delivery of their purchases and is expected to be operational in early 2008.

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Many of our new stores under development are leased locations which reduces our capital investment. Our planned expenditures for 2007 are \$15.5 million for stores, 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 bank lines of credit are expected to be adequate to finance our planned capital expenditures.

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

There have been no material changes with respect to our derivative financial instruments and other financial instruments and their related market risk since the date of the Company's most recent annual report. We held no derivative financial instruments at September 30, 2007.

### **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, 2006, 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.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents information with respect to our repurchase of Havertys common stock during the third quarter of 2007:

	(a)	(b)	(c)	(d)
	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number that May Yet be Purchased Under the Plans or Programs
July 1 July 31, 2007	23,000	\$11.28	23,000	1,800,846
August 1 August 31, 2007	148,400	\$10.74	148,400	1,652,446
September 1 September 30, 2007	298,500	\$10.07	298,500	1,353,946

- (1) The Board of Directors has authorized management, at its discretion, to purchase and retire our common stock and Class A common stock under the Stock Repurchase Program. This program was initially approved by the Board of Directors on November 3, 1986 with subsequent authorizations made as to the number of shares to be purchased.

**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.

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**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 8, 2007

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