

HAVERTY FURNITURE COMPANIES INC
Form 10-Q
May 03, 2013

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 March 31, 2013

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 of incorporation)

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

780 Johnson Ferry Road, Suite 800
Atlanta, Georgia
(Address of principal executive office)

30342
(Zip Code)

(404) 443-2900
(Registrant's telephone number, including area 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

| | | |
|--|--|-------------------------------------|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> | <input type="checkbox"/> |

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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 April 30, 2013, were: Common Stock – 19,627,157; Class A Common Stock – 2,718,823.

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)

| | March 31, 2013 | December 31, 2012 |
|--|-------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$53,869 | \$53,550 |
| Restricted cash and cash equivalents | 7,014 | 7,013 |
| Accounts receivable | 9,102 | 9,710 |
| Inventories | 97,567 | 96,902 |
| Prepaid expenses | 7,545 | 9,532 |
| Other current assets | 4,886 | 3,187 |
| Total current assets | 179,983 | 179,894 |
| Accounts receivable, long-term | 823 | 814 |
| Property and equipment | 190,812 | 193,085 |
| Deferred income taxes | 24,184 | 24,366 |
| Other assets | 4,112 | 3,937 |
| Total assets | \$399,914 | \$402,096 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Accounts payable | \$20,780 | \$28,178 |
| Customer deposits | 20,859 | 20,963 |
| Accrued liabilities | 33,494 | 33,272 |
| Deferred income taxes | 6,595 | 6,595 |
| Current portion of lease obligations | 908 | 881 |
| Total current liabilities | 82,636 | 89,889 |
| Lease obligations, less current portion | 17,229 | 18,473 |
| Other liabilities | 32,261 | 34,306 |
| Commitments | — | — |
| Total liabilities | 132,126 | 142,668 |
| Stockholders' equity | | |
| Capital Stock, par value \$1 per share | | |
| Preferred Stock, Authorized – 1,000 shares; Issued: None | | |
| Common Stock, Authorized – 50,000 shares; Issued: 2013 – 27,282, 2012 – 27,212 | 27,282 | 27,212 |
| Convertible Class A Common Stock, Authorized – 15,000 shares; Issued: 2013 – 3,241; 2012 – 3,297 | 3,241 | 3,297 |
| Additional paid-in capital | 74,474 | 73,803 |
| Retained earnings | 261,687 | 254,310 |
| Accumulated other comprehensive loss | (23,080) | (23,378) |
| Less treasury stock at cost – Common Stock (2013 and 2012 – 7,741) and Convertible Class A Common Stock (2013 and 2012 – 522 shares) | (75,816) | (75,816) |
| Total stockholders' equity | 267,788 | 259,428 |
| Total liabilities and stockholders' equity | \$399,914 | \$402,096 |

See notes to these condensed consolidated financial statements.

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HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (In thousands, except per share data – Unaudited)

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2013 | 2012 |
| Net sales | \$186,090 | \$163,569 |
| Cost of goods sold | 85,781 | 78,228 |
| Gross profit | 100,309 | 85,341 |
| Credit service charges | 86 | 76 |
| Gross profit and other revenue | 100,395 | 85,417 |
| Expenses: | | |
| Selling, general and administrative | 86,662 | 81,237 |
| Interest, net | 278 | 161 |
| Provision for doubtful accounts | 13 | 66 |
| Other income, net | (8) | (68) |
| | 86,945 | 81,396 |
| Income before income taxes | 13,450 | 4,021 |
| Income tax expense | 5,190 | 1,564 |
| Net income | \$8,260 | \$2,457 |
| Basic earnings per share: | | |
| Common Stock | \$0.37 | \$0.11 |
| Class A Common Stock | \$0.35 | \$0.11 |
| Diluted earnings per share: | | |
| Common Stock | \$0.36 | \$0.11 |
| Class A Common Stock | \$0.34 | \$0.11 |
| Basic weighted average common shares outstanding: | | |
| Common Stock | 19,717 | 18,865 |
| Class A Common Stock | 2,781 | 3,084 |
| Diluted weighted average common shares outstanding: | | |
| Common Stock | 22,955 | 22,272 |
| Class A Common Stock | 2,781 | 3,084 |
| Cash dividends per share: | | |
| Common Stock | \$0.0400 | \$— |
| Class A Common Stock | \$0.0375 | \$— |

See notes to these condensed consolidated financial statements.

HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (In thousands – Unaudited)

| | Three Months Ended March 31, | |
|------------------------------------|---------------------------------|---------|
| | 2013 | 2012 |
| Net income | \$8,260 | \$2,457 |
| Other comprehensive income | | |
| Defined benefit pension plans: | | |
| Amortization of prior service cost | 32 | 52 |
| Amortization of net loss | 266 | 490 |
| Other | — | 50 |
| Total other comprehensive income | 298 | 592 |
| Comprehensive income | \$8,558 | \$3,049 |

See notes to these condensed consolidated financial statements.

HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands – Unaudited)

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2013 | 2012 |
| Cash Flows from Operating Activities: | | |
| Net income | \$8,260 | \$2,457 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,342 | 4,644 |
| Share-based compensation expense | 803 | 666 |
| Provision for doubtful accounts | 13 | 66 |
| Other | (216) | 89 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 586 | 788 |
| Inventories | (665) | 1,801 |
| Customer deposits | (104) | 3,604 |
| Other assets and liabilities | (1,454) | 1,934 |
| Accounts payable and accrued liabilities | (7,176) | (4,857) |
| Net cash provided by operating activities | 5,389 | 11,192 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (3,972) | (3,707) |
| Restricted cash and cash equivalents | (1) | (193) |
| Other investing activities | 2 | 4 |
| Net cash used in investing activities | (3,971) | (3,896) |
| Cash Flows from Financing Activities: | | |
| Payments on lease obligations | (216) | (185) |
| Dividends paid | (883) | — |
| Net cash used in financing activities | (1,099) | (185) |
| Increase in cash and cash equivalents during the period | 319 | 7,111 |
| Cash and cash equivalents at beginning of period | 53,550 | 49,585 |
| Cash and cash equivalents at end of period | \$53,869 | \$56,696 |

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 retailer of a broad line of residential furniture in the middle to upper-middle price ranges. We operate all of our stores using the Havertys brand and do not franchise our concept. We operate in one reportable segment, home furnishings retailing. 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 U.S. generally accepted accounting principles (“U.S. GAAP”) for complete financial statements. The financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe all adjustments, normal and recurring in nature, considered necessary for a fair presentation have been included.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenue and expenses. 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, results of operations or cash flows.

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU’s) to the FASB’s Accounting Standards Codification. The Company considers the applicability and impact of all ASU’s. Newly effective ASU’s not noted herein were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

Effective January 1, 2013, the Company adopted ASU No. 2013-02, “Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” The adoption of ASU 2013-02 concerns presentation and disclosure only and did not have an impact on the Company’s consolidated financial position or results of operations.

In the first quarter of 2013, we recorded an out-of-period adjustment related to our historical accrual process for certain vendors' pricing allowances. The non-cash adjustment increased gross profit by \$0.8 million or \$0.02 per diluted share after tax. After evaluating the quantitative and qualitative aspects of this correction, management has determined that our previously issued quarterly and annual consolidated financial statements were not materially misstated and that the out-of-period adjustment is immaterial to our estimated full year 2013 results and to our earnings' trends.

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, 2012.

NOTE B – Restricted Cash and Cash Equivalents

Our insurance carrier requires us to collateralize a portion of our workers' compensation obligations. These escrowed funds are shown as restricted cash and cash equivalents on our consolidated balance sheet and are investments in money market funds held by an agent. The annual agreement with our carrier governing these funds expires on

December 31, 2013.

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HAVERTY FURNITURE COMPANIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE C – Accounts Receivable

Amounts financed under our in-house credit programs were, as a percent of net sales, approximately 4.0% and 5.0% during the first three months of 2013 and 2012, respectively. The credit program selected most often by our customers is “12 months no interest with equal monthly payments.” The terms of the other programs vary as to payment terms (30 days to three years) and interest rates (0% to 21%). The receivables are collateralized by the merchandise sold.

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. These receivable balances have been historically collected earlier than the scheduled dates. The amounts due per the scheduled payment dates approximate as follows: \$9.3 million in one year, \$0.7 million in two years, \$0.3 million beyond two years for receivables outstanding at March 31, 2013.

Accounts receivable are shown net of the allowance for doubtful accounts of \$0.4 million at March 31, 2013 and December 31, 2012. We provide an allowance utilizing a methodology which considers the balances in problem and delinquent categories of accounts, historical write-offs, existing economic conditions and management judgment. Interest assessments are continued on past-due accounts but no “interest on interest” is recorded. Delinquent accounts are generally written off automatically after the passage of nine months without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of a discharged bankruptcy or other circumstances that make further collections unlikely.

We believe that the carrying value of existing customer receivables, net of allowances, approximates fair value because of their short average maturity. Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising our account base and their dispersion across 17 states.

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. 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 results are subject to change based upon the final year-end LIFO inventory valuations.

NOTE E – Accumulated Other Comprehensive Loss

The following summarizes the change in balance and the reclassification from Accumulated Other Comprehensive Loss to the Condensed Consolidated Statement of Income for the three months ended March 31, 2013 (amounts in thousands):

| | |
|---|-------------|
| Beginning balance | \$ (23,378) |
| Amortization of defined benefit pension items: | |
| Prior service costs | 52 |
| Actuarial loss | 428 |
| | 480 |
| Tax | (182) |
| Total amount reclassified from accumulated other comprehensive loss | 298 |

Ending balance \$(23,080)

The pension items noted above are included in the components of net periodic cost for pension plans (see Note H).

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HAVERTY FURNITURE COMPANIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE F – Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes we make a year to date adjustment.

Our effective tax rate for the three months ended March 31, 2013 and 2012 was 38.6% and 38.9%, respectively.

NOTE G – Fair Value of Financial Instruments

The fair values of our cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and customer deposits approximate their carrying values due to their short-term nature. The assets related to our self-directed, non-qualified deferred compensation plans for certain executives and employees are valued using quoted market prices multiplied by the number of shares held, a Level 1 valuation technique. The assets related to our deferred compensation plans totaled approximately \$1.7 million at March 31, 2013 and \$1.5 million at December 31, 2012 and are included in other assets. The related liability of the same amount is included in other liabilities.

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 employee 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 a non-qualified, non-contributory supplemental executive retirement plan (SERP) for employees whose retirement benefits are reduced due to their annual compensation levels. The SERP limits the total amount of annual retirement benefits that may be paid to a participant in the SERP from all sources (Retirement Plan, Social Security and the SERP) to \$125,000. The SERP is not funded so we pay benefits directly to participants.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2013 | 2012 |
| Service cost-benefits earned during period | \$ 27 | \$ 31 |
| Interest cost on projected benefit obligations | 877 | 943 |
| Expected return on plan assets | (1,243) | (1,118) |
| Amortization of prior service costs | 52 | 52 |
| Amortization of actuarial loss | 428 | 490 |

| | | |
|-------------------|--------|--------|
| Net pension costs | \$ 141 | \$ 398 |
|-------------------|--------|--------|

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HAVERTY FURNITURE COMPANIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE I – Stock Based Compensation Plans:

As more fully discussed in Note 11 of the notes to the consolidated financial statements in our 2012 Annual Report on Form 10-K, we have options and awards outstanding for Common Stock under two stock-based employee compensation plans.

The following table summarizes our share option and award activity during the three months ended March, 2013:

| | Restricted Stock Awards | | Stock-Settled Appreciation Rights | | Options | |
|----------------------------------|-------------------------|---------------------------------|--------------------------------------|---------------------------------|----------|------------------------------------|
| | Shares or Units | Weighted-Average Award Price | Rights | Weighted-Average Award Price | Shares | Weighted-Average Exercise Price |
| Outstanding at December 31, 2012 | 555,925 | \$ 12.28 | 121,749 | \$ 8.85 | 50,000 | \$ 20.56 |
| Granted | 161,150 | 18.13 | 112,000 | 18.14 | — | — |
| Exercised or restrictions lapsed | — | — | (38,150) | 8.86 | (2,000) | 15.90 |
| Forfeited or expired (options) | (1,150) | 13.35 | — | — | — | — |
| Outstanding at March 31, 2013 | 715,925 | \$ 13.59 | 195,599 | \$ 14.17 | 48,000 | \$ 20.75 |
| Exercisable at March 31, 2013 | — | — | 58,074 | \$ 8.90 | 48,000 | \$ 20.75 |

Grants of restricted common stock and stock-settled appreciation rights are made to certain officers and key employees under the 2004 LTIP Plan. The restrictions on the awards generally lapse annually, primarily over four year periods. The compensation is being charged to selling, general and administrative expense over the respective grants' vesting periods, primarily on a straight-line basis. Stock based compensation expense for the three months ended March 31 was approximately \$0.8 million in 2013 and \$0.7 million in 2012. The aggregate intrinsic value of outstanding restricted common stock grants was \$14.7 million at March 31, 2013. The aggregate intrinsic value of vested and outstanding stock-settled appreciation rights at March 31, 2013 was approximately \$0.7 million and \$1.3 million, respectively.

As of March 31, 2013, the remaining unamortized compensation cost related to unvested equity awards was approximately \$6.9 million and scheduled to be recognized over a weighted-average period of 2.9 years.

The accelerated vesting goals for 128,800 of the restricted stock units in the above table were met in April. This will result in a net increase of 86,015 shares outstanding and a \$0.5 million increase in the expense for the quarter ended June 30, 2013.

NOTE J – Earnings Per Share

We report our earnings per share using the two-class method. The income per share for each class of common stock is 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.

HAVERTY FURNITURE COMPANIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following is a reconciliation of the earnings and number of shares used in calculating the diluted earnings per share for Common Stock and Class A Common Stock (in thousands):

| | Three Months Ended March 31, | |
|---|---------------------------------|---------------|
| | 2013 | 2012 |
| Numerator: | | |
| Common: | | |
| Distributed earnings | \$780 | \$— |
| Undistributed earnings | 6,503 | 2,126 |
| Basic | 7,283 | 2,126 |
| Class A Common earnings | 977 | 331 |
| Diluted | \$8,260 | \$2,457 |
| Class A Common: | | |
| Distributed earnings | \$103 | \$— |
| Undistributed earnings | 874 | 331 |
| | \$977 | \$331 |
| Denominator: | | |
| Common: | | |
| Weighted average shares outstanding - basic | 19,717 | 18,865 |
| Assumed conversion of Class A Common Stock | 2,781 | 3,084 |
| Dilutive options, awards and common stock equivalents | 457 | 323 |
| Total weighted-average diluted Common Stock | 22,955 | 22,272 |
| Class A Common: | | |
| Weighted average shares outstanding | 2,781 | 3,084 |

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

Net Sales

Our sales are generated by customer purchases of home furnishings. Revenue is recognized upon delivery to the customer.

The following outlines our sales and comp-store sales increases and decreases for the periods indicated (dollars in millions, amounts and percentages may not always add to totals due to rounding):

| Period | Total Dollars | 2013 | | | | Total Dollars | 2012 | | | |
|--------|---------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | Net Sales % | Net Sales \$ | Comp-Store Sales % | Comp-Store Sales \$ | | Net Sales % | Net Sales \$ | Comp-Store Sales % | Comp-Store Sales \$ |
| | | Increase (decrease) over prior period | Increase (decrease) over prior period | Increase (decrease) over prior period | Increase (decrease) over prior period | | Increase (decrease) over prior period | Increase (decrease) over prior period | Increase (decrease) over prior period | Increase (decrease) over prior period |
| Q1 | \$186.1 | 13.8 % | \$ 22.5 | 11.5 % | \$ 18.7 | \$163.6 | 6.1 % | \$ 9.4 | 5.7 % | \$ 8.7 |

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.

Our average ticket is up approximately 12.3% for the first quarter as our customers respond to the value offered in our better quality merchandise. Sales in the upholstery and casual dining product categories continued to show strength in the first quarter 2013 increasing 18% and 23%, respectively, over the prior year corresponding period.

Gross Profit

Gross profit for the first quarter of 2013 was \$100.3 million which included an additional \$0.8 million from an out-of-period adjustment. Excluding the 45 basis point impact of the adjustment, gross profit was 53.5%, up 130 basis points compared to 52.2% in the prior year period. The primary factors in generating this gross profit improvement were: our expansion of upper-middle price point products in our assortment, an abnormally high level of accessory close outs in the prior year, our focus on pricing discipline, and reduced inbound ocean freight costs.

We plan to remain competitive, but not overly aggressive with our pricing structure. Gross profit margins for 2013 are expected to be modestly better than our 2012 annual rate of 52.5% but below our first quarter adjusted rate of 53.5%.

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.

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 marketing; and administrative.

Total SG&A expenses as a percent of sales for the three months ended March 31, 2013 decreased 3.1% to 46.6% from 49.7% in the prior year period. Total SG&A dollars for the first quarter of 2013 increased \$5.4 million compared to the prior year period. Selling expenses increased \$2.4 million as commissions and customers usage of free interest credit promotions offered by our third party financing provider rose in line with sales. Occupancy expense increased \$0.8 million as new stores and leasehold improvements generated higher depreciation. Our administrative expenses included increased accruals of \$0.5 million for incentive compensation, increased expense of \$0.5 million for non-management wages, and \$0.5 million for increased expense related to employee group health benefit costs.

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

Our expectations for SG&A costs for the full year 2013 are unchanged from those discussed in our Form 10-K for the year ended December 31, 2012

Liquidity and Capital Resources

Our primary cash requirements include working capital needs, contractual obligations, benefit plan contributions, income tax obligations and capital expenditures. We have funded these requirements primarily through cash generated from operations. We have no funded debt and our lease obligations are primarily due to arrangements that are not considered capital leases but must be recorded on our balance sheets. We believe funds generated from our expected results of operations and available cash and cash equivalents will be sufficient to fund our primary obligations, dividends, stock repurchases and complete capital projects that we have underway or currently contemplate.

We also have a \$50.0 million revolving credit facility. Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was \$53.7 million and there were no outstanding letters of credit at March 31, 2013. Amounts available are based on the lesser of the borrowing base or the \$50.0 million line amount and reduced by \$6.2 million since a fixed charge coverage ratio test was not met for the immediately preceding twelve months, resulting in a net availability of \$43.8 million. There were no borrowed amounts outstanding under the facility at March 31, 2013.

Summary of Cash Activities

Our cash flows provided by operating activities totaled \$5.4 million in the first three months of 2013 compared to \$11.2 million for the same period of 2012. This decrease was primarily due to smaller changes in inventories and customer deposits and a more significant reduction in accounts payable and other liabilities partially offset by increased earnings in 2013. 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 \$4.0 million in the first three months of 2013 versus \$3.9 million for the same period of 2012. This increase was primarily due to greater capital expenditures in 2013.

Financing activities used cash of \$1.1 million in the first three months of 2013 compared to \$0.2 million for the same period of 2012. We did not pay dividends in the first quarter of 2012 and \$0.9 million were paid in 2013.

Balance Sheet Changes for the three Months Ended March 31, 2013

Our balance sheet as of March 31, 2013, as compared to our balance sheet as of December 31, 2012, changed as follows:

- decrease in prepaid expenses of \$2.0 million primarily due to the reduction in prepaid income taxes;
- increase in other current assets of \$1.7 million due in part to timing of payments from third party financing company;
- decrease in property and equipment of \$2.3 million as depreciation expense outpaced capital expenditures; and
- decrease in accounts payable of \$7.4 million due to timing of payments and receipt of inventory.

Store Plans and Capital Expenditures

Store plans for 2013 include the expansion of three showrooms and 18 of our Bright Inspiration store refreshes. We are also closing three stores reaching the end of their lease term: Clearwater, Florida closed in the first quarter, and Jackson, Mississippi and Roanoke, Virginia will be closed in the second quarter. These changes should decrease net selling square footage by approximately 1.0% to 2.0% in 2013 assuming they occur as scheduled.

Our planned capital expenditures for 2013 are \$20.0 million including \$15.6 million for new stores and store improvements and \$2.2 million for information technology.

Off-Balance Sheet Arrangements

As of March 31, 2013 we had no off-balance sheet arrangements or obligations.

Critical Accounting Estimates

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and we might obtain different estimates if we used different assumptions or conditions. Our critical accounting estimates are identified and described in our annual report on Form 10-K for the year ended December 31, 2012. We had no significant changes in those critical accounting estimates since our last annual report.

Forward-Looking Information

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 the economic environment; changes in the housing market; 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.

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 reports the Company files or submits 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, 2012, 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 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 May 12, 2010 (Exhibit 3.2 to our First Quarter 2010 Form 10-Q).

*10.1 Haverty Furniture Companies, Inc., Class A Shareholders Agreement, made as of June 5, 2012, by and among, Haverty Furniture Companies, Inc., Villa Clare Partners, L.P., Clarence H. Smith, H5, L.P., Rawson Haverty, Jr., Ridge Partners, L.P. and Frank S. McGaughey; Parties added to the Agreement and Revised Annex I as of November 1, 2012 – Marital Trust FOB Margaret M. Haverty and Marital Trust B FOB Margaret M. Haverty; Parties added to the Agreement as of December 11, 2012 – Margaret Munnerlyn Haverty Revocable Trust.

*31.1 Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.

*31.2 Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.

*32.1 Certification pursuant to 18 U.S.C. Section 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: May 3, 2013

By: /s/ Clarence H. Smith
Clarence H. Smith
Chairman of the Board, President
and Chief Executive Officer
(principal executive officer)

By: /s/ Dennis L. Fink
Dennis L. Fink
Executive Vice President and
Chief Financial Officer
(principal financial and accounting officer)