HAVERTY FURNITURE COMPANIES INC
Form 10-Q
August 06, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2012

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 x 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 x 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	¨	Accelerated filer	x
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 x

The numbers of shares outstanding of the registrant's two classes of $1 par value common stock as of July 31, 2012, were: Common Stock – 19,162,182; Class A Common Stock – 2,892,823.

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)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	$55,718	$49,585
Restricted cash and cash equivalents	7,009	6,813
Accounts receivable	9,700	11,451
Inventories	93,343	93,713
Prepaid expenses	11,121	11,195
Other current assets	4,749	4,918
Total current assets	181,640	177,675
Accounts receivable, long-term	314	449
Property and equipment	183,829	179,333
Deferred income taxes	22,572	22,681
Other assets	3,830	4,962
Total assets	$392,185	$385,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$16,236	$18,233
Customer deposits	16,762	14,572
Accrued liabilities	35,371	32,171
Deferred income taxes	6,696	6,635
Current portion of lease obligations	793	762
Total current liabilities	75,858	72,373
Lease obligations, less current portion	11,880	12,284
Other liabilities	35,495	37,774
Commitments	—	—
Total liabilities	123,233	122,431
Stockholders' equity		
Capital Stock, par value $1 per share:		
Preferred Stock, Authorized: 1,000 shares; Issued: None		
Common Stock, Authorized: 50,000 shares; Issued: 2012 – 26,890; 2011 – 26,578	26,890	26,578
Convertible Class A Common Stock, Authorized: 15,000 shares; Issued: 2012 – 3,415; 2011 – 3,642	3,415	3,642
Additional paid-in capital	70,078	69,209
Retained earnings	268,026	264,083
Accumulated other comprehensive loss	(23,812)	(24,996)
Less treasury stock at cost – Common Stock (2012 – 7,727; 2011 – 7,749 and Convertible Class A Common Stock (2012 and 2011 – 522)	(75,645)	(75,847)
Total stockholders' equity	268,952	262,669

Total liabilities and stockholders’ equity	$392,185	$385,100

See notes to these condensed consolidated financial statements.

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

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales	$ 151,519	$ 143,094	$ 315,088	$ 297,265
Cost of goods sold	71,770	69,688	149,997	144,908
Gross profit	79,749	73,406	165,091	152,357
Credit service charges	71	119	147	253
Gross profit and other revenue	79,820	73,525	165,238	152,610
Expenses:				
Selling, general and administrative	76,409	74,369	157,646	153,837
Interest, net	158	178	319	400
Provision for doubtful accounts	5	82	71	101
Other (income) expense, net	(518)	(86)	(585)	(184)
	76,054	74,543	157,451	154,154
Income (loss) before income taxes	3,766	(1,018)	7,787	(1,544)
Income tax expense (benefit)	1,405	(76)	2,969	68
Net income (loss)	$ 2,361	$ (942)	$ 4,818	$ (1,612)
Basic earnings (loss) per share:				
Common Stock	$ 0.11	$ (0.04)	$ 0.22	$ (0.07)
Class A Common Stock	$ 0.10	$ (0.04)	$ 0.21	$ (0.07)
Diluted earnings (loss) per share:				
Common Stock	$ 0.11	$ (0.04)	$ 0.22	$ (0.07)
Class A Common Stock	$ 0.10	$ (0.04)	$ 0.21	$ (0.07)
Basic weighted average shares outstanding:				
Common Stock	19,023	18,600	18,944	18,567
Class A Common Stock	2,989	3,314	3,037	3,323
Diluted weighted average shares outstanding:				
Common Stock	22,313	18,600	22,292	18,567
Class A Common Stock	2,989	3,314	3,037	3,323
Cash dividends per share:				
Common Stock	$ 0.0400	$	$ 0.0400	$
Class A Common Stock	$ 0.0375	$	$ 0.0375	$

See notes to these condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	$2,361	$(942)	$4,818	$(1,612)
Other comprehensive income				
Defined benefit pension plans:				
Amortization of prior service cost	52	52	104	105
Amortization of net loss	490	257	980	514
Other	50	50	100	100
Total other comprehensive income	592	359	1,184	719
Comprehensive income (loss)	$2,953	$(583)	$6,002	$(893)

See notes to these condensed consolidated financial statements.

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

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash Flows from Operating Activities:		
Net income (loss)	$4,818	$(1,612)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	9,418	9,020
Share-based compensation expense	1,321	1,076
Provision for doubtful accounts	71	101
Other	545	241
Changes in operating assets and liabilities:		
Accounts receivable	1,815	2,135
Inventories	101	7,189
Customer deposits	2,190	3,306
Other assets and liabilities	(954)	(225)
Accounts payable and accrued liabilities	1,203	(6,076)
Net cash provided by operating activities	20,528	15,155
Cash Flows from Investing Activities:		
Capital expenditures	(12,821)	(3,994)
Restricted cash and cash equivalents	(196)	(6,811)
Other	432	21
Net cash used in investing activities	(12,585)	(10,784)
Cash Flows from Financing Activities:		
Payments on lease obligations	(373)	(259)
Dividends paid	(875)	
Proceeds from exercise of stock options		270
Other financing activities	(562)	(412)
Net cash used in financing activities	(1,810)	(401)
Increase in cash and cash equivalents during the period	6,133	3,970
Cash and cash equivalents at beginning of period	49,585	58,045
Cash and cash equivalents at end of period	$55,718	$62,015

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, 2012, the Company adopted ASU No. 2011-05, “Presentation of Comprehensive Income.” The adoption of ASU 2011-05 concerns presentation and disclosure only and did not have an impact on the Company’s consolidated financial position 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, 2011.

NOTE B – Restricted Cash and Cash Equivalents

Our insurance carrier requires us to collateralize a portion of our workers' compensation obligations. We chose to change our collateral from a letter of credit to an escrow account during the second quarter of 2011. 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, 2012.

NOTE C – Accounts Receivable

Amounts financed under our in-house credit programs were, as a percent of net sales, approximately 5.1% and 5.6% during the first six months of 2012 and 2011, 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 two 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: $10,003,000 in one year, $391,000 in two years, and $20,000 beyond two years for receivables outstanding at June 30, 2012.

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

Accounts receivable are shown net of the allowance for doubtful accounts of $400,000 and $525,000 at June 30, 2012 and December 31, 2011, respectively. 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 – Credit Arrangement

In September 2011 Havertys entered into an Amended and Restated Credit Agreement (the “Credit Agreement”) with a bank. The Credit Agreement amends and restates the credit agreement governing the Company’s existing revolving credit facility to reduce the aggregate commitments under the facility to $50.0 million from $60.0 million, extend the maturity date to September 1, 2016 from December 22, 2011, lower the commitment fees on unused amounts, reduce the applicable margin for interest rates on borrowings and modify certain of the covenants. The Credit Agreement provides for an aggregate availability for letters of credit of $20.0 million.

The $50.0 million revolving credit facility is secured by inventory, accounts receivable, cash and certain other personal property. Our Credit Agreement includes negative covenants that limit our ability to, among other things (a) incur, assume or permit to exist additional indebtedness or guarantees; (b) incur liens and engage in sale leaseback transactions or real estate sales in excess of $100.0 million; (c) pay dividends or redeem or repurchase capital stock; (d) engage in certain transactions with affiliates; and (e) alter the business that the Company conducts.

Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was $53.1million and there were no outstanding letters of credit at June 30, 2012. 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 Credit Agreement at June 30, 2012 and we are in compliance with its terms and there exists no default or event of default.

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.

We settled certain state audits during the second quarter of 2012 which reduced our gross uncertain tax positions to $572,000 at June 30, 2012 from $1,068,000 at December 31, 2011. The settlements and related changes to our unrecognized tax benefits reduced tax expense by approximately $70,000.

The income tax expense for the first six months of 2011 includes an adjustment of $155,000 to reduce the balance of our income tax receivables based on an analysis following actual refunds.

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

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 $1.4 million at June 30, 2012 and $1.5 million at December 31, 2011 and are included in other assets. The related liability of the same amount is included in other liabilities.

NOTE H – Earnings Per Share

We report our earnings per share using the two-class method. The income or loss per share for each class of common stock is calculated assuming 100% of our earnings or losses 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 following is a reconciliation of the earnings (loss) and number of shares used in calculating the diluted earnings (loss) per share for Common Stock and Class A Common Stock (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Common:				
Distributed earnings	$762	$—	$762	$—
Undistributed earnings (loss)	1,293	(805)	3,421	(1,377)
Basic	2,055	(805)	4,183	(1,377)
Class A Common earnings (loss)	306	—	635	—
Diluted	$2,361	$(805)	$4,818	$(1,377)
Class A Common:				
Distributed earnings	$113	$—	$113	$—
Undistributed earnings (loss)	193	(137)	522	(235)
	$306	$(137)	$635	$(235)
Denominator:				
Common:				
Weighted average shares outstanding - basic	19,023	18,600	18,944	18,567
Assumed conversion of Class A Common Stock	2,989	—	3,037	—
Dilutive options, awards and common stock equivalents	301	—	311	—

Total weighted-average diluted Common Stock	22,313	18,600	22,292	18,567
Class A Common:				
Weighted average shares outstanding	2,989	3,314	3,037	3,323
Antidilutive shares excluded from the denominator due to the options’ exercise prices being greater than the average market price	292	796	292	801

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

Also excluded from the denominator for the three months and six months ended June 30, 2011, because of the net loss for those periods, is the assumed conversion of the 3,314,000 and 3,323,000 shares, respectively, of Class A Common Stock and approximately 223,000 and 237,000 shares, respectively, for dilutive options, awards and common stock equivalents.

NOTE I – 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Service cost-benefits earned during period	$31	$27	$62	$54
Interest cost on projected benefit obligations	943	1,000	1,886	2,000
Expected return on plan assets	(1,118)	(1,057)	(2,236)	(2,115)
Amortization of prior service costs	52	52	104	105
Amortization of actuarial loss	490	257	980	514
Net pension costs	$398	$279	$796	$558

Qualified pension plan obligations are funded in accordance with prescribed regulatory requirements and with an objective of meeting funding requirements necessary to avoid restrictions on flexibility of plan operation and benefit payments. We made a $1.0 million contribution during the second quarter of 2012 and expect to make an additional $2.0 million in contributions to our qualified pension plan in the second half of 2012.

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):

	2012					2011				
		Net Sales		Comp-Store Sales			Net Sales		Comp-Store Sales	
Period	Total Dollars	% Increase (decrease) over prior period	$ Increase (decrease) over prior period	% Increase (decrease) over prior period	$ Increase (decrease) over prior period	Total Dollars	% Increase (decrease) over prior period	$ Increase (decrease) over prior period	% Increase (decrease) over prior period	$ Increase (decrease) over prior period
Q1	$ 163.6	6.1 %	$ 9.4	5.7 %	$ 8.7	$ 154.2	(1.2)%	$ (1.9)	(0.6)%	$ (0.9)
Q2	151.5	5.9	8.4	5.6	8.0	143.1	(1.4)	(2.0)	(1.4)	(2.0)
6 months ended June 30	315.1	6.0	17.8	5.7	16.7	297.3	(1.3)	(3.8)	(1.0)	(2.9)
Q3	—	—	—	—	—	155.4	(1.1)	(1.8)	(0.6)	(1.0)
Q4	—	—	—	—	—	168.3	3.8	6.2	3.5	5.6
Year	—	—	—	—	—	620.9	0.1	0.6	0.3	1.7

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 10.1% for the second quarter and 5.3% for the first half of the year as our customers respond to the value offered in our better quality merchandise. Sales in the upholstery product category continued to show strength in the second quarter and first six months of 2012 increasing 16.0% and 14.6% over the prior year periods, respectively.

Gross Profit

Gross profit for the second quarter of 2012 was 52.6%, compared to 51.3% in the prior year period. Gross profit for the six months ended June 30, 2012 was 52.4% compared to 51.3% for the same period in 2011. Our expansion of upper-middle price point products in our assortment and focus on pricing discipline were the primary factors in generating the gross profit improvement.

We plan to remain competitive, but not overly aggressive with our pricing structure. Gross profit margins for the second half of 2012 are expected to be approximately 52.0%.

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 June 30, 2012 decreased 1.6% to 50.4% from 52.0% in the prior year period. Total SG&A dollars for the second quarter of 2012 increased $2.0 million compared to the prior year period. Our selling expenses increased $1.4 million as commissions and related costs rose with sales and our administrative expenses included increased accruals of $0.8 million for incentive compensation. We benefited from reduced expense of $1.3 million related to employee group health benefit costs.

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

We became primarily self-insured for these expenses beginning January 1, 2012 and, as with our other self-insured costs, maintain an accrual based on historical claims data and an actuarially developed incurred but not reported component.

SG&A costs for the six months ended June 30, 2012 decreased 1.8% to 50.0% as a percent of sales from 51.8%. Total SG&A dollars for the first half of 2012 rose $3.8 million compared to the prior year period. This change included increased selling expenses due to higher sales, increased incentive compensation and lower employee group health benefit costs.

Our expectations for SG&A costs for the full year 2012 are unchanged from those discussed in our Form 10-K for the year ended December 31, 2011. Fixed and discretionary type expenses for the full year are expected to be approximately $213 million to $214 million. Variable costs are expected to be 17.0% to 17.5% as a percent of sales. We note that our fixed and discretionary type expenses are not equally distributed among the quarters given store changes and timing of advertising spending. We expect in the second half of 2012 fixed and discretionary expenses will be approximately $6.0 million higher than in the first half of 2012.

Other Income

In March 2012 a faulty fire sprinkler system flooded a portion of one of our stores. During the second quarter we recognized a gain of $0.5 million from the settlement of insured damages.

Provision for Income Taxes

Our effective tax rate for the second quarter and first six months ended June 30, 2012 was 37.3% and 38.1% respectively, compared to 7.5% and (4.4)% for the same periods of 2011.

We settled certain state audits during the second quarter of 2012 which reduced our gross uncertain tax positions to $0.6 million at June 30, 2012 from $1.1 million at December 31, 2011. The settlements and related changes to our unrecognized tax benefits reduced the second quarter's tax expense by approximately $70,000.

The income tax expense for the second quarter of 2011 is primarily a discrete item related to a reduction in our recorded income tax receivables.

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.

Summary of Cash Activities

Our cash flows provided by operating activities totaled $20.5 million in the first six months of 2012 compared to $15.2 million for the same period of 2011. This increase was primarily due to earnings in 2012 compared to a loss in 2011 and a reduction in accounts payable and accrued expenses in 2011. This was partially offset by maintaining a flat inventory in 2012 compared to a reduction in 2011. 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 $12.6 million in the first six months of 2012 versus $10.8 million for the same period of 2011. This increase was primarily due to increased capital expenditures in 2012 and partially offset by a large initial investment made in 2011 in restricted cash as collateral for insurance programs.

Financing activities used cash of $1.8 million in the first six months of 2012 compared to $0.4 million for the same period of 2011. This increase was primarily due to the 2012 payment of $0.9 million in dividends while none were paid in the first half of 2011 and the impact of $0.3 million in proceeds from exercise of stock options received in 2011 versus no amounts in the same period of 2012.

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

Balance Sheet Changes for the Six Months Ended June 30, 2012

Our balance sheet as of June 30, 2012, as compared to our balance sheet as of December 31, 2011, changed as follows:

- increase in cash of $6.1 million;
- increase in property and equipment of $4.5 million as we invested in and expanded our store base;
- decrease in accounts payable of $2.0 million due to timing of payments;
- increase in customer deposits of $2.2 million due to the normal seasonal differences in the timing of written business relative to the end of the period and to delivery of product to customers;
- increase in accrued liabilities of $3.2 million due to additional amounts related to incentive compensation and self-insurance reserves; and
- decrease in other liabilities of $2.3 million as we made a $1.0 million contribution to our defined benefit plan and due to settlements of state tax audits which reduced our reserve for uncertain tax positions $0.5 million.

Store Plans and Capital Expenditures

We opened a new store in Baltimore, Maryland during the second quarter. Our plans for the second half of 2012 include entering the Midland, Texas market early in the third quarter and later in the year adding a store in the Dallas, Texas market, and a replacement store in Atlanta, Georgia. These changes would increase net selling square footage by approximately 2.5% in 2012 assuming the new stores open and the existing store closes as scheduled. We also have stores reaching the end of their lease term and are subject to closure if terms of renewal are not reached.

Our planned annual expenditures for 2012 are $23.5 million including $18.3 million for new stores and store improvements and $4.0 million for information technology.

Off-Balance Sheet Arrangements

As of June 30, 2012 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. We had no significant changes in our critical accounting estimates since our last annual report. Our critical accounting estimates are identified and described in our annual report on Form 10-K for the year ended December 31, 2011.

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, 2011, 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 second quarter of 2012:

	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number that May Yet be Purchased Under the Plans or Programs
June 1 – June 30, 2012	4,316	$10.94	4,316	292,930

(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.

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 (Exhibit 10.1 to our Form 8-K filed June 8, 2012)
*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: August 6, 2012	By:	/s/ Clarence H. Smith Clarence H. Smith 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)