HAVERTY FURNITURE COMPANIES INC
Form 10-Q
May 05, 2011

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 March 31, 2011

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 ¨ 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 April 30, 2011, were:
Common Stock – 18,537,875; Class A Common Stock – 3,330,415

HAVERTY FURNITURE COMPANIES, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HAVERTY FURNITURE COMPANIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 66,122	$ 58,045
Accounts receivable	12,802	13,778
Inventories	88,030	91,938
Prepaid expenses	9,064	7,685
Other current assets	3,441	5,489
Total current assets	179,459	176,935
Accounts receivable, long-term	519	588
Property and equipment	172,959	175,511
Deferred income taxes	11,524	11,524
Other assets	5,342	5,681
	$ 369,803	$ 370,239
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 19,004	$ 18,088
Customer deposits	16,173	13,585
Accrued liabilities	27,434	31,357
Deferred income taxes	7,052	7,052
Current portion of lease obligations	533	525
Total current liabilities	70,196	70,607
Lease obligations, less current portion	8,437	8,574
Other liabilities	37,490	37,876
Total liabilities	116,123	117,057
Stockholders' equity		
Capital Stock, par value $1 per share:		
Preferred Stock, Authorized: 1,000 shares; Issued: None		
Common Stock, Authorized: 50,000 shares; Issued: 2011 – 26,298 2010 –26,272 shares	26,298	26,272
Convertible Class A Common Stock, Authorized: 15,000 shares; Issued: 2011 – 3,853; 2010 – 3,854 shares	3,853	3,854
Additional paid-in capital	67,998	67,214
Retained earnings	250,558	251,229
Accumulated other comprehensive loss	(19,068)	(19,428)
Less treasury stock at cost – Common Stock (2011 and 2010 – 7,760 shares) and Convertible Class A Common Stock (2011 and 2010 – 522 shares)	(75,959)	(75,959)
Total stockholders' equity	253,680	253,182
	$ 369,803	$ 370,239

See notes to these condensed consolidated financial statements.

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

	Three Months Ended March 31, 2011	2010
Net sales	$154,171	$156,036
Cost of goods sold	75,220	74,771
Gross profit	78,951	81,265
Credit service charges	134	214
Gross profit and other revenue	79,085	81,479
Expenses:		
Selling, general and administrative	79,469	78,879
Interest, net	222	208
Provision for doubtful accounts	19	162
Other income, net	(98)	(202)
	79,612	79,047
Income (loss) before income taxes	(527)	2,432
Income tax expense	144	78
Net income (loss)	$(671)	$2,354
Basic earnings (loss) per share:		
Common Stock	$(0.03)	$0.11
Class A Common Stock	$(0.03)	$0.11
Diluted earnings (loss) per share:		
Common Stock	$(0.03)	$0.11
Class A Common Stock	$(0.03)	$0.10
Basic weighted average common shares outstanding:		
Common Stock	18,534	17,578
Class A Common Stock	3,331	3,874
Diluted weighted average common shares outstanding:		
Common Stock	21,865	21,821
Class A Common Stock	3,331	3,874

See notes to these condensed consolidated financial statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash Flows from Operating Activities:		
Net income (loss)	$(671)	$2,354
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,525	4,305
Share-based compensation expense	540	622
Provision for doubtful accounts	19	162
Net gain on sale of property and equipment	(21)	(127)
Other	(3)	(904)
Changes in operating assets and liabilities:		
Accounts receivable	1,026	787
Inventories	3,908	(350)
Customer deposits	2,588	4,195
Other assets and liabilities	708	1,917
Accounts payable and accrued liabilities	(3,007)	(5,375)
Net cash provided by operating activities	9,612	7,586
Cash Flows from Investing Activities:		
Capital expenditures	(1,970)	(873)
Proceeds from sale of property and equipment	21	205
Other investing activities	274	—
Net cash used in investing activities	(1,675)	(668)
Cash Flows from Financing Activities:		
Payments on lease obligations	(129)	(84)
Proceeds from exercise of stock options	270	1,593
Other financing activities	(1)	(448)
Net cash provided by financing activities	140	1,061
Increase in cash and cash equivalents during the period	8,077	7,979
Cash and cash equivalents at beginning of period	58,045	44,466
Cash and cash equivalents at end of period	$66,122	$52,445

See notes to these condensed consolidated financial statements.

HAVERTY FURNITURE COMPANIES, INC.
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 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. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

For further information, refer to the consolidated financial statements and footnotes thereto included in Havertys' Annual Report on Form 10-K for the year ended December 31, 2010.

NOTE B – Accounts Receivable

Amounts financed under our in-house credit programs were, as a percent of net sales, approximately 5.5% in the first quarter of 2011. 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 four 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: $12,659,000 in one year, $1,058,000 in two years, $188,000 in three years and $40,000 beyond three years for receivables outstanding at March 31, 2011.

Accounts receivable are shown net of the allowance for doubtful accounts of $625,000 and $700,000 at March 31, 2011 and December 31, 2010, 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.

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

We age our receivables using the recency measurement method. In recency aging, delinquency is measured based on the number of days since the last full payment. Delinquency is the primary indicator of credit quality. The following is an aging analysis of our receivables and balances segregated by impairment method (in thousands):

Aging Category	March 31, 2011	
30 - 59 days	$	238
60 - 89 days		97
90 - 119 days		53
120-179 days		123
180 days or longer		180
Total Past-due		691
Unclassified		293
Current		12,962
	$	13,946
Individually evaluated for impairment	$	448
Collectively evaluated for impairment	$	13,498

In our recency aging, if an account has a payment recorded within the past 30 days but remains contractually delinquent, then the balance is placed in the unclassified category.

The following details the activity within the allowance account during the first three months of 2011:

(in thousands)	Three Months Ended March 31, 2011	
Allowance for doubtful accounts:		
Beginning balance:	$	700
Charge-offs		(147)
Recoveries		53
Provisions		19
Ending balance:	$	625
Ending balance: individually evaluated for impairment	$	357
Ending balance: collectively evaluated for impairment	$	268

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 C – 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 the final year-end LIFO inventory valuations.

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

NOTE D – Credit Arrangement

Havertys has a $60,000,000 revolving credit facility (the "Credit Agreement") with two banks which 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) create unsecured funded indebtedness or capital lease obligations collectively in excess of $15,000,000 in aggregate outstandings at any one time, (b) create indebtedness secured by real estate or engage in sale leaseback transactions which together exceed $60,000,000 in the aggregate, (c) sell or dispose of real property or other assets in excess of $30,000,000 in the aggregate, and (d) pay dividends in excess of $6,000,000 or repurchase capital stock in excess of $5,000,000 during any trailing twelve month period.

Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was $54.6 million at March 31, 2011. Amounts available are reduced by $10 million since a fixed charge coverage ratio test is not met for the immediately preceding twelve month period and are also reduced by $7.6 million for outstanding letters of credit at March 31, 2011, resulting in a net availability of $37.0 million. There were no borrowed amounts outstanding under the Credit Agreement at March 31, 2011. We are in compliance with the terms of the Credit Agreement at March 31, 2011 and there exists no default or event of default. The Credit Agreement has provisions for commitment fees on unused amounts and terminates in December 2011.

NOTE E – 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.

The income tax expense for the first quarter of 2011 includes an adjustment of $155,000 to reduce the balance of our income tax receivables based on analysis following actual refunds. During the first quarter of 2010 the income tax expense that would otherwise be recognized was virtually offset by a reduction in the valuation allowance for deferred taxes. Accordingly, the resulting tax expense of $78,000 is for Texas state tax, which is based on gross profit and not pre-tax income or loss.

NOTE F – Fair Value of Financial Instruments

The fair values of our 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 plan for certain executives and employees are valued using quoted market prices multiplied by the number of shares held, a Level 1 valuation technique. These assets totaled approximately $1.5 million at March 31, 2011 and $1.7 million at December 31, 2010 and are included in other assets. The related liability of the same amount is included in other liabilities.

NOTE G – 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.

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

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 (amounts in thousands):

	Three Months Ended March 31,			
	2011		2010	
Numerator:				
Common:				
Distributed earnings	$	—	$	—
Undistributed earnings (loss)		(573)		1,946
Basic		(573)		1,946
Class A Common earnings (loss)		(98)		408
Diluted	$	(671)	$	2,354
Class A Common:				
Distributed earnings	$	—		