HAVERTY FURNITURE COMPANIES INC
Form 10-Q
May 07, 2009

# 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, 2009**

**OR**

**o 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**<br>(State or other jurisdiction of incorporation or organization) | **58-0281900**<br>(I.R.S. Employer<br><br>Identification No.) |
| **780 Johnson Ferry Road, Suite 800** | |
| **Atlanta, Georgia**<br>(Address of principal executive office) | **30342**<br>(Zip Code) |
| **(404) 443-2900**<br>(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 o

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 o No o

(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.

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

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

Yes o No x

The numbers of shares outstanding of the registrant s two classes of $1 par value common stock as of April 30, 2009, were: Common Stock 17,346,291; Class A Common Stock 3,986,801.

**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, 2009 (Unaudited)** | **December 31, 2008** |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 9,478 | $ 3,697 |
| Accounts receivable, net | 18,191 | 24,301 |
| Inventories | 99,384 | 103,743 |
| Prepaid expenses | 11,635 | 11,569 |
| Other current assets | 4,592 | 6,436 |
| Total current assets | 143,280 | 149,746 |
| Accounts receivable, long-term | 1,607 | 2,082 |
| Property and equipment, net | 188,052 | 197,423 |
| Deferred income taxes | 7,813 | 7,813 |
| Other assets | 6,330 | 6,329 |
| | $ 347,082 | $ 363,393 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities | | |
| Notes payable to banks | $ | $ |
| Accounts payable | 15,600 | 22,696 |
| Customer deposits | 14,303 | 12,779 |
| Accrued liabilities | 23,620 | 28,993 |
| Deferred income taxes | 6,891 | 6,891 |
| Current portion of lease obligations | 323 | 311 |
| Total current liabilities | 60,737 | 71,670 |
| Lease obligations, less current portion | 7,100 | 7,183 |
| Other liabilities | 41,017 | 39,572 |
| Total liabilities | 108,854 | 118,425 |
| Stockholders Equity | | |
| Capital Stock, par value $1 per share: | | |
| Preferred Stock, Authorized: 1,000 shares; Issued: None | | |
| Common Stock, Authorized: 50,000 shares; Issued: 2009 25,128; 2008 25,074 shares | 25,128 | 25,074 |
| Convertible Class A Common Stock, Authorized: 15,000 shares; Issued: 2009 4,511; 2008 4,555 shares | 4,511 | 4,555 |
| Additional paid-in capital | 61,721 | 61,258 |
| Retained earnings | 242,342 | 249,605 |
| Accumulated other comprehensive loss | (19,295) | (19,345) |
| Less treasury stock at cost Common Stock (2009 and 2008 7,783 shares) and Convertible Class A Common Stock (2009 and 2008 522 shares) | (76,179) | (76,179) |
| Total stockholders equity | 238,228 | 244,968 |
| | $ 347,082 | $ 363,393 |

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 March 31, 2009 | 2008 |
|---|---|---|
| Net sales | $ 144,238 | $ 185,253 |
| Cost of goods sold | 70,475 | 88,818 |
| Gross profit | 73,763 | 96,435 |
| Credit service charges | 393 | 565 |
| Gross profit and other revenue | 74,156 | 97,000 |
| Expenses: | | |
| Selling, general and administrative | 80,879 | 95,037 |
| Interest, net | 176 | (131) |
| Provision for doubtful accounts | 415 | 328 |
| Other income, net | (121) | (42) |
| | 81,349 | 95,192 |
| (Loss) income before income taxes | (7,193) | 1,808 |
| Income taxes | 70 | 776 |
| Net (loss) income | $ (7,263) | $ 1,032 |
| Basic and diluted (loss) earnings per share: | | |
| Common Stock | $ (0.34) | $ 0.05 |
| Class A Common Stock | $ (0.33) | $ 0.05 |
| Weighted average shares basic: | | |
| Common Stock | 17,322 | 17,112 |
| Class A Common Stock | 4,005 | 4,127 |
| Weighted average shares assuming dilution: | | |
| Common Stock | 21,327 | 21,443 |
| Class A Common Stock | 4,005 | 4,127 |
| Cash dividends per share: | | |
| Common Stock | $ | $ 0.0675 |
| Class A Common Stock | $ | $ 0.0625 |

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, 2009 | 2008 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net (loss) income | $ (7,263) | $ 1,032 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 5,149 | 5,447 |
| Provision for doubtful accounts | 415 | 328 |
| (Gain) loss on sale of property and equipment | (16) | 18 |
| Other | 473 | 329 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 6,170 | 11,694 |
| Inventories | 4,359 | (7,146) |
| Customer deposits | 1,524 | 371 |
| Other assets and liabilities | 1,302 | (17) |
| Accounts payable and accrued liabilities | (12,469) | (11,576) |
| Net cash (used in) provided by operating activities | (356) | 480 |
| Cash Flows from Investing Activities: | | |
| Capital expenditures | (537) | (1,852) |
| Proceeds from sale-leaseback transaction | 6,625 | |
| Proceeds from sale of property and equipment | 21 | 197 |
| Other investing activities | 99 | 237 |
| Net cash provided by (used in) investing activities | 6,208 | (1,418) |
| Cash Flows from Financing Activities: | | |
| Proceeds from borrowings under revolving credit facilities | 5,800 | 69,075 |
| Payments of borrowings under revolving credit facilities | (5,800) | (60,825) |
| Net increase in borrowings under revolving credit facilities | | 8,250 |
| Payments on long-term debt and lease obligations | (71) | (2,066) |
| Treasury stock acquired | | (1,806) |
| Dividends paid | | (1,412) |
| Net cash (used in) provided by financing activities | (71) | 2,966 |
| Increase in cash and cash equivalents during the period | 5,781 | 2,028 |
| Cash and cash equivalents at beginning of period | 3,697 | 167 |
| Cash and cash equivalents at end of period | $ 9,478 | $ 2,195 |

See notes to these condensed consolidated financial statements.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE A Business and Reporting Policies**

Haverty Furniture Companies, Inc. ( Havertys, the Company, we, our, or us ) is a full service home furnishings retailer. The Company operate 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. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe all normal, recurring adjustments considered necessary for a fair presentation have been included.

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

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

For further information, refer to the consolidated financial statements and footnotes thereto included in Havertys Annual Report on Form 10-K for the year ended December 31, 2008.

**NOTE B Recent Accounting Standards**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 was effective for us on January 1, 2008 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in our Consolidated Financial Statements on a recurring basis (at least annually). For all other nonfinancial assets and liabilities, this statement is effective for us on January 1, 2009. The adoption of SFAS 157 did not have a material impact on our Consolidated Financial Statements. We have a self-directed, non-qualified deferred compensation plan for certain executives and other highly compensated employees. The investment assets are valued using quoted market prices multiplied by the number of shares held, a Level 1 valuation technique under SFAS 157, and totaled $1.0 million and $1.2 million at March 31, 2009 and December 31, 2008, respectively. The related deferred compensation liability is recorded at the same amount given the rights of the participants.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* (SFAS 160). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement was effective for us on January 1, 2009. We had no minority interests as of March 31, 2009 or December 31, 2008.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of SFAS No. 133* (SFAS 161). SFAS 161 seeks to improve financial reporting for derivative instruments and hedging activities by requiring enhanced disclosures regarding the impact on financial position, financial performance, and cash flows. This statement was effective for us on January 1, 2009. We had no derivative instruments and did not engage in hedging activities for the periods covered in our Consolidated Financial Statements.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

In June 2008, the FASB issued FSP Emerging Issues Task Force (EITF) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP 03-6-1). FSP 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS No. 128, *Earnings Per Share*. This FSP was effective for us on January 1, 2009 and did not have a material impact on our earnings per share calculations.

In December 2008, the FASB issued FASB Staff Position (FSP) No.132 (R)-1, *Employers Disclosures about Pensions and Other Postretirement Benefits* (FSP 132R-1). FSP 132R-1 requires enhanced disclosures about the plan assets of a Company s defined benefit pension and other postretirement plans. This FSP is effective for us for our annual financial statements for 2009.

In April 2009, the FASB issued SFAS No. 107-1 and APB No. 28-1, *Disclosures about the Fair Value of Financial Instruments* (SFAS 107-1 and APB 28-1), which require quarterly disclosure of information about the fair value of financial instruments within the scope of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments.* SFAS 107-1 and APB 28-1 have an effective date requiring adoption by the second quarter of 2009.

## NOTE C Accounts Receivable

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. Portions of the receivables are classified as long-term based on the specific programs historical collection rate, which is generally faster than the scheduled rate. The portions of receivables contractually due beyond one year classified as current and long-term are estimates. The timing of actual collections that are contractually due beyond one year may be different from the amounts estimated to be collected within one year. However, based on experience, we do not believe the collection rate will differ significantly. At March 31, 2009 and December 31, 2008, the accounts receivable contractually due beyond one year from the respective balance sheet dates totaled approximately $4.1 million and $4.9 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 Property and Equipment

During the first quarter of 2009, the Company entered into a sale-leaseback transaction for one of its retail stores. The property had a net book value of $4.6 million and the sale resulted in net proceeds of $6.6 million. The gain on the transaction was deferred and is being amortized over the term of the 10-year operating lease agreement.

**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. In light of the continued downturn in the home furnishings retail market and the uncertainty as to its length and magnitude, during the fourth quarter of 2008, we anticipated being in a three-year cumulative loss position during 2009. According to SFAS 109, cumulative losses in recent years represent significant negative evidence in considering whether deferred tax assets are realizable, and also generally preclude relying on projections of future taxable income to support the recovery of deferred tax assets. Therefore, during the fourth quarter of 2008, we recorded a valuation allowance totaling approximately $18.0 million against substantially all of our net deferred tax assets. In the first quarter of 2009, we increased the valuation allowance by approximately $2.7 million. The valuation allowance was recorded as a reduction to income tax benefit.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE G 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 or loss per share for each class of common stock to be calculated assuming 100% of our earnings or loss 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 or loss used in calculating diluted earnings per share of Common Stock is equal to net income or loss since the Class A shares are assumed to be converted. Diluted earnings per share of Class A Common Stock includes the effect of dilutive common stock options and awards which reduces the amount of undistributed earnings allocated to the Class A Common Stock.

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

| | **Three Months Ended** | |
|---|---|---|
| | **March 31, 2009** | **2008** |
| Common: | | |
| Weighted average shares outstanding | 17,322 | 17,112 |
| Assumed conversion of Class A Common shares | 4,005 | 4,127 |
| Dilutive options, awards and common stock equivalents | | 204 |
| Total weighted-average diluted Common shares | 21,327 | 21,443 |

For the three months ended March 31, 2009 and 2008 approximately 2,040,000 shares and 1,988,000 shares, respectively, representing underlying stock options, awards and common stock equivalents were not included in the computation of diluted (loss) earnings per share because inclusion of such shares would be anti-dilutive.

**NOTE H Comprehensive (Loss) Income**

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

| | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| Net (loss) income | $ (7,263 ) | $ 1,032 |
| Amortization of expired derivatives | 50 | 31 |
| Total comprehensive (loss) income | $ (7,213 ) | $ 1,063 |

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**