NOBLE ROMANS INC
Form 10-Q
November 14, 2017

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2017

Commission file number: 0-11104

NOBLE ROMAN'S, INC.
(Exact name of registrant as specified in its charter)

Indiana	35-1281154
(State or other jurisdiction of organization)	(I.R.S. Employer Identification No.)

One Virginia Avenue, Suite 300 Indianapolis, Indiana	46204
(Address of principal executive offices)	(Zip Code)

(317) 634-3377
(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, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer __
Accelerated Filer __
Non-Accelerated Filer __ (do not check if smaller reporting company)
Smaller Reporting Company X
Emerging Growth Company __

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes___ No _X_

As of November 10, 2017, there were 20,783,032 shares of Common Stock, no par value, outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

Condensed consolidated balance sheets as of December 31, 2016 and September 30, 2017 (unaudited)	Page 3
Condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2016 and 2017 (unaudited)	Page 4
Condensed consolidated statements of changes in stockholders' equity for the nine-month period ended September 30, 2017 (unaudited)	Page 5
Condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2016 and 2017 (unaudited)	Page 6
Notes to condensed consolidated financial statements (unaudited)	Page 7

Noble Roman's, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

Assets	December 31, 2016	September 30, 2017
Current assets:		
Cash	$477,928	$381,814
Accounts receivable - net	1,828,534	2,376,922
Inventories	754,418	726,883
Prepaid expenses	568,386	810,575
Deferred tax asset - current portion	925,000	-
Total current assets	4,554,266	4,296,194
Property and equipment:		
Equipment	1,963,957	2,239,267
Leasehold improvements	88,718	271,697
Construction and equipment in progress	351,533	131,032
	2,404,208	2,641,996
Less accumulated depreciation and amortization	1,194,888	1,323,934
Net property and equipment	1,209,320	1,318,062
Deferred tax asset (net of current portion)	8,696,870	9,481,008
Goodwill	278,466	278,466
Other assets including long-term portion of receivables - net	5,159,937	5,717,465
Total assets	$19,898,859	$21,091,195
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of term loan payable to bank	$655,725	$642,857
Current portion of loan payable to Super G	1,130,765	-
Accounts payable and accrued expenses	339,125	422 251
Total current liabilities	2,125,615	1, 065, 108
Long-term obligations:		
Term loan payable to bank (net of current portion)	710,729	3,471,932
Loan payable to Super G (net of current portion)	718,175	-
Notes payable to officers	310,000	-
Notes payable to Kingsway America	600,000	-
Convertible notes payable	769,835	1,037,050
Derivative warrant liability	210,404	685,154
Derivative conversion liability	435,671	1,202,058
Total long-term liabilities	3,754,814	6,396,194
Stockholders' equity:		
	24,308,297	24,322,885

Common stock – no par value (40,000,000 shares authorized, 20,783,032 issued and outstanding as of December 31, 2016 and September 30, 2017)		
Accumulated deficit	(10,289,867)	(10,692,992)
Total stockholders' equity	14,018,430	13,629,893
Total liabilities and stockholders' equity	$19,898,859	$21,091,195

See accompanying notes to condensed consolidated financial statements (unaudited).

3

Noble Roman's, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Three-Months Ended September 30,	
	2016	2017
Revenue:		
Royalties and fees	$1,953,843	$1,733,956
Administrative fees and other	12,459	10,992
Restaurant revenue - Craft Pizza & Pub	-	457,133
Restaurant revenue - non-traditional	55,691	310,840
Total revenue	2,021,993	2,512,921
Operating expenses:		
Salaries and wages	275,694	216,432
Trade show expense	124,209	126,361
Travel expense	57,010	11

Table of Contents

Restatement

The Company recently reviewed its lease and sublease accounting and determined that it was
restate its consolidated financial statements for the fiscal years 2002 through 2004. These adjust
lease accounting matters, including those discussed by the Securities and Exchange Commission
February 7, 2005 (SEC Letter) to the American Institute of Certified Public Accountants (A
Letter, the SEC expressed its views on the amortization of leasehold improvements, rent holiday
landlord/tenant incentives.

In conjunction with the Company s fourth quarter 2004 results, the Company determined ad
necessary to recognize the cumulative impact of correcting its computation of straight line rent e
Specifically, the Company revised its computation of straight line rent to include certain option
failure to exercise such options would result in an economic penalty. Although this cumulative a
originally included in the Company s fourth quarter results, based on the impact of additional le
discussed in the SEC Letter and the additional clarifications made subsequent to the Company s
Form 10-K for the year ended December 31, 2004 as discussed in the following paragraph, the C
restate the periods impacted by this adjustment.

The restatement also includes adjustments for rent holidays, which is the period of time betw
taking control and possession (generally the beginning of construction) of a leased site and the c
lease payments. Previously the Company began its computation of straight line rent at the earlier
contractual lease term or the commencement of the lease payments or when the leased site open
However, based on the views expressed in the SEC Letter, the Company has determined that the
straight line rent should begin on the date when the Company takes control and possession of the
effect of this adjustment will be to increase the period over which rent is expensed beginning wi
prior to the opening of a leased site.

As a result of the above items, the cumulative effect of the restatement adjustments on the Co
Consolidated Balance Sheet at December 31, 2004 was an increase in deferred rent liability of $
increase in the deferred income tax assets of $1.1 million and a decrease in retained earnings of
restatement adjustments decreased net income by $0.1 million and $0.5 million for the years end
2004 and 2003, respectively, and had a negligible impact on the year ended December 31, 2002.
reduced previously reported diluted earnings per common share by $.01 and $.02 for the years e
December 31, 2004 and 2003, respectively and have no impact for 2002.

Overview

We focus on several key metrics in managing and evaluating our operating performance and
condition including the following: comparable-store sales, sales by merchandise categories, gros
costs as a percentage of sales, cash flow, total debt to total capital, and earnings per share.

Our sales are generated by customer purchases of home furnishings in our retail stores and re
when delivered to the customer. There is typically a two-week lag between the time when a cust
placed in one of our stores and the time when the customer is able to arrange their schedule for d
Comparable-store or comp-store sales are comparisons of sales results of stores that have bee
year. As a retailer, this performance measure is an indicator of relative customer spending period

Havertys cost of sales includes only the costs associated with the sourcing of our products. C
primarily dependent upon merchandising capabilities, vendor pricing and the mix of products so

our Havertys brands has continued since their introduction at the end of 2000 and these products
expanded as a percentage of our overall sales mix. The introduction of Havertys Premium Colle
bedding line during 2004 were important steps in establishing the Havertys brand in all product
view the sourcing of the values associated with imported product offerings and the mix of our m
important opportunities for improving our performance.

Our operational focus during the past few years has been our warehouse and delivery effectiv
completely revamped our distribution methodology and consolidated certain customer service fu
created redundant operations and increased inventory markdowns during the transition periods i
markets. We are continuing the transformation and consolidation of our distribution systems wh
for completion by the second quarter of 2005.

The growing percentage of imported products from Asia and the increased Havertys brands n
significant changes in our industry and our business within a very short time frame. The longer l
for delivery from the factories and the production of merchandise exclusively for Havertys have
our supply chain team. We plan to expand the storage capacity of our Eastern DC to store impor
Eastern growth and moves into the Midwest. Additionally, it will help us supplement the produc
domestic upholstery suppliers for the Florida region.

We are continuing our initiative to begin a direct importing program, with a focus on China a
main strategy is to work with the largest and most experienced manufacturers and to become im
to these suppliers. We realize that there are increased risks in direct importing and therefore we
deliberate and measured pace.

Cash flows continued to be strong during 2004, providing funding for $45.3 million in new p
equipment expenditures, $12.8 million in purchases of assets that were previously leased, and th
long-term debt by $14.4 million. Our cash flow accelerated during 2002 and 2003 in part due to
certain credit promotions to a third party finance company, and those programs have now reache
state. The increased cash enabled us to repay all of our fixed rate debt that did not have significa
penalties. Our total debt to total capital was 19.2% at December 31, 2004, continuing the impro
to prior years.

Critical Accounting Estimates and Assumptions

Allowance for Doubtful Accounts. We provide an allowance for doubtful accounts using a me
considers the balances in problem and delinquent categories of accounts, historical write-offs an
Delinquent accounts are generally written off automatically after the passage of nine months wit

Table of Contents

receiving a full scheduled monthly payment. Accounts are written off sooner in the event of a di
bankruptcy or other circumstances that make further collections unlikely. We assess the adequac
allowance at the end of each quarter.

While our customer base is large and geographically dispersed, a general economic downturn
target customers could result in higher than expected defaults, and therefore the need to revise es
debts. For the years ended December 31, 2004, 2003, and 2002, we recorded provisions for bad
$0.6 million, $2.0 million and $3.2 million, respectively. The amount of the provision has dropp
in-house receivables have decreased and collection experience has improved.

Reserve for cancelled sales and allowances. As part of the normal sales cycle and our focus o
service and satisfaction, we have customer merchandise returns and make allowances to custome
merchandise returns and customer allowances is estimated based on the Company s historical re
allowance experience and current sales levels. We periodically evaluate the reserve by comparin
used in our estimate to the actual returns and allowances made. Our reserve for cancelled sales a
totalled $1,500,000 and $1,800,000 at December 31, 2004 and 2003, respectively. Our experienc
sales and allowances has improved in connection with our enhanced, centralized customer servic

Facility Closing Costs. We periodically evaluate the operations of each of our retail and ware
This also has been an important part of our transition to our new distribution methods. In the per
store or warehouse, we record as an obligation the present value of estimated costs that will not b
These costs include any estimated loss on the sale of the land and buildings, the book value of an
leasehold improvements and amounts for future lease payments, less any estimated sublease inco
January 1, 2003, we recorded these estimated costs at the time we committed to a store or wareh
December 31, 2004 and 2003, our reserve for facility closing costs totalled $883,000 and $1,574
respectively. In the future, our facility closing costs could increase or decrease based upon the fa
owned properties, our ability to sublease facilities and the accuracy of our related estimates.

Consideration Received from Vendors. We have varying agreements with many of our vendo
advertising allowances or rebates. We adopted the Emerging Issues Task Force (EITF) Issue No
Accounting by a Customer for Cash Consideration Received from a Vendor (EITF 02-16), ef
2003. We had historically treated cooperative advertising allowances and vendor rebates as a red
advertising expense. EITF 02-16 requires vendor rebates to be treated as a reduction of inventory
agreements entered into or significantly modified after December 31, 2002.

The adoption of EITF 02-16 did not have a material impact on our 2003 financial statements
agreements in place prior to the effective date or we identified and tracked specific incremental a
that were vendor specific which qualify for expense offset. Based on the administrative costs ass
tracking and matching allowances to vendor specific advertising costs, we classified all vendor c
reduction of inventory costs during 2004. Gross profit and selling, general and administrative ex
reported increases from their historical basis as vendor consideration generated a reduction in co
than being recorded as an offset to advertising expense.

Pension and Retirement Benefits. Pension and other retirement plans costs require the use o
discount rates, investment returns, projected salary increases and mortality rates. The actuarial a
in the Company s pension and retirement benefit reporting are reviewed annually and comparec
benchmarks to ensure that they appropriately account for the Company s future pension and ret
obligations. While we believe that the assumptions used are appropriate,

13

differences between assumed and actual experience may affect the Company s operating results
change in the actuarial assumption for the discount rate would impact 2004 expense for the defi
pension plan by approximately $0.2 million, a 9.4% change. A one percent change in the expect
assets would impact 2004 expense for the defined benefit pension plan by approximately $0.5 m
change. In addition, see Note 10 of the notes to consolidated financial statements for a discussio
assumptions and the effects on the financial statements.

Self Insurance. We are self-insured for certain losses related to worker s compensation, gene
automobile claims. Our reserve is developed based on historical claims data and contains an actu
incurred but not reported component. The resulting estimate is discounted and recorded as a liab
assumptions and discount rates are reviewed periodically and compared with actual claims expe
external benchmarks to ensure that our methodology and assumptions are appropriate.

Operating Results

The following table sets forth for the periods indicated (i) selected statement of income data,
percentage of net sales and (ii) the percentage change in dollar amounts from the prior year in se
of income data:

	Percentage of Net Sales			Perce i Fro
	2004 (as restated)	2003 (as restated)	2002 (as restated)	2004 (as restated
Net sales	100.0%	100.0%	100.0%	5.3
Cost of sales	49.3	50.9	51.8	2.1
Gross profit	50.7	49.1	48.2	8.7
Credit service charge revenue	0.6	0.9	1.3	(29.6
Provision for doubtful accounts	0.1	0.3	0.5	(71.8
Selling, general and administrative expenses	46.8	44.4	43.2	11.2
Income before income taxes[(2)]	4.6	5.1	5.5	(6.6
Net income[(2)]	2.9	3.2	3.5	(6.3
Cost of sales, on a comparable basis[(1)]	49.3	49.1	50.0	5.7
Gross profit, on a comparable basis[(1)]	50.7	50.9	50.0	4.9
Selling, general and administrative expenses, on a comparable basis[(1)]	46.8	46.1	45.0	6.9

(1) *Cost of sales, Gross profit and SG&A expenses in 2003 and 2002 have been adjusted fron
reported in our financial statements. The amounts for 2003 and 2002 have been adjusted
and $12.9 million, respectively, for the treatment of vendor rebates and advertising allow
are comparable to the treatment in 2004. We believe this non-GAAP presentation is mean
without presenting 2003 and 2002 on a comparable basis to 2004, our gross profit would
increased significantly as compared to 2003 and 2002. Conversely, SG&A costs would ap
increased significantly in 2004 versus 2003 and 2002. However, on a GAAP basis these c
primarily due to the required classification of vendor rebates and allowances as a reducti*

costs and a resulting reduction in cost of sales in 2004, whereas in prior years such amou
as a reduction of SG&A costs.

(2) *Excluding the cumulative effect of a change in accounting principle for the year ended De*

14

Net Sales

Total sales increased $39.5 million or 5.3% and $40.7 million or 5.8% in 2004 and 2003, resp
Comparable store sales rose 2.1% or $15.3 million in 2004 and 1.0% or $6.8 million in 2003. Th
$24.2 million and $33.9 million of the increases in 2004 and 2003, respectively, were from new
non-comparable stores, partially offset by the loss of sales from stores closed. Stores are conside
non-comparable if open for less than one year or if the selling square footage has been changed s
during the past 12 months. Large clearance sales events from warehouses or temporary locations
from comparable store sales, as are periods when stores are closed or being remodeled.

The following outlines our sales and comp-store sales increases for the periods indicated (dol

	Year Ended December 31,							
	2004			2003			2	
	Net Sales		Comp-Store Sales	Net Sales		Comp-Store Sales	Net Sale	
Period Ended	Dollars (000)s	% Increase (decrease) over prior period	% Increase (decrease) over prior period	Dollars (000)s	% Increase (decrease) over prior period	% Increase (decrease) over prior period	Dollars (000)s	Inc (dec o pr pe
Q1	$ 190.3	8.5%	4.0%	$ 175.4	0.2%	(6.6)%	$ 175.4	
Q2	179.6	6.5	2.6	168.6	2.3	(2.2)	164.9	
Q3	197.4	1.1	(1.0)	195.4	11.2	6.1	175.7	
Q4	216.8	5.6	3.0	205.3	8.9	5.7	188.4	
Year	$ 784.2	5.3%	2.1%	$ 744.6	5.8%	1.0%	$ 704.0	

Retail sales of big-ticket home goods were weak from mid-2002 to mid-2003, which was wid
due to consumer anxiety about employment uncertainty, threats of war, war and geopolitical unr
also a lingering negative effect from lower stock market values, Beginning in June 2003 we had
comp-store monthly sales results that continued throughout the remainder of 2003 and through A
(excluding November 2003, which was 0.4% negative). Sales in our Florida and Southeast mark
and September of 2004 were negatively impacted by record-breaking severe weather from four h
a six-week period. These lost sales were particularly significant because our Florida stores norm
approximately 23% of our total sales. We do expect that the storm damage will generate some in
through August of 2005 as damaged furniture is replaced and from associated redecorating activ
October 2004, we experienced some delays in receiving product from Asia and began building a
undelivered orders faster than our historical rates. The backlog remained higher than the prior ye
end as strong sales activity during November and December kept the order rate ahead of our deli

We believe that continued strong housing sales and low interest rates are a positive factor for
consumer confidence and further indications of a strengthening economy are key to increased sp
ticket furniture items. Many retailers have been advertising aggressive sales promotions to stimu
increase their sales volume. We believe that this approach would negatively impact our everyd

integrity with our customers over the longer term. We have instead used some promotional prici
traditional sales events. Supplementing the pricing promotions, we also offer

free interest and deferred payment financing promotions. We expect to continue this approach o
selection of specially priced merchandise and financing promotions to increase traffic in our sto

Our sales during 2004 increased across all major categories of furnishings, with recliners and
bedding and upholstery performing better than the average. Our average sales transaction and pr
remained modestly higher over the prior year periods. Net sales for each period by category wer
millions):

	Year Ended December 31,				
	2004		2003		
	Net Sales	% of Net Sales	Net Sales	% of Net Sales	Ne Sal
Upholstery	$ 196.1	25.0%	$ 181.6	24.4%	$ 16
Bedroom	172.1	22.0	166.6	22.4	16
Formal Dining	65.9	8.4	63.9	8.6	5
Casual Dining	37.8	4.8	37.5	5.0	3
Recliners and Sleeper Sofas	57.0	7.3	50.2	6.8	4
Occasional	131.1	16.7	131.3	17.6	12
Total Furniture Sales	660.0	84.2	631.1	84.8	60
Bedding Sales	73.8	9.4	67.2	9.0	5
Accessories and Other	50.4	6.4	46.3	6.2	4
Net Sales	$ 784.2	100.0%	$ 744.6	100.0%	$ 70
Havertys Private Label Brands	$ 309.0	39.4%	$ 153.0	20.5%	$ 8

Gross Profit

Cost of sales consists primarily of the purchase price of the merchandise together with freigh
sourcing costs of our products. Our gross profit is largely dependent upon merchandising capabi
pricing and the mix of products sold. We have developed strong relationships with our suppliers
we receive excellent pricing and superior service from our key vendors in exchange for distribut
products. The continued improvements related to the products imported from Asia and pricing p
domestic suppliers have also generated good values for us. Many retailers have used the decreas
support their heavy promotional pricing. Our approach has been to offer products with greater va
established middle to upper-middle price points. Gross profit, on a comparable basis, was 50.7%
decline from the 50.9% gross profit in 2003, and a 70 basis points improvement over the 50.0%
2002.

Gross profit, on a comparable basis, was negatively impacted by approximately 10 basis poin
an increase in the LIFO reserve. We also had a higher level of inventory markdowns during 200
consolidated warehouses. Additionally, during the fourth quarter of 2004, as some of our compe
and aggressively offered heavy discounts, we were compelled to match prices on identical or sin
several of our markets. Our Havertys private label merchandise produced modestly higher gross

compared to the other products we offered and Havertys brands margins increased on a year ov
have gradually increased the number of Havertys private label items in our merchandise mix sin
in 2000. Sales of these private-label lines as a percent of total sales have grown to 39.4% in 200
2003 and from 11.8% in 2002, with steady increases to nearly 50% in December 2004.

Table of Contents

During much of 2003 our focus was to seek values with imported product offerings and to ex
might better source and flow those goods. Our core furniture merchandise comprises approxima
furniture items, excluding bedding and accessories, which we carry in all of our stores. Addition
are more regionally focused and items needed to merchandise our larger retail stores supplement
merchandise assortment. Imported products comprised approximately 37% of our core merchan
December 31, 2002, and increased to approximately 65% by the end of 2004 as new products w
displayed in our showrooms. Wood products, or case goods, are generally imported, with onl
selected case goods at December 31, 2004, produced domestically. Upholstered items are not as
with the exception of our leather products, of which almost 100% were imported during 2004. T
private label lines are approximately 80% imported with virtually all case goods and leather iten
We believe for the selected imported items we purchase, we achieve substantial savings as comp
domestically produced similar products.

We are exploring additional ways to increase our gross profit including working directly with
manufacturers. We believe that, although there are savings in the direct import approach to so
there are also associated risks with quality and customer acceptance. Our merchandising team ha
experienced quality control firm that will be dedicated to inspecting product produced for Haver
using a design firm to complement our merchandising team s skills to develop our Havertys pri
Similar to our careful introduction of the first Havertys branded products, we will move judiciou
import program.

An anti-dumping petition against Chinese furniture makers for allegedly dumping wooden be
was filed during 2003. This created some disruption in the industry and in our flow of product as
shifted production to other countries in preparation for unfavorable duties. The actual duties dete
Department of Commerce were announced late in 2004 and are not significant for the manufactu
our merchandise.

The selected vendors that provide us with their branded goods remain important suppliers to
have wide customer acceptance and we are also working with several of these manufacturers dev
that carries their brand but will be exclusive to Havertys. We believe that the combination of the
arrangements and our Havertys private label products will provide our customers with an excell
merchandise at attractive prices and yield improving margins for Havertys.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses are comprised of five categories: se
warehouse and delivery; administrative; and advertising. Selling expenses primarily are compris
compensation of sales associates and sales support staff, and fees paid to credit card and third pa
companies. Occupancy costs include rents, depreciation charges, insurance and property taxes, r
maintenance expenses and utility costs. Warehouse and delivery costs include personnel, fuel co
depreciation and rental charges for equipment and rolling stock. Administrative expenses are co
compensation costs for store management, information systems, executive, finance, merchandisi
human resource departments as well as retirement costs for all Havertys employees. Advertising
primarily media production and space, direct mail costs, market research expenses and employe

Our SG&A costs were negatively impacted by several factors in 2004. Total SG&A costs, as
net sales were 46.8% for 2004 as compared to 46.1% and 45.0%, on a comparable basis, in 2003
respectively.

17

Table of Contents

Selling expenses increased in 2004 over 2003 mainly due to our customers increased use of c
purchasing and accordingly our bank card fees have risen. The increase in 2003 over 2002 was p
charges associated with more usage of the credit programs that we outsource to a third party. We
amounts we pay for the outsourced credit program are justified compared to the increased costs
larger receivables portfolio and the collection risks of the more promotional credit offers needed
competitive.

We have been developing our distribution and store systems to accommodate store expansion
The increased warehouse and delivery expense including facility closing and start-up costs asso
distribution transition were approximately $1 million in the fourth quarter of 2004. The transitio
contributed to greater expense in 2003 as compared to 2002. Total occupancy costs have increas
three-year period as we have increased our retail square footage 15.5% and added or replaced 19
occupancy costs as a percentage of sales remained relatively flat in 2004, 2003 and 2002.

We increased our advertising dollars during 2004 as we continued to build our Havertys bran
target customers. Our costs associated with television advertising increased over 25% from 2003
used this media form in our larger and new markets. Total advertising costs (without vendor reb
allowances) as a percentage of sales were 7.4%, 7.1% and 7.4% for 2004, 2003 and 2002, respec
Administrative expenses increased in 2004 due to the following: additional costs associated with
the Sarbanes-Oxley Act, installation and conversion to our new accounting software package, co
with the research and analysis of prospective new real estate markets and locations, increased st
rates and increases in our group insurance premiums. The increased administrative expenses in 2
to 2002 were due in part to increases in property and casualty insurance premiums and group ins

Credit Service Charge Revenue and Allowance for Doubtful Accounts

Our credit service charge revenue has continued to decline as customers choose credit promo
interest features. The in-house financing program most frequently chosen by our customers is a
interest and 12 equal payments promotion which generates very minor credit revenue, but helps
interest expense and bad debts due to the faster payout relative to our other in-house credit progr

The standard outsourced programs offer deferred payment for 360 days, or for larger purchas
18 months, with an interest accrual that is waived if the entire balance is paid in full at the end o
period. The 15 to 18 months deferred payment promotions are the most popular of all the credit
through the third party finance company and are also used more than any program offered by Ha

Table of Contents

The following highlights the impact these changes have had on our credit service charge reve
accounts receivable and allowance for doubtful accounts (dollars in thousands):

	Year Ended I	
	2004	20
Credit Service Charge Revenue	$ 4,502	$ 6,3
Amount Financed as a % of Sales:		
Havertys	21.1	2
Third Party	20.8	2
	41.8%	4
% Financed by Havertys:		
No Interest for 12 Months	42.9%	5
No Interest for > 12 Months	29.7%	1
No Interest for < 12 Months	14.3%	1
Other	13.1%	1
	100.0%	10

	Year Ended Dec	
	2004	2003
Accounts receivable	$ 93,478	$ 110,30
Allowance for doubtful accounts	$ 2,950	$ 4,50
Allowance as a % of accounts receivable	3.2%	4.

Our allowance for doubtful accounts has declined during the three year period as lower levels
receivables were generated. Our allowance for doubtful accounts as a percentage of the receivab
at the end of 2004 due to improvements in the delinquency and problem category percentages fr
2002.

Interest Expense

Interest expense declined in 2004 from the 2003 level, and 2003 was a significant decline fro
debt decreased 32% in 2004 and 42% in 2003. These reductions were partly offset by an increas
interest rate of 79 basis points in 2004 compared to 2003, as most of the debt reduction was in lo
rate borrowings.

Other (Income) expense.

Other (income) expense is primarily related to real estate. We have had dispositions of wareh
transition our distribution methodology to various markets. During 2004, we had gains from the
warehouse and other properties of $4.5 million. During 2003, we had gains of $0.3 million from
local market warehouses and other retail properties and $0.9 million from the early termination o
landlord. We sold one market area warehouse and two of our larger regional warehouses during
the real estate gains of $4.6 million.

Table of Contents

Provision for Income Taxes

The effective tax rate was 37.0% for 2004, and 37.3% for 2003 and 37.5% for 2002. The effe
differs from the statutory rate primarily due to state income taxes, net of the Federal tax benefit.

Recent Accounting Pronouncements

Stock-Based Compensation. On December 16, 2004, the Financial Accounting Standards Bo
(FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revis
Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersede
No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, S
Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Sta
However, Statement 123(R) requires all share-based payments to employees, including grants o
options, to be recognized in the income statement based on their fair values. Pro forma disclosur
alternative.

Statement 123(R) must be adopted no later than July 1, 2005. Early adoption will be permitte
which financial statements have not yet been issued. We expect to adopt Statement 123(R) on Ju

As permitted by Statement 123, the Company currently accounts for share-based payments to
Opinion 25 s intrinsic value method and, as such, generally recognizes no compensation cost fo
options. Accordingly, the adoption of Statement 123(R) s fair value method will have a signific
result of operations, although it will have no impact on our overall financial position. The impac
Statement 123(R) cannot be predicted at this time because it will depend on levels of share-base
granted in the future. However, had we adopted Statement 123 (R) in prior periods, the impact o
would have approximated the impact of Statement 123 as described in the disclosure of pro form
earnings per share in Note 1 to our consolidated financial statements. Statement 123(R) also requ
of tax deductions in excess of recognized compensation cost to be reported as a financing cash f
an operating cash flow as required under current literature. This requirement will reduce net ope
and increase net financing cash flows in periods after adoption. While the Company cannot estin
amounts will be in the future (because they depend upon, among other things, when employees e
options), the amounts of operating cash flows recognized in prior periods for such excess tax de
$434,000, $1,143,000 and $1,328,000 in 2004,2003 and 2002, respectively.

The Company began a transition to the use of restricted stock grants in lieu of stock options i
long-term incentive compensation strategy.

Earnings Per Share. Effective for the quarter ended June 30, 2004, the Company began repo
per share using the two class method as required by the Emerging Issues Task Force (EITF). Th
final consensus on Issue No. 03 -6, Participating Securities and the Two-Class Method under F
No. 128, Earnings Per Share (SFAS 128), at their March 17, 2004 meeting. EITF 03-6 requires
share for each class of common stock to be calculated assuming 100% of the Company s earnin
as dividends to each class of common stock based on their contractual rights.

The effective result of EITF 03-6 is that the basic earnings per share for the common stock is
105% of the basic earnings per share of the Class A common stock. Additionally, given the Com
capital structure, diluted earnings per share for common stock under EITF 03 -6 is the same as w
reported for diluted earnings per share using the if-converted method.

20

Cash Consideration Received from Vendor. In November 2002, the EITF issued EITF 02-16 Customer for Cash Consideration Received from a Vendor. This EITF places certain restrictio of advertising allowances and generally requires vendor consideration to be treated as a reductio costs for agreements entered into or significantly modified after November 30, 2002, with certai exceptions. The adoption of EITF 02-16 did not have a material impact on the Company s 2003 statements as most contracts were in place prior to the effective date or allowances were tracked with specific incremental advertising costs. The Company reclassified approximately $1,150,00 and rebates out of advertising and into cost of sales during 2003 . Based on the administrative co match allowances to vendor specific advertising costs, all vendor consideration received during recorded as a reduction in inventory costs. The adoption of this EITF, although not materially im financial performance, makes the key metrics of gross profit and SG&A not on a comparable ba prior to 2004.

Variable Interest Entities. In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Variable Interest Entities. The Interpretation requires the consolidation of variable interest enti enterprise absorbs a majority of the entity s expected losses, receives a majority of the entity s returns, or both, as a result of ownership, contractual or other financial interests in the entity. Pre were generally consolidated by an enterprise that has a controlling financial interest through ow majority voting interest in the entity.

During 2003, we concluded that we were the primary beneficiary of a variable interest entity lessor under an operating lease of our Dallas distribution center and its attached retail space and locations. Effective December 31, 2003, the Company consolidated the VIE and recorded a cum an accounting change of $1.0 million (net of income tax expense of $0.6 million), or $0.05 per d share. Consolidation of the VIE increased property and equipment by $26.0 million, accumulate $3.8 million, long-term borrowings by $19.5 million and created a minority interest of $1 .0 mil

Liquidity and Capital Resources

The following sections discuss the sources of our cash flows and commitments which impact capital resources on both a short-term and long-term basis. Cash decreased $21.5 million in 200 $27.8 million in 2003.

Cash flow generated from operations provides us with a significant source of liquidity. Cash operations was $49.4 million in 2004 compared to $82.0 million in 2003. The decrease in 2004 a lesser impact from the outsourced credit programs which we believe have reached a level rate, prepaid expenses and other current assets of $9.3 million. Inventory also increased in 2004 as th imported products has increased.

Cash flows used in investing activities was $53.6 million in 2004 as compared to $25.0 millio Investing activities in 2004 and 2003 were primarily for capital expenditures and purchases of p previously under leases. We sold several properties as part of the warehouse consolidation proce real estate proceeds of $6.8 million in 2004 and $2.9 million in 2003 (see Store Expansion and Expenditures for further discussion of past and expected outflows). Additionally, we invested a excess cash in auction-rate securities and had $5.0 million remaining at December 31, 2004.

Cash flows used in financing activities was $17.2 million in 2004 as compared to $29.2 milli
flows in both years were used to repay long-term debt and in 2003 to reduce borrowings under c
credit facilities. We used our revolving credit facilities on a very limited basis during 2004 and p
capital expenditures during early 2003.

Financings

We have revolving lines of credit available for general corporate purposes and as interim fina
expenditures. These credit facilities are syndicated with six commercial banks and comprised of
lines totaling $80.0 million that terminate in September 2005. Borrowings under these facilities
accrue interest at LIBOR plus a spread that is based on a fixed-charge coverage ratio. We had le
the amount of $4.8 million outstanding at December 31, 2004, and these amounts are considered
facilities usage. Our unused capacity was $75.2 million at December 31, 2004.

We reviewed all of our fixed-rate long-term debt in 2003 and repaid those facilities that did n
significant prepayment penalties or other issues that would make accelerating the payments prob

We pursue a diversified approach to our financing requirements and generally balance our fix
capped-rate debt as determined by the interest rate environment. Our overall debt capital structu
December 31, 2004, was approximately 60% unsecured and 85% with fixed rates of interest. Ou
has caused variable rate debt levels to move below typical levels. The average effective interest
borrowings (excluding capital leases and the VIE debt) was 8.5% at December 31, 2004. Our lo
debt-to-total capital ratio was 19.1 % at December 31, 2004, including the VIE debt.

The following summarizes our contractual obligations and commercial commitments as of D
(in thousands):

Contractual Obligations

		Payments Due by Period (in thousands)		
	Total	Less than 1 Year	1-3 Years	4- Yea
Long-term debt	$ 57,406	$ 13,178	$ 23,560	$ 20,
Capital lease obligations	7,092	7,092		
Operating leases	250,024	23,796	44,572	40,
Scheduled interest on long-term debt	10,596	3,644	5,127	1,
Other liabilities	7,983			
Purchase obligations	153	153		
Total contractual obligations	$ 333,254	$ 47,863	$ 73,259	$ 63,

Store Expansion and Capital Expenditures

We have entered several new markets and made continued improvements and relocations of
Our total selling square footage has increased an average of approximately 6% annually over the
During 2002, we opened the second largest amount of square footage in our history, opening eig

three larger relocated stores. The following outlines the changes in our selling square footage for
ended December 31, 2004 *(square footage in thousands)*:

Table of Contents

	2004		2003		
	# of Stores	Square Footage	# of Stores	Square Footage	# St
Stores opened	4	155	4	161	
Stores closed	1	6	2	50	
Year end balances	117	4,068	113	3,919	

We are expecting to add approximately 4% retail square footage during 2005 as we open a ne
new markets of Indianapolis, Indiana; Ft. Lauderdale, Florida; and Columbus, Ohio. We also pla
the Metro-DC area and replace two existing locations with a new store in Shreveport, Louisiana.

We plan to open approximately six stores in 2006. These include a location near Stonecrest M
Atlanta, a relocated store in south Dallas in the Cedar Hill area, a new store in Boca Raton, Flori
additional stores in Florida. We are aggressively evaluating other possible new locations which
become available in existing retail sites in the near term. Our strategy is to pursue opportunities
which we can serve using our existing distribution.

Our investing activities in stores and operations in 2003 and 2004 and planned outlays for 20
in the table below. Capital expenditures for stores in the years noted do not necessarily coincide
which the stores open. We have made purchases of properties that were previously recorded as c
and have shown those amounts in this table.

(In Thousands)	Proposed 2005	20
Stores:		
New stores	$ 26,500	$ 16
Remodels/Expansions	3,900	6
Maintenance	3,400	1
Total stores	33,800	24
Distribution:	7,700	17
Information Technology:	4,600	3
Total capital expenditures for new property and equipment	46,100	45
Purchases of assets in operations previously under lease		12
Total	$ 46,100	$ 58

We will be disposing of warehouses and land during 2005 and proceeds from these sales are
approximately $5 million. Cash balances, funds from operations, proceeds from sales of properti
of credit are expected to be adequate to finance our 2005 capital expenditures.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET

Market risk represents the potential Joss arising from adverse changes in the value of financia
The risk of loss is assessed based on the likelihood of adverse changes in fair values, cash flows
earnings.

Table of Contents

In the ordinary course of business, we are exposed to various market risks, including fluctuat
rates. To manage the exposure related to this risk, we may use various derivative transactions. A
policy, we do not engage in derivatives trading or other speculative activities. Moreover, we ent
instruments transactions with either major financial institutions or high credit-rated counter parti
limiting exposure to credit and performance-related risks.

We have exposure to floating interest rates through certain of our borrowings. Therefore, inte
fluctuate with changes in LIBOR and other benchmark rates. At December 31, 2004, we had tw
swap agreements with notional amounts totaling $20 million at rates between 5.75% and 5.72%
September 30, 2005. We do not believe a 100 basis point change in interest rates would have a s
impact on our operating results or financial position.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of independent auditors, the consolidated financial statements of Havertys and the
consolidated financial statements, and the supplementary financial information called for by this
forth on pages F-l to F-26 of this report. Specific financial statements and supplementary data ca
pages listed in the following index:

Index

Financial Statements

Report of Independent Registered Public Accounting Firm on the Financial Statements

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Stockholders Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Schedule II Valuation and Qualifying Accounts

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOU FINANCIAL DISCLOSURE

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Restatement

As more fully discussed in Note 2 to the Consolidated Financial Statements, we restated our p
financial statements as a result of conforming our accounting practices related to leases to those
SEC s letter of February 7, 2005 to the AICPA (the SEC Letter). In the SEC Letter the SEC
interpretation of certain generally accepted accounting principles (GAAP) related to leasehol
holidays and landlord/tenant incentives. Prior to the original filing of our Annual Report on For
year ended December 31, 2004, we made a review of our lease accounting practices particularly
term over which lease expense was being calculated as compared to the amortization term of rel
improvements. This review was carried out primarily based on the views on the matters express
Letter. As with many companies, our longstanding practice was to amortize leasehold improvem
estimated useful lives and to calculate rent expense based on the initial lease term. We corrected
practice to recognize rent expense and to amortize leasehold improvements over the shorter of th
useful lives or the lease term, including any renewal periods that are reasonably assured. As a re
an immaterial adjustment totaling approximately $360,000 in the fourth quarter of 2004 to corre
impact of not properly recognizing rent expense over the longer renewal lease term.

Subsequent to the March 16, 2005 filing of our Annual Report on Form 10-K and after revie
press releases issued by other companies and other public comments pertaining to these topics, v
further review of our lease accounting specifically as it related to rent expense during the norma
construction period. The Company s policy was to begin its computation of straight line rent at
commencement of the lease payments or when the leased site opened for business. However, ba
commentary and discussion on the views expressed in the SEC Letter, we learned that the perio
leased site was undergoing normal build-out construction and not a part of the contractual lease
considered a rent holiday by the SEC staff. Accordingly, our historical lease accounting pract
not conform to the accounting prescribed in the SEC Letter. Prior to the SEC Letter, we believe
accounting for rent during normal build-out construction was consistent with GAAP. Our belief
the fact that many others in the retail and restaurant industries and certain academicians similarl
lease accounting principle at issue and our external independent auditors had not suggested that
accordance with GAAP. After completing our analysis, management recommended to the Audit
the Audit Committee agreed with this recommendation, that previously reported financial result
restatement reflects the corrections in the Company s lease accounting practices for both rent
discussed in the previous paragraph, the recognition of rent expense over longer renewal lease te

The restatement was technically required even though: the adjustments did not have a materi
financial statements of prior interim or annual periods taken as a whole; the cumulative impact o
adjustments on stockholders equity was not material to the financial statements of prior interim
and there was no impact on the Company s current or future cash flows. Our previously issued
were restated solely because the cumulative impact of the change, if recorded in the current peri
been material to the current year s reported net income.

Table of Contents

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information r
Company and its consolidated subsidiaries required to be disclosed in our periodic filings under
is recorded, processed, summarized and reported in a timely manner in accordance with the requ
Exchange Act, and that such information is accumulated and communicated to management, inc
President and Chief Executive Officer and our Executive Vice President and Chief Financial Of
appropriate, to allow timely decisions regarding required disclosure. In connection with the resta
participation of our President and Chief Executive Officer and our Executive Vice President and
Officer, we reevaluated the effectiveness of the design and operation of these disclosure controls
as such term is defined in Exchange Act Rule 13a-15(e).

A material weakness in internal control over financial reporting is a control deficiency (withi
the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2), or comb
deficiencies, that results in there being more than a remote likelihood that a material misstateme
interim financial statements will not be prevented or detected. PCAOB Auditing Standard No. 2
number of circumstances that, because of their likely significant negative effect on internal contr
reporting, are to be regarded as at least significant deficiencies as well as strong indicators that a
weakness exists; including the restatement of previously issued financial statements to reflect th
misstatement. There are differing views with respect to restatements and their impact on the asse
company s internal control over financial reporting, particularly with respect to restatements ref
subsequent view of an accounting matter, and evaluating materiality. Accordingly, management
abundance of caution in making its assessment.

Based exclusively on our assessment of the clarifications expressed in the SEC Letter which r
restatement, we concluded there was a material weakness in our internal control over financial r
from the inappropriate application of GAAP related to lease accounting. Solely as a result of this
weakness, we concluded that our disclosure controls and procedures were not effective as of De

Remediation of Material Weakness in Internal Control and Changes in Internal Control o Reporting

We are confident that, as of the date of this filing, we have fully remediated the material weak
internal control over financial reporting with respect to lease accounting. We have assigned spec
accounting and reporting personnel together with our real estate department to review all new le
quarterly period. Specifically, these individuals, subject to a second level review, are responsible
with respect to each of our new leases:

A consistent lease period (generally, the initial non-cancelable lease term plus certain optio
failure to exercise such options would result in an economic penalty) is used when calculati
leasehold improvements and in determining straight-line rent expense and classification of
operating or capital; and

Commencement of the lease term and straight-line rent expense is calculated based on the d
Company takes possession and the right to control use of the leased premises.

In connection with this amended Form 10-K, under the direction of our President and Chief E
and our Executive Vice President and Chief Financial Officer, we have evaluated our disclosure
procedures currently in effect, including the remedial actions described above, and we have conc
this date, our disclosure controls and procedures are effective.

As previously reported, during the fourth quarter of 2004, new Accounts Payable and Genera
were installed at the Company with implementation assistance provided by third party consultin
a package solution licensed by a well known software vendor. Company Information System
personnel were involved with the set up, configuration and integration of the software with exist
procedures for approximately six months before the new software was activated in October of 2
software systems installed were

25

Table of Contents

viewed as a fundamental part of the Company s internal controls. The timing and extent of the c
and testing in conducting the evaluation of the effectiveness of these internal controls were signi
influenced by and specifically targeted to the new software systems, including procedures suffic
evaluate its design and operating effectiveness. The implementation took longer and required mo
effort than originally anticipated; however it was finished in time to allow for satisfactory compl
planned internal control testing and Management s assessment of internal control over financial
appropriately considered the results of the tests.

Subsequent to March 31, 2005, we took the remedial actions described above with respect to
accounting practices.

Management s Annual Report on Internal Control Over Financial Reporting (as revised)

The Company s management is responsible for establishing and maintaining effective intern
financial reporting, as such term is defined in Exchange Act Rules 13a-15(f), for the Company. U
supervision and with the participation of the Company s management, including the President a
Officer and the Executive Vice President and Chief Financial Officer, the Company assessed the
internal control over financial reporting as of December 31, 2004 based on the framework in *Inte*
Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway C

In the Company s Annual Report on Form 10-K for the year ended December 31, 2004, filed
2005, management concluded that our internal control over financial reporting was effective as o
2004. Based exclusively on the clarifications expressed in the SEC Letter, management identifie
weakness in internal control over financial reporting with respect to lease accounting.

This caused us to amend our Annual Report on Form 10-K for the year ended December 31, 2
restate the financial statements for the years ended December 31, 2004, 2003 and 2002 and to re
information for the years ended December 2001 and 2000 and each of the quarters in 2003 and 2
result of this material weakness related to lease accounting, our management has revised its earli
has now concluded that our internal control over financial reporting was not effective as of Dece

Havertys independent auditor, Ernst & Young LLP, a registered public accounting firm, has
report on our management s revised assessment of our internal control over financial reporting a
2004. This audit report follows.

Report of Independent Registered Public Accounting Firm on Internal Control Over Finan

To the Board of Directors and Shareholders of Haverty Furniture Companies, Inc.

We have audited management s assessment, included in the accompanying Management s Ann
Internal Control Over Financial Reporting (as revised), that Haverty Furniture Companies, Inc. d
effective internal control over financial reporting as of December 31, 2004, because of the effect
weakness in

the Company s internal control that arose from the Company s incorrect interpretation and app
accepted accounting principles relating to accounting for leases, based on criteria established in
Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway C
COSO criteria). Haverty Furniture Companies, Inc. s management is responsible for maintainin
control over financial reporting and for its assessment of the effectiveness of internal control ove
reporting. Our responsibility is to express an opinion on management s assessment and an opini
effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting O
(United States). Those standards require that we plan and perform the audit to obtain reasonable
whether effective internal control over financial reporting was maintained in all material respect
included obtaining an understanding of internal control over financial reporting, evaluating man
assessment, testing and evaluating the design and operating effectiveness of internal control, and
other procedures as we considered necessary in the circumstances. We believe that our audit pro
basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonab
regarding the reliability of financial reporting and the preparation of financial statements for ext
accordance with generally accepted accounting principles. A company s internal control over fi
includes those policies and procedures that (1) pertain to the maintenance of records that, in reas
accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) pr
assurance that transactions are recorded as necessary to permit preparation of financial statemen
with generally accepted accounting principles, and that receipts and expenditures of the compan
only in accordance with authorizations of management and directors of the company; and (3) pr
assurance regarding prevention or timely detection of unauthorized acquisition, use, or dispositi
company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or d
misstatements. Also, projections of any evaluation of effectiveness to future periods are subject
controls may become inadequate because of changes in conditions, or that the degree of complia
policies or procedures may deteriorate.

In our report dated March 15, 2005 we expressed an unqualified opinion on management s asse
Company maintained effective internal control over financial reporting and an unqualified opini
effectiveness of internal control over financial reporting. As described in the following paragrap
subsequently identified a misstatement in its annual and quarterly financial statements. Such a m
considered to be a material weakness as further discussed in the following paragraph. According
has revised its assessment about the effectiveness of the Company s internal control over financ
our present opinion on the effectiveness of the Company s internal control over financial report
December 31, 2004, as expressed herein, is different from that expressed in our previous report.

A material weakness is a control deficiency, or combination of control deficiencies, that results i
remote likelihood that a material misstatement of the annual or interim financial statements will
or detected. The following material weakness has been identified and included in management
Subsequent to December 31, 2004, management concluded that its historical accounting practic

Table of Contents

operating leases were not in accordance with generally accepted accounting principles due to ins
over the interpretation and application of generally accepted accounting principles related to leas
Management concluded that such incorrect interpretation and application of generally accepted a
principles related to lease accounting constituted a material weakness in internal control over fin
as of December 31, 2004. As a result of this material weakness in internal control, management
rental expense, as well as the related balance sheet accounts, were understated and that previousl
statements should be restated. See Note 2 to the consolidated financial statements for a full discu
effects of these changes to the Company s consolidated financial statements. This material weak
considered in determining the nature, timing, and extent of audit tests applied in our audit of the
consolidated financial statements, and this report does not affect our report dated June 24, 2005 o
consolidated financial statements.

In our opinion, management s revised assessment that Haverty Furniture Companies, Inc. did no
effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all
based on the COSO control criteria. Also, in our opinion, because of the effect of the material w
above on the achievement of the objectives of the control criteria, Haverty Furniture Companies
maintained effective internal control over financial reporting as of December 31, 2004, based on
control criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Ove
(United States), the consolidated balance sheets of Haverty Furniture Companies, Inc. and its su
December 31, 2004 and 2003, and the related consolidated statements of income, stockholders
flows for each of the three years in the period ended December 31, 2004 (as restated) and our rep
24, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
June 24, 2005

Table of Contents

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

We incorporate the information required by this item by reference to the sections captioned Election By Holders of Common Stock and Nominees for Election By Holders of Class A Co Section 16(a) Beneficial Ownership Reporting Compliance in our 2005 annual proxy stateme relating to executive officers of the Company is included in this report under Item 1 of Part I.

The Company has adopted a code of business conduct and ethics applicable to the Company officers (including the Company s principal executive officer, principal financial officer and co employees, known as the Code of Business Conduct and Ethics (the Code). The Code is avail Company s website at www. Havertys.com. In the event we amend or waive any provisions of t to our principal executive officer, principal financial officer or controller, we intend to disclose t Company s website. The information contained on or connected to our Internet website is not in reference into this Form 10-K and should not be considered part of this or any other report that w to the SEC.

On June 2, 2004, we filed with the New York Stock Exchange (NYSE) the Annual CEO C regarding the Company s compliance with the NYSE s Corporate Governance listing standards Section 303A-12(a) of the NYSE Listed Company Manual. In addition, the Company has filed a annual report and to the annual report on Form 10-K for the year ended December 31, 2003, the certifications of its Chief Executive Officer and its Chief Financial Officer required under Sectio Sarbanes-Oxley Act of 2002, regarding the quality of the Company s public disclosures.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in our 2005 annual proxy statement with respect to director and ex compensation, is incorporated herein by reference in response to this Item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MAN AND RELATED STOCKHOLDER MATTERS

The information contained in our 2005 annual proxy statement with respect to the ownership and Class A common stock by certain beneficial owners and management, and with respect to th compensation plans under which our equity securities are authorized for issuance, is incorporate reference to this Item.

For purposes of determining the aggregate market value of the Company s common stock an stock held by non-affiliates, shares held by all directors and executive officers of the Company h excluded. The exclusion of such shares is not intended to, and shall not, constitute a determinati

persons or entities may be affiliates of the Company as defined under the Securities Exchang

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained in our 2005 annual proxy statement with respect to related party t
incorporated herein by reference in response to this Item.

Table of Contents

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information set forth under the heading Audit Committee Matters in our 2005 annual
herein by reference in response to this Item.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. *Financial Statements:*

The following financial statements and notes thereto of Haverty Furniture Companies, Inc., a
Report of Independent Registered Public Accounting Firm are included in this Report:

Consolidated Balance Sheets December 31, 2004 and 2003 (as restated)
Consolidated Statements of Income Years ended December 31, 2004, 2003 and 2002 (as resta
Consolidated Statements of Stockholders Equity Years ended December 31, 2004,2003 and 2
Consolidated Statements of Cash Flows Years ended December 31, 2004, 2003 and 2002 (as r
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm on the Financial Statements

(a) 2. *Financial Statement Schedules:*

The following financial statement schedule of Haverty Furniture Companies, Inc. and related
Independent Registered Public Accounting Firm on the Financial Statements is filed as part of th
should be read in conjunction with the consolidated financial statements.

Schedule II Valuation and Qualifying Accounts

All other schedules have been omitted because they are inapplicable or the required informat
the financial statements or notes thereto.

(a) 3. *Exhibits:*

Reference is made to Item 15(b) of this Report.

(b) Each exhibit identified below is filed as part of this report. Exhibits not incorporated by refer
filing are designated by an * ; all exhibits not so designated are incorporated herein by referen
indicated. Exhibits designated with a + constitute a management contract or compensatory pl
Our SEC File Number is 1-14445 for all exhibits filed with Securities Exchange Act reports.

3.1 Articles of Incorporation of Haverty Furniture Companies, Inc., as amended and restated
and as amended April 24, 1979, and as amended April 24, 1985 (Exhibit 3.1 to our 1985
Form 10-Q); Amendment to the Articles of Incorporation dated April 25, 1986 (Exhibit 3
First Quarter Form 10-Q); Amendment to the Articles of Incorporation dated April 28, 19
to our 1989 Form 10-Q); Amendment to the Articles of Incorporation dated and April 28,

3.1.3 to our 1996 Form 10-K).

3.2 Amended and Restated By-Laws of Haverty Furniture Companies, Inc. as amended on Fe
(Exhibit 3.2 to our 2003 Form 10-K).

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4.1	Note Agreement between Haverty Furniture Companies, Inc. and The Prudential Purc Prudential Insurance Company of America) dated December 29, 1993 (Exhibit 4.1 to Form 10-K); First Amendment to the Note Agreement effective March 31, 1994, betw Furniture Companies, Inc. The Prudential Insurance Company of American (Exhibit 4 Form 10-K); Second Amendment to Note Agreement dated July 19, 1996, between H Companies, Inc. and The Prudential Insurance Company of America, as previously an (Exhibit 4.1.2 to our 1996 Form 10-K).
4.2	Credit Agreement dated March 27, 2002, among Haverty Furniture Companies, Inc., Services, Inc. and the Lenders Listed Therein, Agented by SunTrust Bank, Atlanta (E 2002 First Quarter Form 10-Q).
	No other instrument authorizes long-term debt securities in an amount in excess of ten the total assets of the Company. The Company agrees to furnish copies of instrument authorizing long-term debts of less than ten percent (10%) of its total assets to the Co request.
+10.1	Thrift Plan, as amended and restated, effective January 1, 2001 (Exhibit 10.3 to our 20 EGTRRA Amendment to Thrift Plan, effective January 1, 2002 (Exhibit 10.3.1) to ou Form 10-K); GUST Compliance Amendments Thrift Plan adopted January 29, 2003 a January 1, 2001 (Exhibit 10.3.2 to our 2003 Form 10-K).
+10.2	1993 Non-Qualified Stock Option Plan effective as of April 29, 1994 (Exhibit 5.1 to o Statement on Form S-8, File No. 33-53607).
+10.3	1998 Stock Option Plan, effective as of December 18, 1997 (Exhibit 10.1) to our Regi on Form S-8, File No. 333-53215); Amendment No. 1 to our 1998 Stock Option Plan July 27, 2001 (Exhibit 10.2 to our Registration Statement on Form S-8, File No. 333-6
+10.4	2004 Long-Term Incentive Compensation Plan effective as of May 10, 2004 (Exhibit Registration Statement on Form S-8, File No. 333-120352).
+10.4.1	Form of Restricted Stock Award Notice (Exhibit 10.1 to our Form 8-K dated Decemb
+10.5	Employee Stock Purchase Plan, as amended and restated as of October 29, 1999 (Exh 2000 Form 10-K); Amendment No. 1 to the Employee Stock Purchase Plan (Exhibit 1 Registration Statement on Form S-8; File No, 333-66010).
+10.6	Directors Compensation Plan effective as of April 26, l996(Exhibit l0.ll to our Secon Form 10-Q); Amendment No. 1 to the Directors Compensation Plan (Exhibit 10.8.1 10-K).
+10.7	Second Amendment and Restatement of Director s Deferred Compensation Plan (Exh 1996 Second Quarter Form 10-Q).

Table of Contents

+10.8	Supplemental Executive Retirement Plan, effective January 1, 1983 (Exhibit 10.3 to ou Form 10-K).
+10.9	Supplemental Executive Retirement Plan, effective January 1, 1996 (Exhibit 10.10 to o Form 10-K).
+10.10	Deferred Compensation Agreement between Haverty Furniture Companies, Inc. and R dated December 21, 1992 (Exhibit 10.9 to our 1993 Form 10-K).
+10.11	Form of Agreement dated January 1, 1997 Regarding Change in Control with the follo Executive Officers; Clarence H. Ridley, Dennis L. Fink, Clarence H. Smith and M. To (Exhibit 10.12 to our 1996 Form 10-K).
+10.12	Form of Agreement dated January 1, 1997, Regarding Change in Control with the follo directors: Rawson Haverty, Jr. (a named Executive Officer) (Exhibit 10.13 to our 1996
+10.13	Top Hat Mutual Fund Option Plan, effective as of January 15, 1999 (Exhibit 10.15 to o Form 10-K).
10.14	Lease Agreement dated July 26, 2001; Amendment No. 1 dated November, 2001 and A dated July 29, 2002 between Haverty Furniture Companies, Inc. as Tenant and John W Landlord (Exhibit 10.1 to our 2002 Third Quarter Form 10-Q).
10.15	Contract of Sale dated August 6, 2002, between Haverty Furniture Companies, Inc. as HAVERTACQll LLC, as Landlord (Exhibit 10.3 to our 2002 Form 10-Q).
10.16	Lease Agreement dated August 6, 2002, between Haverty Furniture Companies, Inc. as HAVERTACQII LLC, as Landlord (Exhibit 10.3 to our 2002 Third Quarter Form 10-Q
10.17	Base Salaries of Named Executive Officers of Haverty Furniture Companies, Inc. (Exh 2004 Form 10-K).
21	Subsidiaries of Haverty Furniture Companies, Inc. (Exhibit 21 to our 2004 Form 10-K)
*23.1	Consent of Ernst & Young LLP.
*31.1	Certification of Chief Executive Officer pursuant to sec. 302 of the Sarbanes-Oxley Ac
*31.2	Certification of Chief Financial Officer pursuant to sec. 302 of the Sarbanes-Oxley Act
*32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S adopted pursuant to sec. 906 of the Sarbanes-Oxley Act of 2002.
99.1	Cautionary Statement Relative to Forward-Looking Statements. (Exhibit 99.1 to our 20

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, t
duly caused this amendment No. 1 to Form 10-K to be signed on its behalf by the undersigned, t
authorized.

HAVERTY FURNITURE COMPANI

Date: June 27, 2005 By: /s/ Dennis L. Fin

Executive Vice Presid
Chief Financial Off

33

Table of Contents

Report of Independent Registered Public Accounting Firm on the Financial Statements

Board of Directors
Haverty Furniture Companies, Inc.

We have audited the accompanying restated consolidated balance sheets of Haverty Furniture C
and subsidiaries as of December 31, 2004 and 2003, and the related restated consolidated statem
stockholder s equity and cash flows for each of the three years in the period ended December 3
also included the financial statement schedule listed in the index at Item 15(a). These financial s
schedule are the responsibility of the Company s management. Our responsibility is to express
financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting C
(United States). Those standards require that we plan and perform the audit to obtain reasonable
whether the financial statements are free of material misstatement. An audit includes examining
evidence supporting the amounts and disclosures in the financial statements. An audit also inclu
accounting principles used and significant estimates made by management, as well as evaluatin
financial statement presentation. We believe that our audits provide a reasonable basis for our o

In our opinion, the financial statements referred to above present fairly, in all material respect, t
financial position of Haverty Furniture Companies, Inc. and subsidiaries at December 31, 2004
consolidated results of their operations and their cash flows for each of the three years in the pe
December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in
related financial statement schedule, when considered in relation to the basic financial statemen
whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2003 the Company adopted I
46, Consolidated of Variable Interest Entities.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its co
financial statements for each of the years in the three-year period ended December 31, 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Ove
(United States), the effectiveness of Haverty Furniture Companies, Inc. s internal control over f
as of December 31, 2004, based on criteria established in *Internal Control- Integrated Framewo*
Committee of Sponsoring Organizations of the Treadway Commission and our report dated Jun
expressed an unqualified opinion on management s assessment and an adverse opinion on the e
internal control over financial reporting.

/s/ Ernst & Young LLP

Atlanta, Georgia
June 24, 2005

Table of Contents

Consolidated Balance Sheets

(In thousands, except per share data)	Dec 2004 (as restated)
ASSETS	
Current assets	
Cash and cash equivalents	**$ 10,122**
Auction rate securities	**5,000**
Accounts receivable (Note 3)	**81,132**
Inventories (Note 4)	**110,812**
Prepaid expenses	**6,654**
Deferred income taxes (Note 8)	**2,249**
Other current assets	**14,453**
Total current assets	**230,422**
Accounts receivable, long-term (Note 3)	**9,396**
Property and equipment (Notes 5 and 9)	**205,037**
Other assets	**12,711**
	$ 457,566
LIABILITIES AND STOCKHOLDERS EQUITY	
Current liabilities	
Notes payable to banks (Note 6)	**$**
Accounts payable	**31,202**
Customer deposits	**24,040**
Accrued liabilities (Note 7)	**45,460**
Current portion of long-term debt and capital lease obligations (Notes 9 and 14)	**20,270**
Total current liabilities	**120,972**
Long-term debt and capital lease obligations, less current portion (Notes 9 and 14)	**44,228**
Other liabilities	**20,108**
Total liabilities	**185,308**
Commitments (Note 14)	
Stockholders equity (Notes 10 and 12)	
Capital Stock, par value $1 per share	
Preferred Stock Authorized - 1,000 shares; Issued: None	

Common Stock, Authorized - 50,000 shares: Issued: 2004 - 24,293; 2003 - 23,958 shares	**24,293**
Convertible Class A Common Stock, Authorized - 15,000 shares; Issued: 2004-4,840; 2003-4,916 shares	**4,840**
Additional paid-in capital	**55,108**
Long-term incentive plan deferred compensation	**(2,971**
Retained earnings	**250,511**
Accumulated other comprehensive loss	**(1,295**
Less treasury stock at cost Common Stock (2004 - 5,937 shares; 2003 - 5,943 shares) and Convertible Class A Common Stock (2004 and 2003 - 522 shares)	**(58,228**
Total stockholders equity	**272,258**
	$ 457,566

The accompanying notes are an integral part of these consolidated financial statements.

F-2

Table of Contents

Consolidated Statements of Income

(In thousands, except per share date)	Year Ended Dece 2004	 2003
	(as restated)	**(as restated)**
Net sales	**$ 784,162**	$ 744,63
Cost of goods sold	**386.789**	378,98
Gross profit	**397,373**	365,65
Credit service charges	**4,502**	6,39
Gross profit and other revenue	**401,875**	372,04
Expenses:		
Selling, general and administrative	**367,300**	330,35
Interest, net	**3,483**	3,87
Provision for doubtful accounts	**558**	1,97
Other (income) expense,	**(5,398)**	(2,15
Total expenses	**365,943**	334,05
Income before income taxes and cumulative effect of a change in accounting principle	**35,932**	37,98
Income taxes (Note *8)*	**13,296**	14,16
Income before cumulative effect of a change in accounting principle	**22,636**	23,82
Cumulative effect of a change in accounting Principle (Note 1)		1,05
Net income	**$ 22,636**	$ 24,87
Basic earnings per share, net income (Notes 1 and 13):		
Common Stock	**$ 1.01**	$ 1.1
Class A Common Stock	**$ 0.96**	$ 1.0
Diluted earnings per share, net income (Notes 1 and 13):		
Common Stock	**$ 0.98**	$ 1.1
Class A Common Stock	**$ 0.94**	$ 1.0
Weighted average common shares basic:		
Common Stock	**18,227**	17,50
Class A Common Stock	**4,343**	4,48

Weighted average assuming dilution:		
Common Stock	**23,083**	22,43
Class A Common Stock	**4,343**	4,48

The accompanying note are an integral part of these consolidated financial statements.

Haverty Furniture Com

Table of Contents

Consolidated Statements Of Stockholders   Equity

	Year Ended December 31,				
	2004		2003		
(*In thousands except per share data*)	**Shares**	**Dollars**	**Shares**	**Dollars**	**Sh**
Common Stock					
Beginning balance	23,957,629	$ 23,958	23,233,475	$ 23,233	22,5
Conversion of Class A Common Stock	75,816	76	132,240	132	1
Stock option transactions, net	260,198	259	591,914	593	5
Ending balance	24,293,643	24,293	23,957,629	23,958	23,2
Class A Common Stock:					
Beginning balance	4,916,046	4,916	5,048,286	5,048	5,2
Conversion to Common Stock	(75,816)	(76)	(132,240)	(132)	(1
Ending balance	4,840,230	4,840	4,916,046	4,916	5,0
Treasury Stock					
Beginning balance (includes 522,410 Class A shares for each of the years presented; remainder are Common shares)	6,465,198	(58,281)	6,449,345	(58,126)	6,4
Directors Plan	(5,640)	53	(9,147)	90	
Purchases			25,000	(245)	
Ending balance	6,459,558	(58,228)	6,465,198	(58,281)	6,4
Additional Paid-in Capital					
Beginning balance		49,019		42,365	
Stock option issuances		2,492		5,487	
Tax benefit from employees stock options		434		1,143	
Directors Plan		79		24	
Restricted stock grants		3,084			
Ending balance		55,108		49,019	
Long-term incentive plan deferred compensation:					
Beginning balance					
Restricted stock grants		(3,084)			
Amortization of unearned compensation		113			
Ending balance		(2,971)			

Retained Earnings:		
Beginning balance, January 1, 2002 (as previously reported)		
Cumulative effect of restatement on prior years		
Beginning balance (as restated)	233,425	213,630
Net income (as restated)	22,636	24,871
Cash dividends (Common stocks 2004 - $0.250, 2003 - $0.235, 2002 - $0.220 per share, Class A Common Stock: 2004 - $0.230, 2003 - $0.215, 2002 - $0.205 per share)	(5,550)	(5,076)
Ending balance (as restated)	250,511	233,425
Accumulated other comprehensive loss:	(1,881)	(2,389)
Beginning balance		
Change in derivatives, net of taxes (liability in 2004 - $348; 2003 - $192, and benefit in 2002 - $1,016)	586	508
Ending balance	(1,295)	(1,881)
Total Stockholders Equity (as restated)	$ 272,258	$ 251,156
Net income (as restated)	$ 22,636	$ 24,871
Other comprehensive income (loss), net of tax	586	508
Total comprehensive income (as restated)	$ 23,222	$ 25,379

The accompanying notes are an integral part of these consolidated financial statements.

F-4

Consolidated Statements of Cash Flows

(In thousands)	Year ended Dec	
	2004	2003
	(as restated)	(as restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 22,636**	$ 24,87
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle		(1,05
Depreciation and amortization	**19,145**	17,19
Provision for doubtful accounts	**558**	1,97
Tax benefit from stock option exercises	**434**	1,14
Deferred income taxes	**686**	57
Gain on sale of property and equipment	**(3,831)**	(31
Other	**93**	
Changes in operating assets and liabilities:		
Accounts receivable	**14,713**	26,03
Inventories	**(4,548)**	7,06
Customer deposits	**5,624**	2,11
Other assets and liabilities	**(8,528)**	2,67
Accounts payable and accrued liabilities	**2,372**	(28
NET CASH PROVIDED BY OPERATING ACTIVITIES	**49,354**	81,99
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	**(45,264)**	(21,20
Purchases of properties previously under leases	**(12,766)**	(6,68
Purchases of auction rate securities	**(20,000)**	
Proceeds from sale-leaseback transaction		
Proceeds from sale of property and equipment	**6,840**	2,89
Proceeds from sale of auction rate securities	**15,000**	
Other investing activities	**2,598**	(1
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(53,592)**	(25,01
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings under revolving credit facilities	**5,600**	208,40
Payments of borrowings under revolving credit facilities	**(5,600)**	(224,30
Net decrease in borrowings under revolving credit facilities		(15,90
Payments on long-term debt and capital lease obligations	**(14,432)**	(14,21
Treasury stock acquired		(15

Proceeds from exercise of stock options	**2,751**	6,08
Dividends paid	**(5,550)**	(5,07
Other financing activities		11
NET CASH USED IN FINANCING ACTIVITIES	**(17,231)**	(29,15
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(21,469)**	27,82
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**31,591**	3,76
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 10,122**	$ 31,59

The accompanying notes are an integral part of these consolidated financial statements.

F-5

Notes To Consolidated Financial Statements

Note 1, Summary Of Significant Accounting Policies:

Organization:

The Company is a full-service home furnishings retailer with 117 showrooms in 16 states. The C
broad line of residential furniture in the middle to upper-middle price ranges selected to appeal t
target market. As an added convenience to its customers, the Company offers financing through
revolving charge credit plan as well as a third party finance company.

Basis of Presentation:

The consolidated financial statements include the accounts of the Company and its wholly-owne
significant intercompany accounts and transactions have been eliminated in consolidation. The i
Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), Consolidation o
Entities on the Company s consolidation policy are discussed later in this Note.

Reclassifications:

Accounts Receivable. Prior to 2004, the Company classified all accounts receivable including an
contractually due beyond one year as current accounts receivable in accordance with industry pr
December 31, 2004 and 2003, the Company reclassified the portion estimated to be collected be
based on historical experience, as long-term accounts receivable in the accompanying consolida

In addition, at December 31, 2004 the Company reclassified deposits and advance payments on
merchandise from accounts receivable to customer deposits in the accompanying consolidated b
amount reclassified at December 31, 2003 totaled approximately $8,146,000.

Customer Deposits. In addition to the reclassification for deposits and advance payments describ
preceding paragraph, the Company also reclassified the undelivered cash sales liability from acc
customer deposits in the accompanying consolidated balance sheets. The amount of this reclassi
December 31, 2003 totaled approximately $10,269,000.

Other current assets and other assets (non-current). Certain December 31, 2003 retirement relat
reclassified from other current assets to other assets (non-current) in the consolidated balance sh
the 2004 presentation. The total amount of this reclassification was approximately $6,398,000 at
2003.

Accrued liabilities and other liabilities (non-current). In addition, certain December 31, 2003 re
liabilities were reclassified from accrued liabilities (current) to other liabilities (non-current) to c
2004 presentation. The total amount of this reclassification was approximately $2,898,000 at De

Certain other prior year amounts have also been reclassified to conform to the 2004 financial sta
presentation.

Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting p
management to make estimates and assumptions that affect the amounts reported in the financial
accompanying notes. Actual results could differ from those estimates.

Cash Equivalents:

The Company considers all liquid investments with a maturity of three months or less when purc
equivalents. Cash equivalents are stated at cost, which approximates fair market value.

F-6

Table of Contents

Auction Rate Securities:

The Company considers the auction rate securities which it holds as available-for-sale. The secu
advantaged municipal bonds maturing in 2024, in which the Company has invested excess cash.
auctioned and their interest rates reset every 30 days at which time the Company evaluates its co
investment. Interest earned on these securities is included in interest income. Any unrealized gai
not material.

Inventories:

Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-ou

Property and Equipment:

Property and equipment are stated at cost less accumulated depreciation and amortization. Depre
provided over the estimated useful lives of the assets using the straight-line method. Leasehold i
amortized over the shorter of the estimated useful life or the lease term of the related asset. Inves
property under capital leases are amortized over the related lease term.

Estimated useful lives for financial reporting purposes are as follows:

Buildings	25-33 years
Improvements	5-15 years
Furniture and Fixtures	3-15 years
Equipment	3-15 years
Capital leases	20-25 years

Customer Deposits:

Customer deposits consist of customer advance payments and deposits on credit sales for undeli
merchandise and cash collections on sales of undelivered merchandise.

Revenue Recognition:

The Company recognizes revenue from merchandise sales and related service fees upon delivery
A reserve for merchandise returns and customer allowances is estimated based on the Company
and allowance experience and current sales levels.

The Company typically offers its customers an opportunity for Havertys to deliver their purchas
of $14,122,000, $12,394,000 and, $10,605,000 were charged to customers in 2004, 2003 and 20
and are included in net sales. The costs associated with these deliveries are included in selling, g
administrative expenses and were $30,487,000, $26,760,000 and $22,556,000 in 2004, 2003 and
respectively.

Credit service charges, which are presented on a gross basis, arc recognized as revenue as assess
according to contract terms. The costs associated with credit approval, account servicing and col
included in selling, general and administrative expenses.

Cost of Goods Sold:

The Company s cost of goods sold includes the direct costs of products sold and related in-b

Selling, General and Administrative Expenses:

The Company s selling, general and administrative expenses are comprised of advertising, se
warehouse and delivery and administrative costs. The costs associated with the Company s purc
warehousing, delivery and other distribution costs included in selling, general and administrati
approximately $74,478,000, $71,330,000 and $61,766,000 million for the years ended Decembe
and 2002, respectively.

F-7

Notes To Consolidated Financial Statements

Advertising Expense:

Advertising costs, which include television, radio, newspaper and other media advertising, are e
showing. The total amount of advertising costs included in other current assets was approximate
December 31, 2004 and 2003. The Company incurred approximately $57,700,000, $52,600,000
in advertising costs during 2004, 2003 and 2002, respectively.

Deferred Escalating Minimum Rent:

Certain of the Company s operating leases contain predetermined fixed escalations of the minin
the term of the lease, which includes option periods where failure to exercise such options would
economic penalty. For these leases, the Company recognizes the related rental expense on a stra
over the life of the lease, beginning with the point at which the Company obtains control and po
leased properties, and records the difference between the amounts charged to operations and am
deferred escalating minimum rent. Any lease incentives received by the Company are deferred a
amortized over a straight-line basis over the life of the lease as a reduction of rent expense.

Interest expense, net:

Interest expense is comprised of amounts incurred related to the debt obligations of the Compan
any hedge ineffectiveness related to interest rate swaps and minor amounts of interest income. T
ineffectiveness recognized in earnings as a reduction of interest expense were approximately $1,
$446,000 in 2004 and 2003, respectively. There is expected to be reclassified into earnings an ac
in 2005. Interest income of approximately $327,000 is included in the amounts for 2004. The Co
capitalized approximately $490,000 in interest costs during 2004 and immaterial amounts in 200

Other (income) expenses, net:

The Company includes in this line item any gains or losses on sales of land, property and equipn
losses and changes in previously estimated losses and other miscellaneous type income or expen
are non-recurring by nature. The following are the significant gains or losses that have been incl
(income) expense, net. Gains from the sales of land, property and equipment were approximate
$316,000 and $4,580,000 for the years ended December 31,2004, 2003 and 2002, respectively. I
Company also had gains of approximately $900,000 from the early termination of a lease by its

Self Insurance:

The Company is self-insured for certain losses related to general liability and workers compens
expected ultimate cost for claims incurred as of the balance sheet date is discounted and is recog
liability. The expected ultimate cost of claims is estimated based upon analysis of historical data
estimates.

Fair Values of Financial Instruments:

The Company s financial instruments consist of cash, auction rate securities, accounts receivabl
payable, long-term debt and interest-rate swap agreements. The fair values of cash, auction rate
accounts receivable and accounts payable approximate their carrying values. The fair value of lo

which was $67,264,000 at December 31, 2004, was determined using quoted market prices for d
remaining maturity and other characteristics. The fair value of interest rate swap agreements is b
estimated amount the Company would pay to terminate the agreements at the reporting date, tak
current interest rates and the credit worthiness of the swap counterparties.

Derivative Instruments:

In June 1998, the FASB issued Statement No. 133, Accounting for Derivative Instruments and
which was amended by FASB Statement Nos. 137 and 138. The statements require the Compan
derivatives on the balance sheet at fair value and to establish criteria for designation and effectiv
relationships.

The Company uses derivative instruments to mitigate its interest risk and does not engage in der
other speculative activities. The Company recognizes derivatives as either assets or liabilities on
Balance Sheets and measures those instruments at fair value. At December 31, 2004 and 2003, t
the Company s derivatives were liabilities of $423,000 and $1,331,000, respectively.

Table of Contents

The derivatives entered into by the Company were designated as cash flow hedges. The effectiv
derivatives gain or loss has been reported as a component of accumulated other comprehensive
will be subsequently reclassified into earnings when the hedged exposure affects earnings.

Impairment of Long-Lived Assets:

The Company periodically reviews long-lived assets for impairment when circumstances indicat
amount of an asset may not be recoverable. An impairment charge is recognized to the extent th
undiscounted estimated future cash flows expected to result from the use of the asset is less than
value. Such charge includes any estimated loss on the sale of land and buildings, the book value
leasehold improvements and a provision for future lease obligations, less estimated sublease inc
January 1,2003, when the Company committed to relocate or close a store or warehouse within t
months, the estimated unrecoverable costs were charged to expense. The Company adopted FAS
effective January 1,2003, and accordingly, expense is now recognized when leased facilities are
Impairment losses and changes in previously estimated losses are included in other (income) e
Consolidated Statements of Income.

Earnings Per Share:

Effective for the quarter ended June 30,2004, the Company began reporting its earnings per shar
class method as required by the Emerging Issues Task Force (EITF). The EITF reached final co
No. 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128,
(SFAS 128), at their March 17, 2004 meeting. EITF 03-6 requires the income per share for eac
stock to be calculated assuming 100% of the Company s earnings are distributed as dividends t
common stock based on their contractual rights. See Note 9 for further discussion.

The effective result of EITF 03-6 is that the basic earnings per share for the Common stock is ap
105% of the basic earnings per share of the Class A Common Stock, Additionally, given the Co
capital structure, diluted earnings per share for Common Stock under EITF 03-6 will be the sam
previously reported using the if-converted method.

The amount of earnings used in calculating diluted earnings per share of Common Stock is equa
since the Class A shares are assumed to be converted. Diluted earnings per share of Class A Co
includes the effect of dilutive common stock options which reduces the amount of undistributed
to the Class A Common Stock. See Note 12 for the computational components of basic and dilu
share.

Stock-Based Compensation:

On December 16,2004, the Financial Accounting Standards Board (FASB) issued FASB Statem
(revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Acc
Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting
Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the
123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requi
payments to employees, including grants of employee stock options, to be recognized in the inc
based on their fair values. Pro forma disclosure is no longer an alternative.

Statement 123(R) must be adopted no later than July 1, 2005. Early adoption will be permitted i
financial statements have not yet been issued. We expect to adopt Statement 123(R) on July 1, 2

As permitted by Statement 123, the Company currently accounts for share-based payments to en
Opinion 25 s intrinsic value method and, as such, generally recognizes no compensation cost fo
options. Accordingly, the adoption of Statement 123(R) s fair value method will have a

Table of Contents

Notes To Consolidated Financial Statements

significant impact on our result of operations, although it will have no impact on our overall fina
The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depe
share-based payments granted in the future. However, had we adopted Statement 123(R) in prior
impact of that standard would have approximated the impact of Statement 123 as described in th
pro forma net income and earnings per share below. Statement 123(R) also requires the benefits
in excess of recognized compensation cost to be reported as a financing cash flow, rather than as
flow a required under current literature. This requirement will reduce net operating cash flows an
financing cash flows in periods after adoption. While the Company cannot estimate what those a
the future (because they depend on, among other things, when employees exercise Stock options
operating cash flows recognized in prior periods for such excess tax deductions were $434,000,
$1,328,000 in 2004, 2003 and 2002, respectively.

At December 31, 2004, the Company has three stock-based employee compensation plans, whic
more fully in Note 11. The Company accounts for those plans under the recognition and measure
of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretatio
employee compensation cost for any options is reflected in net income, as all options granted un
had an exercise price equal to the market value of the underlying common stock on the date of g
following table illustrates the effect on net income and earnings per share if the Company had ap
value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compe
stock-based employee compensation (in thousands, except per share amounts).

	2004	20
Net income, as reported	**$ 22,636**	$ 24
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	**(2,767)**	(2
Pro forma net income	**$ 19,869**	$ 21
Earnings per share:		
As reported:		
Basic:		
Common	**$ 1.01**	$
Class A	**$ 0.96**	$
Diluted:		
Common	**$ 0.98**	$
Class A	**$ 0.94**	$
Pro Forma:		
Basic:		
Common	**$ 0.89**	$
Class A	**$ 0.84**	$
Diluted:		
Common	**$ 0.87**	$
Class A	**$ 0.84**	$

Accounting and Disclosure Changes:

In November 2002, the Emerging Issues Task Force (EITF) issued EITF 02-16, Accounting by
Cash Consideration Received from a Vendor. This EITF places certain restrictions on the treat

F-10

of advertising allowances and requires vendor rebates to be treated as a reduction of inventory co
agreements entered into or significantly modified after November 30, 2002. The adoption of EIT
have a material impact on the Company s 2003 financial statements as most contracts were in p
effective date or allowances were tracked and identified with specific incremental advertising co
reclassified approximately $1,150,000 of allowances and rebates out of advertising and into cost
2003. All vendor allowances and rebates received during 2004 were recorded as a reduction in in

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or D
FAS No. 146 generally requires companies to recognize costs associated with exit or disposal ac
are incurred rather than at the date of a commitment to an exit or disposal plan. The Company ad
No. 146 on December 31, 2002. There was no material effect upon adoption of this statement.

In January 2003, the FASB issued and subsequently revised Interpretation No. 46 (FIN 46), Co
Variable Interest Entities. FIN 46 requires a variable interest entity to be consolidated by a com
company is subject to a majority of the risk of loss from the variable interest entity s activities o
a majority of the entity s residual returns or both (primary beneficiary). Currently, entities are g
consolidated by a company that has a controlling financial interest through ownership of a major
in the entity. FIN 46 is effective for companies that have interests in structures that are commonl
special purpose entities for periods ending after December 15, 2003. During 2003, the Company
was the primary beneficiary of a variable interest entity that is the lessor of a distribution center
locations used by the Company. The Company adopted the provisions of FIN 46 as of Decembe
recorded a cumulative effect of an accounting change of $1,050,000 (net of income tax expense
Consolidation of this entity increased property and equipment by $22,100,000, long-term debt b
created a minority interest of $1,000,000. Previously, this entity was not consolidated and the di
and retail locations were accounted for as an operating lease. The effect of consolidation of this e
years would have increased net income before the cumulative effect of an accounting change by
$300,000 in both 2003 and 2002.

NOTE 2 Restatement of Previously Issued Consolidated Financial Statements

The Company recently reviewed its lease accounting and determined that it was appropriate to re
consolidated financial statements for the fiscal years ended December 31, 2002 through 2004. T
related to lease accounting matters, including those discussed by the SEC in its February 7, 2005
Letter) to the American Institute of Certified Public Accountants (AICPA). In the SEC Lette
its views on the amortization of leasehold improvements, rent holidays and landlord/tenant incen

The Company first reported recording, in its earnings release for the year and quarter ended Dec
adjustments totaling $0.4 million to adjust straight-line rent expense and to correct its accounting
then discussed, it had been our policy to depreciate our property and equipment, including assets
properties, over the estimated useful lives of those assets. In some cases, these assets on leased p
depreciated over a period of time that included both the initial term of the lease and one or more
However, in certain instances, when calculating straight-line rent expense, the Company exclude
which had been included for depreciation purposes. In December 2004, the Company revised its
straight-line rent to include certain option periods where failure to exercise such options would r
economic penalty. As a result, the Company concluded that rent expense was cumulatively unde
$0.4 million as of December 31, 2004, and as the amount was immaterial, recorded the adjustme
then ended.

Subsequent to the issuance of the SEC letter, and the additional clarification from the SEC conc
acceptable accounting methods, we undertook an additional review of our accounting policies re
holidays. The adjustment described below changes our accounting practices to expense straight-
point at which the Company takes control and possession of a leased site (generally at the begin
construction). Previously, the Company began straight-lining of rent at the earlier of the dates ac
payments commenced or the opening of the store. The cumulative pre-tax adjustment of $2.8 mi
correct treatment for rent holidays and the adjustment for option periods noted above.

The impacts of these restatement adjustments on the consolidated financial statements are summ
thousands, except per share data):

	For the Year Ended Decen	
Income Statement Data	Previously Reported	Adjustments
Selling, general and administrative expenses	$ 367,058	$ 242
Income before income taxes	36,174	(242)
Income taxes	13,420	(124)
Net income	$ 22,754	$ (118)
Earnings per common share:		
Basic	$ 1.02	$ (.01)
Diluted	$ 0.99	$ (.01)

	For the Year Ended Decen	
Income Statement Data	Previously Reported	Adjustments
Selling, general and administrative expenses	$ 329,621	$ 736
Income before income taxes and cumulative effect of a change in accounting principle	38,725	(736)
Income taxes	14,444	(276)
Net income	$ 25,331	$ (460)
Earnings per common share:		
Basic	$ 1.17	$ (0.02)
Diluted	$ 1.13	$ (0.02)

	For the Year Ended Decen	
Income Statement Data	Previously Reported	Adjustments
Selling, general and administrative expenses	$ 304,016	$ 35

Income before income taxes		38,903		(35)
Income taxes		14,588		(13)
Net income	$	24,315	$	(22)
Earnings per common share:				
Basic	$	1.14	$	
Diluted	$	1.10	$	

	As of December 31,			
Balance Sheet Data	Previously Reported		Adjustments	
Accrued liabilities	$	50,584	$	(5,124)
Total current liabilities		126,096		(5,124)
(Included in Other liabilities):				
Deferred income taxes		1,151		(1,073)
Straight-line lease liabilities, long term				7,895
Total liabilities		183,610		1,698
Retained earnings		252,209		(1,698)
Total liabilities and stockholders equity	$	457,566	$	

	As of December 31,			
Balance Sheet Data	Previously Reported		Adjustments	
(Included in Other assets):				
Deferred income taxes	$		$	811
Total assets		441,796		811
Accrued liabilities		45,238		(3,658)
Total current liabilities		109,892		(3,658)
(Included in Other liabilities):				
Deferred income taxes		137		(137)
Straight-line lease liabilities, long term				6,186
Total liabilities		189,060		2,391

Retained earnings	235,005	(1,580)
Total liabilities and stockholders equity	$ 441,796	$ 811

Certain amounts in Notes 1, 7, 8, 13, 14 and 16 have been restated to reflect adjustments describ
restatement adjustments did not affect total cash flows provided by or used in operating, investi
activities for the fiscal years ended December 31, 2002 through 2004. The restatement adjustme
retained earnings as of January 1, 2002 by $1,098,000. The liability for accrued straight-line ren
reclassified from current to long-term in connection with the restatement and is reflected in the a
in recognition of the portion which will be realized in periods beyond one year.

Note 3, **Accounts Receivable:**

Amounts financed under Company credit programs were, as a percent of net sales, approximatel
25% in 2003 and 33% in 2002. Accounts receivable are shown net of the allowance for doubtful
$2,950,000 and $4,500,000 at December 31, 2004 and 2003, respectively. Accounts receivable t
payment terms (30 days to five years) and interest rates (0% to 21%) and are generally collatera
merchandise sold. Interest assessments are continued on past-due accounts but not interest on i

Accounts receivable balances resulting from certain credit promotions have scheduled payment
extend beyond one year. These receivable balances have been historically collected at a rate fast
scheduled rate. The portion of accounts receivable classified as long-term in the accompanying
balance sheets are determined based on our historical collection rate for those credit promotions
generally repaid earlier than the scheduled rate. The amounts due per the scheduled payment rat
$73,105,000 in 2005; $12,923,000 in 2006; $6,009,000 in 2007 and $1,441,000 in 2008 for rece
outstanding at December 31, 2004.

Amounts financed under Company credit programs with terms in excess of 12 months and beari
discounted when originated. Any unamortized discount is included as a reduction of the account
balance. The unamortized discounts were $889,000 and $532,000 at December 31, 2004 and 20

Notes to Consolidated Financial Statements

The Company provides an allowance for doubtful accounts utilizing a methodology which consi
in problem and delinquent categories of accounts, historical write-offs and management judgme
accounts are generally written off automatically after the passage of nine months without receivi
scheduled monthly payment. Accounts are written off sooner in the event of a discharged bankru
circumstances that make further collections unlikely. The Company assesses the adequacy of the
account at the end of each quarter.

The Company believes that the carrying value of existing customer receivables is the best estima
because of their short average maturity and estimated bad debt losses have been reserved. Conce
risk with respect to customer receivables are limited due to the large number of customers comp
Company s account base and their dispersion across 16 states.

Note 4, Inventories:

Inventories are measured using the last-in, first-out (LIFO) method of inventory valuation becau
better matching of current costs and revenues. The excess of current cost over such carrying valu
was approximately $16,936,000 and $16,190,000 at December 31,2004 and 2003, respectively.
valuation method as compared to the FIFO method had the effect on diluted earnings per comm
decreasing by $0.02 in 2004; increasing by $0.01 in 2003; and decreasing by $0.01 in 2002, assu
Company s effective tax rates were applied to changes in income resulting therefrom, and no ot
income were made.

Note 5, Property And Equipment:

Property and equipment are summarized as follows:

(in thousands)	**2004**
Land and improvements	**$ 43,1**
Buildings and improvements	**166,2**
Furniture and fixtures	**74,0**
Equipment	**25,2**
Buildings and equipment under capital leases	**7,5**
Construction in progress	**21,7**
	338,0
Less accumulated depreciation	**(132,3**
Less accumulated capital lease amortization	**(7**
Property and equipment, net	**$ 205,0**

Table of Contents

Note 6, Credit Arrangements:

At December 31,2004, the Company had $80,000,000 of bank revolving credit facilities with a g
comprised of two $40,000,000 agreements terminating September 30,2005. The Company did n
amounts under these facilities at December 31,2004. Amounts available are reduced by outstand
credit which were $4,773,000 at December 31, 2004. The facilities also have provisions for com

Note 7, Accrued Liabilities:

Accrued liabilities consist of the following:

(In thousands)	**20**
Employee compensation, related taxes and benefits	**$ 16**
Taxes other than income and withholding	**9**
Other	**19**
	$ 45

Note 8, Income Taxes:

Income tax expense (benefit) (allocated to income before the cumulative effect of a change in ac
in 2003) consists of the following:

(In thousands)	**2004**	**20**
Current		
Federal	**$ 11,476**	$ 12
State	**1,134**	
	12,610	13
Deferred		
Federal	**624**	
State	**62**	
	686	
	$ 13,296	$ 14

The differences between income tax expense in the accompanying consolidated financial statem
amount computed by applying the statutory Federal income tax rate is as follows:

(In thousand)	**2004**	**20**

Statutory rates applied to income before income taxes	**$ 12,576**	$ 13
State income taxes, net of Federal tax benefit	**777**	
Other	**(57)**	
	$ 13,296	$ 14

F-13

Table of Contents

Notes to Consolidated Financial Statements

Deferred tax assets and liabilities as of December 31,2004 and 2003 were as follows:

(In thousands)	**2**
Deferred tax assets:	
Accrued liabilities	**$**
Net property and equipment	
Leases	
Derivatives	
Total deferred tax assets	
Deferred tax liabilities:	
Accounts receivable related	
Inventory related	
Other	
Total deferred tax liabilities	
Net deferred tax assets	**$**

The amounts per the table above are grouped based on broad categories of items that generate th
assets and liabilities. Deferred tax assets and deferred tax liabilities which are current are netted
as are non-current deferred tax assets and non-current deferred liabilities as they relate to each ta
component in accordance with SFAS No. 109, Accounting for Income Taxes for presentation
sheets. These are detailed in the table below:

(In thousands)	**20**
Current assets (liabilities):	
Current deferred assets	**$ 4**
Current deferred liabilities	**(1**
	2
Non-current assets (liabilities):	
Non-current deferred assets	**5**
Non-current deferred liabilities	**(5**
Net deferred tax assets	**$ 2**

F-14

Table of Contents

Note 9, Long-term Debt and Capital Lease Obligations:

Long-term debt and capital lease obligations arc summarized as follows:

(In thousands)	**20**
Revolving credit notes (a)	**$**
Unsecured term note (b)	**8**
7.95% unsecured term note (c)	**10**
7.44% unsecured term note (d)	**10**
7.16% unsecured term note (e)	**10**
7.78% secured debt (f)	**18**
Secured debt (g)	
Capital lease obligations (h)	**7**
	64
Less portion classified as current	**20**
	$ 44

(a) The Company has revolving credit facilities as described in Note 6. Borrowings under these floating rate of interest of LIBOR plus a spread which is based on a fixed charge coverage r 2005.

(b) The term note is payable in quarterly installments of $1,000,000 plus interest and matures ir The note has a floating rate of interest of LIBOR plus 0.7%.

(c) The note is payable in semi-annual installments of $500,000, increasing to $2,000,000 comr February 2007. The note matures in August 2008 and interest is payable quarterly.

(d) The note is payable in semi-annual installments of $1,250,000 plus interest payable quarterl October 2008.

(e) The note is payable in semi-annual installments of $2,143,000 plus interest payable quarterl April 2007.

(f) This debt is recorded in accordance with the consolidation requirements of FIN 46. The deb note with semi-annual payments of interest and principal of $1,332,000 and matures in Apri balloon payment of $12,000,000. Property with a net book value at December 31, 2004 of $ pledged as collateral on this debt.

(g) Secured debt is comprised of primarily a mortgage note with a floating rate of interest basec 0.75% (note rate of 3.31% at December 31, 2004) due in 2007. Property and equipment witl at December 31, 2004 of $593,000 is pledged as collateral on these secured debt instrument

(h)

Capital lease obligation is for a home delivery center with a net book value of $6,843,000 at
2004. The Company purchased the property from the lessor in March 2005, and, therefore, t
obligation is classified as current in the consolidated balance sheets at December 31, 2004.

The Company s debt agreements require, among other things, that the Company: (a) meet certa
requirements; (b) limit the type and amount of indebtedness incurred; (c) limit operating lease re
(d) grant certain lenders identical security for any liens placed upon the Company s assets, othe
specifically permitted in the loan agreements. The debt agreements also contain cross-default pr
Covenants under the revolving credit notes include tests for minimum fixed charge coverage and
and maximum levels of adjusted debt to total adjusted capital. The Company is in compliance w
of the debt agreements and revolving notes at December 31, 2004.

F-15

Table of Contents

Notes To Consolidated Financial Statements

The aggregate maturities of long-term debt and capital lease obligations during the five years su
December 31, 2004 are as follows: 2005 - $20,270,000; 2006 - $13,310,000; 2007 - $10,250,00
$8,104,000; and 2009 - $12,561,000.

Cash payments for interest were $5,595,000, $4,224,000 and $8,507,000 in 2004, 2003 and 200

Note 10, Stockholders Equity:

Common Stock has a preferential dividend rate of at least 105% of the dividend paid on Class A
Class A Common Stock has greater voting rights which include: voting as a separate class for th
of the total number of directors of the Company and on all other matters subject to shareholder v
Class A Common Stock has ten votes and votes with the Common Stock as a single class. Class
is convertible at the holder s option at any time into Common Stock on a 1 -for-1 basis; Comm
convertible into Class A Common Stock. There is no present plan for issuance of Preferred Stoc

Note 11, Benefit Plans:

The Company has a defined benefit pension plan covering substantially all employees. The bene
years of service and the employee s final average compensation. The Company s funding polic
annually an amount which is within the range of the minimum required contribution and the ma
that can be deducted for Federal income tax purposes. Contributions are intended to provide not
attributed to service to date but also for those expected to be earned in the future.

The following table sets forth the plan s funded status and amounts recognized in the Company
Balance Sheets at December 31:

(In thousand)	**20**
Change in benefit obligation:	
Benefit obligation at beginning of year	**$ 51**
Service cost	**2**
Interest cost	**3**
Actuarial losses	**3**
Benefits paid	**(2**
Benefit obligation at end of year	**57**
Change in plan assets:	
Fair value of plan assets at beginning of year	**53**
Employer contribution	**2**
Actual return on plan assets	**3**
Benefits paid	**(2**
Fair value of plan assets at end of year	**56**
Funded status of the Plan over (under) funded	**(1**

Unrecognized actuarial loss	**4**
Unrecognized prior service cost	
Prepaid pension expense included in the Consolidated Balance Sheets	**$ 3**

Table of Contents

The accumulated benefit obligation for the defined benefit pension plan was $51,575,000 and $4
December 31,2004 and 2003, respectively.

Net pension cost included the following components:

(In Thousands)	**2004**	20
Service cost-benefits earned during the period	**$ 2,529**	$ 2
Interest cost on projected benefit obligation	**3,138**	3
Expected return on plan assets	**(3,915)**	(3
Amortization of prior service cost	**133**	
Amortization of actuarial gain		
Net pension cost	**$ 1,885**	$ 2

Assumptions

The Company uses a measurement date of December 31 for its pension and other benefit plans.
assumptions used to determine benefit obligations at December 31:

	20
Discount rate	**5**
Rate of compensation increase	**2**

Weighted-average assumptions used to determine net periodic benefit cost for years ended Dece

	20
Discount rate	**6**
Expected long-term return on plan assets	**7**
Rate of compensation increase	**3**

To develop the expected long-term rate of return on assets assumption, the Company considered
returns and the future expectations for returns for each asset class, as well as the target asset allo
pension portfolio. This resulted in the selection of the 7.50% long-term rate of return on assets a

Plan Assets

The pension plan weighted-average asset allocations at December 31, 2004, and 2003, by asset c
follows:

Asset Category	**20**

Equity securities
Debt securities
Cash

Total

Investment Objectives and Asset Strategy

The Executive Compensation and Employee Benefits Committee (the Committee) of the Boa
responsible for administering the Company s pension plan. The primary investment objective o
ensure, over the long term life of the plan, an adequate pool of assets to support the benefit

Table of Contents

Notes To Consolidated Financial Statements

obligations to participants, retirees and beneficiaries. An important secondary objective of the pl
improve the plan s funded status therefore reducing employer contributions and, ultimately, allo
maintaining or improving of overall benefit levels. In meeting these objectives, the Committee s
high level of investment return consistent with a prudent level of portfolio risk.

The assets of the plan are being invested according to the following asset allocation guidelines, e
reflect the growth expectations and risk tolerance of the Committee.

Security Class	Strategic Target
Equity:	
Domestic Equity Diversified Portfolio	50%
Haverty Common Stock	10%
Total Equity	60%
U.S. Fixed Income	40%
Cash	0%
Total Fund	100%

Equity securities include 203,500 shares of the Company s Class A Common Stock with an agg
$3,633,000 (6.5 % of total plan assets) at December 31, 2004. The plan received $47,000 in divi
shares in 2004.

The Company expects to contribute $3,500,000 to its pension plan in 2005.

The following benefits payments, which reflect expected future service, as appropriate, are expe
thousands);

Year(s)
2005
2006
2007
2008
2009
2010-2014

Other Plans

The Company has a non-qualified, non-contributory supplemental executive retirement plan (SE
two retired executive officers. The SERP provides annual supplemental retirement benefits to th
amounting to 55% of final average earnings less benefits payable from the Company s defined

and Social Security benefits. The Company also has a non-qualified, non-contributory SERP for
retirement benefits are reduced due to their annual compensation levels. The total amount of ann
benefits that may be paid to an eligible participant in the SERP from all sources (Retirement Pla
and the SERP) may not exceed $125,000. Under the plans, which are not funded, the Company p
directly to covered participants beginning at their retirement. At December 31, 2004, the project
obligation for these plans totaled $2,842,000 of which $2,320,000 is included in the accompanyi
Balance Sheet Pension expense recorded under the SERPs amounted to approximately $206,000
$626,000 for 2004, 2003 and 2002, respectively.

Table of Contents

The Company has an employee savings/retirement (401k) plan to which substantially all employ
contribute. The Company matches employee contributions to the extent of 50% of the first 2% o
25% of the next 4% contributed by participants. The Company expensed approximately $1,416,
$1,347,000 in 2003 and $1,355,000 in 2002 in matching employer contributions under this plan.

The Company offers no post-retirement benefits other than pensions and no significant post-emp

Note 12, Stock Based Compensation Plans:

The Executive Compensation and Employee Benefits Committee (the Committee) of the Boa
serves as Administrator for the Company s stock based compensation plans. The Company s sl
the 2004 Long Term Incentive Plan (the 2004 LTIP Plan) which provides greater flexibility
equity compensation vehicles than the 1998 Stock Option Plan (the 1998 Plan). Awards and
by the Committee to officers and non-officer employees. As of December 31,2004, the maximu
option shares which may be granted under the 1998 Plan was 17,900 and 922,250 shares were a
awards and options under the 2004 LTIP Plan.

The table below summarizes options activity for the past three years under the Company s 1998

	Option Shares
Outstanding at December 31, 2001	2,922,150
Granted	564,300
Exercised	(566,450)
Canceled	(50,300)
Outstanding at December 31, 2002	2,869,700
Granted	511,000
Exercised	(599,500)
Canceled	(89,700)
Outstanding at December 31, 2003	2,691,500
Granted	91,700
Exercised	(285,200)
Canceled	(41,500)
Outstanding at December 31, 2004	**2,456,500**
Exercisable at December 31, 2004	**1,438,200**
Exercisable at December 31, 2003	1,236,200

Exercisable at December 31, 2002	1,307,850

All of the options outstanding at December 31, 2004 were for Common Stock. Exercise prices fo
outstanding as of December 31, 2004 ranged from $6.94 to $20.75.

F-19

Table of Contents

Notes To Consolidated Financial Statements

The following table summarizes information about the stock options outstanding as of Decembe

	Options Outstanding			Optio
Range of Exercise Prices	**Number Outstanding**	**Weighted Average Remaining Contractual Life (Years)**	**Weighted Average Exercise Price**	**Numbe Exercisa**
$ 6.94 - 10.13	180,700	3.8	$ 9.39	180,7
10.81 - 15.94	1,697,600	6.6	13.80	1,204,0
17.01 - 20.75	578,200	6.3	19.85	53,5
$ 6.94 - 20.75	2,456,500	6.3	$ 14.90	1,438,2

Options vest over periods from within one year of grant date increasing to four years as the num granted to an individual increases. Options granted before December 1,2003 have maximum ter grants after that date have maximum terms of 7 years.

The Company is transitioning from the use of options to restricted stock awards in its long-term compensation strategy and accordingly, many participants received a mix of stock options and r awards in 2004.

In December 2004, the Company issued 161,750 shares of restricted stock under the 2004 LTIP employees. The awards of 22,950 shares vest in 16 months and the remaining 138,800 shares ve increments beginning in May 2006 provided the recipient is still employed by the Company. Ve accelerate if the Company reaches certain financial goals set by the Committee. The non-emplo received a total of 16,000 shares of restricted stock in November 2004 which vest in six months date. The aggregate market value of the restricted stock at the dates of issuance of $3,084,000 ha as deferred compensation, a separate component of stockholders equity, and is being amortize vesting periods. Restricted stock compensation charged to expense was $113,000 for 2004.

In addition, the Company had shares available for future purchases under the Employee Stock P December 31, 2004. This Plan promotes broad-based employee ownership and provides employ way to acquire Company stock. The Plan is a qualified plan under Section 423 of the Internal Re meets the requirements of APB 25 as a non-compensatory plan. The Plan enables the Company purchase up to 2,000,000 shares of Common Stock, of which 1,536,000 shares have been exerci of the Plan in 1992, at a price equal to the lesser of (a) 85% of the stock s fair market value at th (b) 85% of the stock s fair market value at the exercise date.

Shares purchased may not exceed 10% of the employee s annual compensation, as defined, or $ Stock at its fair market value (determined at the time such option is granted) for any one calenda pay for the shares ratably over a period of six months (the purchase period) through payroll dedu

cannot exercise their option to purchase any of the shares until the conclusion of the purchase pe
an employee elects not to exercise such option, the full amount withheld *is* refundable, During 2
25,700 shares were exercised at an average price of $15.92 per share. At December 31, 2004, op
shares were outstanding at an option price of $15.09 per share.

Pro forma information regarding net income and earnings per share required by FAS 123 is prov
For purposes of pro forma disclosures, the estimated fair value of the options is amortized to exp
options vesting period.

Table of Contents

The weighted-average fair value for these options was estimated at the date of grant using a Blac
pricing model with the following weighted-average assumptions:

	2004	**2(**
Risk-free interest rate	**3.5%**	
Expected life in years	**5.0**	
Expected volatility	**45.6%**	4
Expected dividend yield	**1.40%**	1
Estimated fair value of options granted per share	**$ 6.77**	$ 8

The Black-Scholes option valuation model was developed for use in estimating the fair value of
which have no vesting restrictions and are fully transferable. In addition, option valuation model
of highly subjective assumptions including the expected stock price volatility. Because the Com
stock options have characteristics significantly different from those of traded options, and becau
subjective input assumptions can materially affect the fair value estimate, in management s opi
models do not provide a reliable single measure of the fair value of its employee stock options.

Note 13, Earnings Per Share:

The Company adopted the provisions of FIN 46 as of December 31, 2003, and recorded a cumul
accounting change of $1,050,000. The computational components of basic and diluted earnings
Company s two classes of stock are as follows:

(In thousands except per share amounts)	**2004**	2
Income before cumulative effect of a change in accounting principle	**$ 22,636**	$ 23
Cumulative effect of a change in accounting principle		1
Net income	**$ 22,636**	$ 24

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

	2004	
Common:		
Weighted average shares outstanding	**18,227**	17
Assumed conversion of Class A Common shares	**4,343**	4
Dilutive options	**513**	
Total weighted-average diluted Common shares	**23,083**	22

F-21

Table of Contents

notes to consolidated financial statements

	2004	
Basic earnings per share:		
Common Stock		
Income before cumulative effect of a change in accounting principle	**$ 1.01**	$
Cumulative effect of a change in accounting principle		
Net income	**$ 1.01**	$
Class A Common Stock:		
Income before cumulative effect of a change in accounting principle	**$ 0.96**	$
Cumulative effect of a change in accounting principle		
Net income	**$ 0.96**	$
Diluted earnings per share:		
Common Stock:		
Income before cumulative effect of a change in accounting principle	**$ 0.98**	$
Cumulative effect of a change in accounting principle		
Net income	**$ 0.98**	$
Class A Common Stock:		
Income before cumulative effect of a change in accounting principle	**$ 0.94**	$
Cumulative effect of a change in accounting principle		
Net income	**$ 0.94**	$

During 2002 options outstanding for 482,000 shares and their related exercise prices of $12.50 a
not included in the computation of diluted earnings per common share because their exercise pri
than the average market price of the shares and, therefore, the effect would be antidilutive.

Table of Contents

Note 14, Commitments:

The Company leases certain property and equipment. Initial lease terms range from 5 years to 3(
leases contain renewal options ranging from 1 to 25 years or provide for options to purchase the
at fair market value or at predetermined purchase prices. The leases generally require the Compa
maintenance, property taxes and insurance costs.

(in thousands)	
2005	$
2006	
2007	
2008	
2009	
Subsequent to 2009	
Total minimum payments	
Less total minimum sublease rentals	
Net minimum lease payments	$

Step rent and escalation clauses and other lease concessions (free rent periods) are taken into acc
computing lease expense on a straight-line basis. Lease concessions for capital improvements ha
significant, but are recorded as a reduction of expense over the term of the lease. Net rental expe
operating leases consisted of the following:

(In thousands)	**2004**	**20**
Property		
Minimum	**$ 25,800**	$ 27
Additional rentals based on sales	**847**	
Sublease income	**(2,172)**	(2
	24,475	26
Equipment	**4,330**	3
	$ 28,805	$ 29

The Company had a capital lease obligation of $7,092,000 at December 31, 2004. During March
Company purchased the property from the lessor (See Note 9).

Note 15, Supplemental Cash Flow Information:

Income Taxes Paid

The Company paid state and federal income taxes of $11,164,000, $9,912,000 and $14,144,000,
and 2002, respectively. The Company also received income tax refunds of $175,000, $4,851,000
in 2004, 2003 and 2002, respectively.

Non-Cash Transactions

The Company recorded the tax benefit from the exercise of non-qualified stock options and disq
dispositions of stock options as a reduction of its income tax liability and as additional paid-in ca
amount of $434,000, $1,143,000 and $1,328,000 for 2004, 2003 and 2002, respectively.

F-23

Table of Contents

Notes To Consolidated Financial Statements

Note 16, Selected Quarterly

Financial Data (Unaudited):

The following is a summary of the unaudited quarterly results of operations for the years ended I
2004 and 2003 (in thousands, except per share data):

	2004 Quarter Ended		
	Mar. 31(a)	**Jun. 30**	**Sept. 30(b**
	(as reported)	(as reported)	(as reported)
Net sales	**$ 190,301**	**$ 179,614**	**$ 197,44**
Gross profit	**97,962**	**90,654**	**99,11**
Credit service charges	**1,304**	**1,163**	**99**
Net income	**6,150**	**3,745**	**4,28**
Basic earnings per share:			
Common	**0.28**	**0.17**	**0.1**
Class A Common	**0.26**	**0.16**	**0.1**
Diluted earnings per share:			
Common	**0.27**	**0.16**	**0.1**
Class A Common	**0.26**	**0.16**	**0.1**

	2003 Quarter Ended		
	Mar. 31(a)	**Jun. 30(a)**	**Sept. 30(a**
	(as reported)	(as reported)	(as reported)
Net sales	$ 175,380	$ 168,634	$ 195,35
Gross profit	85,912	80,646	95,81
Credit service charges	1,892	1,629	1,49
Income before accounting change	4,898	2,137	7,39
Net Income	4,898	2,137	7,39
Basic earnings per share:			
Common:			
Income before accounting change	0.23	0.10	0.3
Net income	0.23	0.10	0.3
Class A Common:			
Income before accounting change	0.21	0.09	0.3
Net income	0.21	0.09	0.3
Diluted earnings per share:			
Common:			

Income before accounting change	0.22	0.10	0.3
Net income	0.22	0.10	0.3
Class A Common:			
Income before accounting change	0.21	0.09	0.3
Net income	0.21	0.09	0.3

	2004 Quarter Ended(e		
	Mar. 31 (a)	**Jun. 30**	**Sept. 30(b**
	(as restated)	(as restated)	(as restated)
Net Sales	**$ 190,301**	**$ 179,614**	**$ 197,44**
Gross Profit	**97,962**	**90,654**	**99,11**
Credit service charges	**1,304**	**1,163**	**99**
Net income	**6,047**	**3,646**	**4,23**
Basic earnings per share:			
Common	**0.27**	**0.16**	**0.1**
Class A Common	**0.26**	**0.15**	**0.1**
Diluted earnings per share:			
Common	**0.26**	**0.16**	**0.1**
Class A Common	**0.25**	**0.15**	**0.1**

	2003 Quarter Ended(e		
	Mar. 31(a)	**Jun. 30(a)**	**Sept. 30(a**
	(as restated)	(as restated)	(as restated)
Net Sales	$ 175,380	$ 168,634	$ 195,35
Gross Profit	85,912	80,646	95,81
Credit service charges	1,892	1,629	1,49
Income before cumulative effect of a change in accounting principle	4,733	2,018	7,33
Net Income	4,733	2,018	7,33
Basic earnings per share:			
Common:			
Income before cumulative effect of a change in accounting principle	0.22	0.09	0.3
Net Income	0.22	0.09	0.3
Class A Common:			
Income before cumulative effect of a change in accounting principle	0.21	0.09	0.3
Net income	0.21	0.09	0.3
Diluted earnings per share:			
Common:			

Income before cumulative effect of a change in accounting principle	0.22	0.09	0.32
Net income	0.22	0.09	0.32
Class A Common:			
Income before cumulative effect of a change in accounting principle	0.21	0.09	0.31
Net income	0.21	0.09	0.31

Because of the method used in calculating per share data, the quarterly per share data will not ne the per share data as computed for the year.

(a) During the second quarter of 2004, we adopted EITF 03-6 which requires us to report our using the two-class method (see Notes 1 and 12). As a result, the presentation of per share first quarter of 2004 and all of the quarters of 2003 differ from previous presentations repo 10-Q filed for those respective periods except that diluted earnings per share for Common change as compared to previously reported diluted earnings per share.

(b) During the third quarter of 2004, we determined that the warranties provided by a third pa to our customers were being undercosted in the financial statements. As we reported in ou that period we made an adjustment of $1.2 million to increase cost of goods sold. The am individual prior periods related to this adjustment were not material.

(c) We changed our group medical insurance carrier as of January 1, 2005. During the evalua to this change, we determined that approximately $1.1 million in expense should have bee prior periods based on the terms of our policy. This amount was charged to SG&A in the

In the fourth quarter of 2004, we recorded approximately $800,000 in vendor rebates and reduction of inventory costs related to purchases and agreements that were in place since and earned during the first three quarters of 2004.

(d) During the fourth quarter of 2003, we adopted FIN 46 (see Note 1). In applying the provis Interpretation we recorded a cumulative effect of an accounting change of $1.05 million.

(e) The 2004 and 2003 quarterly results of operations have been restated to give effect to the discussed in Note 2.

Note 17, Market Prices and Dividend Information:

The Company s two classes of common stock trade on The New York Stock Exchange. The tra Common Stock is HVT and for Class A Common Stock is HVT,A The table below sets forth th sales prices per share as reported on the NYSE and the dividends paid for the last two years:

		2004				
		Common Stock			**Class**	
Quarter Ended		**High**	**Low**	**Dividend Declared**	**High**	**L**
March	**31**	**$ 23.98**	**$ 19.35**	**$ 0.0625**	**$ 23.80**	**$ 1**
June	**30**	**21.62**	**16.32**	**0.0625**	**21.55**	**1**
September	**30**	**18.76**	**16.00**	**0.0625**	**18.52**	**1**
December	**31**	**21.09**	**16.50**	**0.0625**	**20.35**	**1**

		2003				
		Common Stock			**Class**	
Quarter Ended		**High**	**Low**	**Dividend**	**High**	**L**
March	31	$ 13.81	$ 9.35	$ 0.0575	$ 13.79	$
June	30	17.50	10.39	0.0575	17.30	1
September	30	21.19	14.85	0.0575	21.00	1
December	31	24.60	18.80	0.0625	24.30	1

Based on the number of individual participants represented by security position listings, there ar 3,000 holders of the Common Stock and 200 holders of the Class A Common Stock.

Table of Contents

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES

Column A	Column B	Column C Additions	Column
(in thousands)	**Balance at beginning of period**	**charged to costs and expenses**	**Deductio describ (1)(2)**
Year ended December 31, 2004:			
Allowance for doubtful accounts	**$ 4,500**	**$ 558**	**$ 2,**
Reserve for cancelled sales and allowances	**$ 1,800**	**$ 13,330**	**$ 13,**
Year ended December 31, 2003:			
Allowance for doubtful accounts	$ 5,800	$ 1,979	$ 3,
Reserve for cancelled sales and allowances	$ 1,800	$ 12,626	$ 12,
Year ended December 31, 2002:			
Allowance for doubtful accounts	$ 6,900	$ 3,180	$ 4,
Reserve for cancelled sales and allowances	$ 1,800	$ 11,888	$ 11,

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(1) Allowance for doubtful accounts: uncollectible accounts written off, net of recoveries and value of repossessions.

(2) Reserve for cancelled sales and allowances: impact of sales cancelled after delivery plus a allowance given to customers.