HAVERTY FURNITURE COMPANIES INC
Form 10-K
March 07, 2014

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

FORM 10-K

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______
Commission file number: 1-1445

HAVERTY FURNITURE COMPANIES, INC.

Maryland	58-0281900
(State of Incorporation)	(IRS Employer Identification Number)

780 Johnson Ferry Road, Suite 800 Atlanta, Georgia	30342
(Address of principal executive offices)	(Zip Code)

(404) 443-2900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common Stock ($1.00 Par Value)	New York Stock Exchange, Inc.
Class A Common Stock ($1.00 Par Value)	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of June 30, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $490,283,777 (based on the closing sale prices of the registrant's two classes of common stock as reported by the New York Stock Exchange).

There were 20,132,901 shares of common stock and 2,382,324 shares of Class A common stock, each with a par value of $1.00 per share outstanding at February 28, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 12, 2014 are incorporated by reference in Part III.

HAVERTY FURNITURE COMPANIES, INC.

Annual Report on Form 10-K for the year ended December 31, 2013

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FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance and financial condition. These statements are within the meaning of Section 27A of the Securities Act of 1933 and Section 21F of the Securities Exchange Act of 1934.

Forward-looking statements include, but are not limited to:

- projections of sales or comparable store sales, gross profit, SG&A expenses, capital expenditures or other financial measures;
- descriptions of anticipated plans or objectives of our management for operations or products;
- forecasts of performance; and
- assumptions regarding any of the foregoing.

Because these statements involve anticipated events or conditions, forward-looking statements often include words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “project,” “target,” “can,” “could,” “may,” “should,” “w similar expressions.

These forward-looking statements are based upon assessments and assumptions of management in light of historical results and trends, current conditions and potential future developments that often involve judgment, estimates, assumptions and projections. Forward-looking statements reflect current views about our plans, strategies and prospects, which are based on information currently available.

Although we believe that our plans, intentions and expectations as reflected in or suggested by any forward-looking statements are reasonable, they are not guarantees. Actual results may differ materially from our anticipated results described or implied in our forward-looking statements, and such differences may be due to a variety of factors. Our business could also be affected by additional factors that are presently unknown to us or that we currently believe to be immaterial to our business.

Discussed elsewhere in further detail in this report are some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from any forward-looking statements made or implied in this report.

Forward-looking statements are only as of the date they are made and they might not be updated to reflect changes as they occur after the forward-looking statements are made. We assume no obligations to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our other reports and documents filed with the Securities and Exchange Commission, or SEC, and you should not place undue reliance on those statements.

We intend for any forward-looking statements to be covered by, and we claim the protection under, the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

ITEM 1. BUSINESS

Unless otherwise indicated by the context, we use the terms "Havertys," "we," "our," or "us" when referring to the consolidated operations of Haverty Furniture Companies, Inc.

Overview

Havertys is a specialty retailer of residential furniture and accessories. Our founder, J.J. Haverty began the business in 1885 in Atlanta, Georgia with one store and made deliveries using horse-drawn wagons. The Company grew to 18 stores and accessed additional capital for growth through its initial public offering in October 1929.

Havertys has grown to over 100 stores in 16 states in the Southern and Midwest regions. All of our retail locations are operated using the Havertys name and we do not franchise our stores. Our customers are generally college educated women in middle to upper-middle income households. Our brand recognition is very high in the markets we serve and consumer surveys indicate Havertys is associated with a high level of quality, fashion, value and service.

Merchandise and Revenues

We develop our merchandise selection with the tastes of the diverse "on trend" consumer in mind. A wide range of styles from traditional to contemporary are in our core assortment and most of the furniture merchandise we carry bears the Havertys brand. We also tailor our product offerings to the needs and tastes of the local markets we serve emphasizing more "coastal," "western" or "urban" looks as appropriate. Our custom upholstery programs and eclectic looks are an important part of our product mix and allow the on trend consumer more self-expression.

We have avoided offering lower quality, promotional price-driven merchandise favored by many regional and national chains, which we believe would devalue the Havertys brand with the consumer. We carry nationally well-known mattress product lines such as Sealy®, Serta®, Stearns & Foster®, and Tempur-Pedic®.

The following table sets forth the approximate percentage contributions by product and service to our gross revenues for the past three years:

	Year ended December 31,					
	2013		2012		2011	
Merchandise:						
Case Goods						
Bedroom Furniture	18.3	%	19.4	%	19.7	%
Dining Room Furniture	11.1		10.7		11.0	
Occasional	11.0		11.0		11.7	
	40.4		41.1		42.4	
Upholstery	38.8		38.2		36.6	
Mattresses	10.8		11.5		11.9	
Accessories and Other (1)	9.9		9.2		9.0	
Credit Service Charges	0.1		0.0		0.1	
	100.0	%	100.0	%	100.0	%

(1) Includes delivery charges and product protection.

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Our customers use varying methods to purchase or finance their sales. As an added convenience to our customers, we offer financing by a third-party finance company or through an internal revolving charge credit plan. Sales financed by the third-party provider are not Havertys' receivables; accordingly, we do not have any credit risk or servicing responsibility for these accounts, and there is no credit or collection recourse to Havertys. The most popular programs offered through the third-party provider for 2013 were no interest offers requiring monthly payments over periods of 18 to 36 months. The fees we pay to the third-party are included in SG&A expense. We also maintain a small in-house financing program for our customers with the offer most frequently chosen carrying no interest for 12 months and requiring equal monthly payments. This program generates very minor credit revenue and is for credit worthy customers who prefer financing with the retailer directly or who are not able to quickly establish sufficient credit with other providers on comparable terms.

The following summarizes the different purchasing methods used as a percent of amount due from customers including sales tax:

	Year Ended December 31,					
	2013		2012		2011	
Cash or check	9.5	%	9.3	%	10.9	%
Credit or debit cards	54.7		54.2		53.8	
Third-party financed	32.2		31.9		30.1	
Havertys financed	3.6		4.6		5.2	
	100.0	%	100.0	%	100.0	%

Stores

As of December 31, 2013, we operated 119 stores serving 80 cities in 16 states with approximately 4.3 million retail square feet. We strive to have our stores reflect the distinctive style and comfort consumers expect to find when purchasing their home furnishings. The store's curb appeal is important to the type of middle to upper-middle income consumer that we target and our use of classical facades and attractive landscaping complements the quality and style of our merchandise. Interior details are also important for a pleasant and inviting shopping experience. We have been refreshing our locations with improved merchandise layouts, new paint colors and in-store signage. This effort, which we named "Bright Inspirations," began in late 2010 and will be completed in 2015. Elements of the concept include creating impact zones, merchandise stories and destination departments. We reduced the number of items on display to open up shopping space and disciplined merchandise display creates uniformity of presentations in-store, on-line and in our advertising.

Our stores range in size from 19,000 to 66,000 selling square feet with the average being approximately 35,000 square feet. We currently are considering a number of available "empty boxes" and new construction opportunities in existing or new markets within our distribution footprint. We are also evaluating our existing stores for expansion, relocation or closure. We expect a net increase of approximately 1.8% in our retail square footage in 2014.

Internet and Social Media

Our goal is to engage the customer where they are. Since our target customers spend a great deal of time on-line and with social media, we strive to communicate with them in that space.

Our website has proven to be useful in reaching the growing number of consumers that use the internet to pre-shop before going to a store. The site also provides our sales associates a tool to further engage the customer while she is in the store and extend her shopping experience when she returns home. We limit on-line sales of our furniture to within our delivery network, and accessories to the continental United States. We believe that a direct-to-customer business

complements our retail store operations by building brand awareness and is an effective advertising vehicle.

Our website features a variety of shopping tools including customized merchandise views, room planners and delivery availability. We also have a large number of product reviews written by our customers which are important to shoppers. Our site allows consumers to develop “wish lists,” place orders on-line and set delivery of their purchases. Features for in-store or web post-purchases include “follow the truck” for deliveries and other customer service opportunities.

Our website received approximately 6.5 million unique visitors during 2013. The “ratings and reviews” portion of our site has over 69,000 customer comments on their product purchases and the “follow the truck” and delivery confirmation feature was used by one million customers in 2013. Although sales placed via our website are minor, sales dollars increased 11.1% in 2013 compared to 2012.

Havertys uses a multifaceted approach to Social Media. Home fashion oriented blogs and sites like Pinterest are used to engage consumers in the “inspiration” stage. Other sites like Facebook and Twitter are more focused on consumers moving to the “evaluation” phase. These are also channels for post-conversion engagement to build loyalty. Most interactions are centered around home fashion ideas and inspiration. Some customer issues do arise and we work to take care of the customer and hopefully have them acknowledge that in social media.

Suppliers

We have developed strong relationships with our suppliers and believe that we receive excellent pricing and service from our key vendors due to the volume and reliability of our purchase commitments. We buy our merchandise from numerous foreign and domestic manufacturers and importers, the largest ten of which accounted for approximately 56% of our purchasing spending during 2013. Almost all of our wood products, or “case goods,” are generally imported from Asia. Upholstered items are largely produced domestically, with the exception of our leather products which are primarily imported from Asia or Mexico.

We purchase our furniture merchandise produced in Asia through agents representing manufacturers and direct from manufacturers. We also have developed merchandise (“direct imports”) working with a variety of furniture designers. Our team selects a manufacturer and dedicated quality control specialists are on-site during production to ensure the items meet our specifications. Approximately 17% of our furniture merchandise sales in 2013 were generated by our direct imports.

Supply Chain and Distribution

The longer lead times required for deliveries from overseas factories and the production of merchandise exclusively for Havertys makes it imperative for us to have both warehousing capabilities and effective supply chain control. Our merchandising team provides input to the ordering process in an effort to maintain overall inventory levels within an appropriate range and reduce the amount of written sales awaiting product delivery. We use real-time information to closely follow our import orders from the manufacturing plant through each stage of transit and using this data can more accurately set customer delivery dates prior to receipt of product.

Our distribution system uses a combination of three distribution centers (DCs), four home delivery centers (HDCs), and five local market cross-docks. In addition to receiving both domestic product and containers of imported merchandise, the DCs are designed to shuttle prepped merchandise up to 250 miles for next day home deliveries, and serve HDCs and cross-docks within a 500-mile radius. The HDCs provide service to markets within an additional 200 miles. A warehousing management system using radio frequency scanners tracks each piece of inventory in real time and allows for random storage in the warehouse and efficient scheduling and changing of the workflow. The implementation of operating standards in our warehouse and delivery functions, and the use of technology, provide measurements for determining staffing needs and increasing productivity. We use Havertys employees for executing home delivery, and branded this service “Top Drawer Delivery,” an important function serving as the last contact with our customers in the purchase process. We believe that our distribution and delivery system is the best in the retail furniture industry and provides us with a significant competitive advantage

Competition

The retail sale of home furnishings is a highly fragmented and competitive business. The degree and sources of competition vary by geographic area. We compete with numerous individual retail furniture stores as well as chains and certain department stores. Department stores benefit competitively from more established name recognition in specific markets, a larger customer base due to their non-furnishings product lines and proprietary credit cards. Furniture manufacturers have also opened their own dedicated retail stores in an effort to control and protect the distribution prospects of their branded merchandise.

We believe Havertys is uniquely positioned in the marketplace, with a targeted mix of merchandise that appeals to customers who are somewhat more affluent than those of competitive price-oriented furniture store chains. Our ability to make prompt delivery of orders through maintenance of inventory, the expansion of our custom order capabilities and tailoring merchandise to customers’ desires on a local market basis are we believe significant competitive advantages. We believe our on-line presence provides a seamless omni-channel approach that many of our competitors do not have or can not replicate. We also consider our experienced sales personnel and the addition of in-home designers as important factors in our competitive success.

Employees

As of December 31, 2013, we had 3,266 employees: 1,937 in individual retail store operations, 173 in our corporate and credit operations, 56 in our customer-service call centers, and 1,100 in our warehouse and delivery points. None of our employees is a party to any union contract.

Trademarks and Domain Names

We have registered our various logos, trademarks and service marks. We believe that our trademark position is adequately protected in all markets in which we do business. In addition, we have registered and maintain numerous internet domain names including “havertys.com.” Collectively, the trademarks, service marks and domain names that we hold are of material importance to us.

Governmental Regulation

Our operations are required to meet federal, state and local regulatory standards in the areas of safety, health and environmental pollution controls. Historically, compliance with these standards has not had a material adverse effect on our operations. We believe that our facilities are in compliance, in all material respects, with applicable federal, state and local laws and regulations concerned with safety, health and environmental protection.

The products we sell are subject to federal regulatory standards including, but not limited to, those outlined in the Consumer Product Safety Improvement Act. We have contracts with the third parties that supply our merchandise that require their products be in compliance with these standards. We believe that the items we sell are in substantial compliance with the regulatory standards governing such products.

The extension of credit to consumers is a highly regulated area of our business. Numerous federal and state laws impose disclosure and other requirements on the origination, servicing and enforcement of credit accounts. These laws include, but are not limited to, the federal Truth in Lending Act, Fair and Accurate Credit Transactions Act, Gramm-Leach-Biley Act, Equal Credit Opportunity Act, Credit CARD Act, and Federal Trade Commission Act. State laws impose limitations on the maximum amount of finance charges that we can charge and also impose other restrictions on consumer creditors, such as us, including restrictions on collection and enforcement. We routinely review our contracts and procedures to ensure compliance with applicable consumer credit laws. Failure on our part to comply with applicable laws could expose us to substantial penalties and claims for damages and, in certain circumstances, may require us to refund finance charges already paid and to forego finance charges not yet paid under non-complying contracts. We believe that we are in substantial compliance with all applicable federal and state consumer credit and collections laws.

Available Information

Filings with the SEC

As a public company, we regularly file reports and proxy statements with the Securities and Exchange Commission. These reports are available on our website as soon as reasonably practicable after they are filed with, or furnished to, the SEC. Our internet address is www.havertys.com and contains, among other things, our annual report on Form 10-K, proxy statement, quarterly reports on Form 10-Q and current reports on Form 8-K. These reports are reached via the “Investors” tab on the home page and then “SEC filings.”

The information on the website listed above is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document.

ITEM 1A. RISK FACTORS

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding any statement in this annual report on Form 10-K or elsewhere. The following information should be read in conjunction with Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” (MD&A), and the consolidated financial statements and related notes in Part II, Item 8. “Financial Statements and Supplementary Data” of this Form 10-K.

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We routinely encounter and address risks, some of which will cause our future results to be different – sometimes materially different – than we presently anticipate. The following factors, as well as others described elsewhere in this report or in our other filings with the SEC, that could materially affect our business, financial condition or operating results should be carefully considered. Below, we describe certain important operational and strategic risks and uncertainties, but they are not the only risks we face. Our reactions to material future developments, as well as our competitors' reactions to those developments, may also impact our business operations or financial results. If any of the following risks actually occur, our business, financial condition or operating results may be adversely affected.

Changes in economic conditions could adversely affect demand for our products.

A large portion of our sales represent discretionary spending by our customers. Demand for our products is generally affected by a number of economic factors including, but not limited to: interest rates, housing starts, sales of new and existing homes, housing values, the level of mortgage refinancing, consumer confidence, debt levels and retail trends. Declining stock market values, rising food and energy costs, and higher personal taxes adversely affect demand. A decline in economic activity and conditions in the markets in which we operate would adversely affect our financial condition and results of operations.

We face significant competition from national, regional and local retailers of home furnishings.

The retail market for home furnishings is highly fragmented and intensely competitive. We currently compete against a diverse group of retailers, including national department stores, regional or independent specialty stores, electronics and appliance retailers with limited furniture products, and dedicated franchises of furniture manufacturers. National mass merchants such as COSTCO also have limited product offerings. We also compete with retailers that market products through store catalogs and the Internet. In addition, there are few barriers to entry into our current and contemplated markets, and new competitors may enter our current or future markets at any time. Our existing competitors or new entrants into our industry may use a number of different strategies to compete against us, including aggressive advertising, pricing and marketing, extension of credit to customers on terms more favorable than we offer, and expansion by our existing competitors or entry by new competitors into markets where we currently operate.

Competition from any of these sources could cause us to lose market share, revenues and customers, increase expenditures or reduce prices, any of which could have a material adverse effect on our results of operations.

If we fail to anticipate changes in consumer preferences, our sales may decline.

Our products must appeal to our target consumers whose preferences cannot be predicted with certainty and are subject to change. Our success depends upon our ability to anticipate and respond in a timely manner to fashion trends relating to home furnishings. If we fail to identify and respond to these changes, our sales of these products may decline. In addition, we often make commitments to purchase products from our vendors in advance of proposed delivery dates. Significant deviation from the projected demand for products that we sell may have an adverse effect on our results of operations and financial condition, either from lost sales or lower margins due to the need to reduce prices to dispose of excess inventory.

We import a substantial portion of our merchandise from foreign sources. Changes in exchange rates or tariffs could impact the price we pay for these goods, resulting in potentially higher retail prices and/or lower gross profit on these goods.

The product costs of our furniture purchases for goods not produced domestically have averaged approximately 57% over the past three years. All of our purchases are denominated in U.S. dollars. As exchange rates between the U.S.

dollar and certain other currencies become unfavorable, the likelihood of

price increases from our vendors increases. Some of the products we purchase are also subject to tariffs. If tariffs are imposed on additional products or the tariff rates are increased our vendors may increase their prices. Such price increases, if they occur, could have one or more of the following impacts:

- we could be forced to raise retail prices so high that we are unable to sell the products at current unit volumes;
- if we are unable to raise retail prices commensurately with the cost increases, gross profit as recognized under our LIFO inventory accounting method could be negatively impacted; or
- we may be forced to find alternative sources of comparable product, which may be more expensive than the current product, of lower quality, or the vendor may be unable to meet our requirements for quality, quantities, delivery schedules or other key terms.

Significant fluctuations and volatility in the cost of raw materials and components could adversely affect our profits.

The primary materials our vendors use to produce and manufacture our products are various woods and wood products, resin, steel, leather, cotton, and certain oil based products. On a global and regional basis, the sources and prices of those materials and components are susceptible to significant price fluctuations due to supply/demand trends, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, the economic climate, and other unforeseen circumstances. Significant increases in these and other costs in the future could materially affect our vendors' costs and our profits as discussed above.

We are dependent upon the ability of our third-party producers, many of whom are located in foreign countries, to meet our requirements; any failures by these producers to meet our requirements, or the unavailability of suitable producers at reasonable prices may negatively impact our ability to deliver quality products to our customers on a timely basis or result in higher costs or reduced net sales.

We source substantially all of our products from non-exclusive, third-party producers, many of which are located in foreign countries. Although we have long-term relationships with many of our suppliers, we must compete with other companies for the production capacity of these independent manufacturers. We regularly depend upon the ability of third-party producers to secure a sufficient supply of raw materials, a skilled workforce, adequately finance the production of goods ordered and maintain sufficient manufacturing and shipping capacity. Although we monitor production in third party manufacturing locations, we cannot be certain that we will not experience operational difficulties with our manufacturers, such as the reduction of availability of production capacity, errors in complying with product specifications, insufficient quality control, failures to meet production deadlines or increases in manufacturing costs. Such difficulties may negatively impact our ability to deliver quality products to our customers on a timely basis, which may, in turn, have a negative impact on our customer relationships and result in lower net sales.

We also require third-party producers to meet certain standards in terms of working conditions, environmental protection and other matters before placing business with them. As a result of costs relating to compliance with these standards, we may pay higher prices than some of our competitors for products. In addition, failure by us or our independent manufacturers to adhere to labor or other laws or business practices accepted as ethical, and the potential litigation, negative publicity and political pressure relating to any of these events, could disrupt our operations or harm our reputation.

The effects of new regulations relating to conflict minerals may adversely affect our business.

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new requirements for companies that use certain minerals and metals, known as "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries, in their products, whether or not these products are manufactured by third parties. These disclosure and reporting requirements became effective for calendar year 2013. Affected companies must make disclosures for the first time by May 31, 2014, and annually thereafter. There have been and will continue to be significant costs associated with complying with these disclosure requirements, including for diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. Our disclosure will be predicated upon the timely receipt of accurate information from suppliers, who may be unwilling or unable to provide us with the relevant information. As a result, these new requirements could adversely affect our costs, the availability of minerals used in our products and our relationships with customers and suppliers.

Our revenue could be adversely affected by a disruption in our supply chain.

Disruptions to our supply chain could result in late arrivals of product. This could negatively affect sales due to increased levels of out-of-stock merchandise and loss of confidence by customers in our ability to deliver goods as promised.

The rise of oil and gasoline prices could affect our profitability.

A significant increase in oil and gasoline prices could adversely affect our profitability. We deliver substantially all of our customers' purchases to their homes. Our distribution system, which utilizes three DCs and multiple home delivery centers to reach our markets across 16 Southern and Midwestern states, is very transportation dependent.

If transportation costs exceed amounts we are able to effectively pass on to the consumer, either by higher prices and/or higher delivery charges, then our profitability will suffer.

Because of our limited number of distribution centers, should one become damaged, our operating results could suffer.

We utilize three large distribution centers to flow our merchandise from the vendor to the consumer. This system is very efficient for reducing inventory requirements, but makes us operationally vulnerable should one of these facilities become damaged.

Our information technology infrastructure is vulnerable to damage that could harm our business.

Our ability to operate our business from day to day, in particular our ability to manage our point-of-sale, credit operations and distribution system, largely depends on the efficient operation of our computer hardware and software systems. We use management information systems to communicate customer information, provide real-time inventory information, manage our credit portfolio and to handle all facets of our distribution system from receipt of goods in the DCs to delivery to our customers' homes. These systems and our operations are vulnerable to damage or interruption from:

- power loss, computer systems failures and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;

- physical and electronic loss of data or security breaches, misappropriation and similar events;
- computer viruses;
- intentional acts of vandalism and similar events; and
- tornadoes, fires, floods and other natural disasters.

Any failure due to any of these causes, if it is not supported by our disaster recovery plan and redundant systems, could cause an interruption in our operations and result in reduced net sales and profitability.

We may incur costs resulting from security risks we face in connection with our electronic processing and transmission of confidential customer information.

We accept electronic payment cards in our stores and over the internet. Amounts tendered through payment card transactions represented approximately 54.7% of our business in 2013.

We may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information, and we may also be subject to lawsuits or other proceedings in the future relating to these types of incidents. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal and state regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Stores

Our retail store space at December 31, 2013 totaled approximately 4.3 million square feet for 119 stores compared to 122 stores at December 31, 2012. The following table sets forth the number of stores we operated at December 31, 2013 by state:

State	Number of Stores	State	Number of Stores
Florida	28	Louisiana	4
Texas	22	Maryland	4
Georgia	16	Kentucky	3
North Carolina	8	Arkansas	2
Virginia	7	Ohio	2
Alabama	7	Indiana	1
South Carolina	7	Kansas	1
Tennessee	6	Missouri	1

The 45 retail locations which we owned at December 31, 2013 had a net book value for land and buildings of $92.4 million. Additionally, we have eight leased locations with a net book value of $13.7 million which, due to financial accounting rules, are included on our balance sheets. The remaining 66 locations are leased by us with various termination dates through 2032 plus renewal options.

Distribution Facilities
We lease or own regional distribution facilities in the following locations:

Location	Owned or Leased	Approximate Square Footage
Braselton, Georgia	Leased	808,000
Coppell, Texas	Owned	238,000
Lakeland, Florida	Owned	226,000
Colonial Heights, Virginia	Owned	129,000
Fairfield, Ohio	Leased	50,000
Theodore, Alabama	Leased	42,000
Memphis, Tennessee	Leased	30,000

We also use five cross-dock facilities which are attached to retail locations.

Corporate Facilities
Our executive and administrative offices are located at 780 Johnson Ferry Road, Suite 800, Atlanta, Georgia. These leased facilities contain approximately 48,000 square feet of office space on two floors of a suburban mid-rise office building. We also lease 7,000 square feet of office space in Chattanooga, Tennessee for our credit operations.

For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this report under Item 7 of Part II.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which we are a party or of which any of our properties is the subject.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our two classes of common stock trade on The New York Stock Exchange ("NYSE"). The trading symbol for the common stock is HVT and for Class A common stock is HVT.A. The table below sets forth the high and low sales prices per share as reported on the NYSE and the dividends declared for the last two years:

	2013					
	Common Stock			Class A Common Stock		
Quarter Ended	High	Low	Dividend Declared	High	Low	Dividend Declared
March 31	$21.00	$16.16	$0.04	$20.83	$16.31	$0.0375
June 30	25.76	19.88	0.04	25.57	20.17	0.0375
September 30	27.85	21.76	0.08	27.51	21.93	0.0750
December 31	31.67	23.95	0.08	31.58	24.00	0.0750

	2012							
	Common Stock				Class A Common Stock			
Quarter Ended	High	Low	Dividend Declared		High	Low	Dividend Declared	
March 31	$13.00	$10.80	$—		$12.90	$10.40	$—	
June 30	12.97	10.39	0.04		12.90	10.50	0.0375	
September 30	14.31	10.77	0.04		14.05	11.00	0.0375	
December 31	17.62	13.52	1.04	(1)	17.25	13.77	0.9875	(1)

(1) includes a special dividend of $1.00 for common stock and $0.95 for Class A common stock.

Stockholders

Based on the number of individual participants represented by security position listings, there are approximately 4,500 holders of our common stock and 160 holders of our Class A common stock as of February 21, 2014.

Dividends

The payment of dividends and the amount are determined by the Board of Directors and depend upon, among other factors, our earnings, operations, financial condition, capital requirements and general business outlook at the time such dividend is considered. We had paid a quarterly cash dividend since 1935, but given the general economic decline, the board suspended the quarterly dividend in the fourth quarter of 2008. The board approved dividends in the fourth quarter of 2009-2011 and reinstated the quarterly dividend in the second quarter of 2012. A special cash dividend was paid in the fourth quarter of 2012.

Equity Compensation Plans

Information concerning the Company's equity compensation plans is set forth under the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 12, 2014, to be filed with the Securities and

Exchange Commission (the “Company’s 2014 Proxy Statement) and is incorporated herein by reference.

Stock Performance Graph

The following graph compares the performance of Havertys' common stock and Class A common stock against the cumulative return of the NYSE/AMEX/Nasdaq Home Furnishings & Equipment Stores Index (SIC Codes 5700 – 5799) and the S&P Smallcap 600 Index for the period of five years commencing December 31, 2008 and ended December 31, 2013. The graph assumes an initial investment of $100 on January 1, 2008 and reinvestment of dividends.

	2008	2009	2010	2011	2012	2013
HVT	$ 100.0	$ 147.40	$ 140.64	$ 120.24	$ 191.32	$ 370.75
HVT-A	$ 100.0	$ 143.16	$ 135.90	$ 117.35	$ 186.26	$ 359.97
S&P Smallcap 600 Index	$ 100.0	$ 125.57	$ 158.60	$ 160.22	$ 186.37	$ 263.37
SIC Codes 5700-5799	$ 100.0	$ 141.47	$ 147.68	$ 134.74	$ 114.28	$ 213.17

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 below and the "Consolidated Financial Statements and Notes thereto" included in Item 8 below.

(Dollars in thousands, except per share data)	Year ended December 31, 2013	2012	2011	2010	2009
Results of Operations					
Net sales	$ 746,090	$ 670,073	$ 620,903	$ 620,331	$ 588,264
Net sales change over prior year	11.3 %	7.9 %	0.1 %	5.5 %	(14.9)%
Comp-store sales change over prior year	11.0 %	6.8 %	0.3 %	7.0 %	(14.2)%
Gross profit	401,496	352,035	320,716	318,767	305,498
Percent of net sales	53.8 %	52.5 %	51.7 %	51.4 %	51.9 %
Selling, general and administrative expenses	348,599	328,826	315,865	311,897	310,523
Percent of net sales	46.7 %	49.1 %	50.9 %	50.3 %	52.8 %
Income (loss) before income taxes	52,487	23,516	4,603	8,673	(5,408)
Net income (loss) 1	32,265	14,911	15,463	8,444	(4,179)
Share Data					
Diluted net earnings (loss) per share:					
Common Stock	$ 1.41	$ 0.67	$ 0.70	$ 0.38	$ (0.20)
Class A Common Stock	1.35	0.59	0.67	0.36	(0.19)
Cash dividends:					
Amount per share:					
Common Stock(2)	0.240	1.12	0.1200	0.100	0.0225
Class A Common Stock(2)	0.225	1.06	0.1125	0.095	0.0200
Shares outstanding (in thousands):					
Common Stock	20,122	19,471	18,829	18,512	17,519
Class A Common Stock	2,393	2,775	3,120	3,331	3,908
Total shares	22,515	22,246	21,949	21,843	21,427
Financial Position					
Inventories	$ 91,483	$ 96,902	$ 93,713	$ 91,938	$ 93,301
Capital expenditures	$ 20,202	$ 25,014	$ 17,566	$ 14,053	$ 3,259
Depreciation/amortization expense	21,450	19,415	18,242	16,859	19,346
Property and equipment, net	189,242	193,085	179,333	175,511	176,363
Total assets	$ 417,855	$ 402,096	$ 385,100	$ 370,239	$ 360,933
Total debt(3)	17,155	19,354	13,046	9,099	7,183
Stockholders' equity	298,264	259,428	262,669	253,182	244,557
Debt to total capital	5.4 %	6.9 %	4.7 %	3.5 %	2.9 %
Interest expense, net	1,107	624	737	815	805
Net cash provided by operating activities	55,889	52,168	19,072	24,201	38,495

Other Supplemental Data:					
Employees	3,266	3,250	3,050	3,100	3,000
Retail sq. ft. (in thousands)	4,259	4,353	4,246	4,230	4,278
Number of retail locations	119	122	119	118	121
Annual retail net sales per weighted average sq. ft.	$ 176	$ 158	$ 148	$ 148	$ 139

(1) We reduced income tax expense $3.1 million and released $2.0 million of the valuation allowance in 2010. The valuation allowance was further reduced and we recorded a benefit to income taxes of $14.1 million in 2011, $1.2 million in 2012, and $1.4 million in 2013.

(2) Includes a special dividend of $1.00 for Common Stock and $0.95 for Class A Common Stock paid in the fourth quarter of 2012.

(3) Debt is comprised completely of lease obligations.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Industry
The retail residential furniture industry's results are influenced by new and existing housing sales, consumer confidence, spending on large ticket items, interest rates and availability of credit and the overall strength of the economy. The industry experienced a rebound in 2012 as its drivers have improved. These factors remain tempered by continued high levels of unemployment, lower home values, and reduced access to credit, all of which provide impediments to industry growth.

Our Business
We sell home furnishings in our retail stores and via our website and record revenue when the products are delivered to our customer. Our products are selected to appeal to a middle to upper-middle income consumer across a variety of styles. Our commissioned sales associates receive a high level of product training and are provided a number of tools with which to serve our customers. We also have in-home designers serving 60 stores with plans for expansion to 100 stores. These individuals work with our sales associates to provide customers additional confidence and inspiration. We do not outsource the delivery function, something common in the industry, but instead ensure that the "last contact" is handled by a customer-oriented Havertys delivery team. We are recognized as a provider of high quality fashionable products and service in the markets we serve.

2013 Highlights
Sales for 2013 grew 11.3% or $76.0 million over 2012. Our pre-tax income grew 123.2% or $29.0 million. Gross profit as a percent of net sales increased 130 basis points, and SG&A declined 240 basis points. The focus on "better" goods helped drive our average ticket and gross profit margins. The higher sales volume allowed us to better leverage our fixed costs. We continued our focus on cash flow and working capital management in 2013 and made important investments in our business. We did not use our credit facility during the year and our total debt to total capital was 5.4% at December 31, 2013.

Management Objectives
Management is focused on capturing more market share and increasing sales per square foot of showroom space. This organic growth will be driven by concentrating our efforts on our customers with improved interactions highlighted by new products, enhanced stores and better technology. The Company's strategies for profitability include targeted marketing initiatives, productivity and process improvements, and efficiency and cost-saving measures. Our focus is to serve our customers better and distinguish ourselves in the marketplace.

Key Performance Indicators
We evaluate our performance based on several key metrics which include net sales, comparable store sales, sales per square foot, gross profit, operating costs as a percentage of sales, cash flow, total debt to total capital, and earnings per share. The goal of utilizing these measurements is to provide tools in economic decision-making such as store growth, capital allocation and product pricing. We also employ metrics that are customer focused (customer satisfaction score, on-time-delivery and quality), and internal effectiveness and efficiency metrics (sales per employee, average sale per ticket, closing ratios per customer store visit, exceptions per deliveries, and lost time incident rate). These measurements aid us in determining areas of our operations that are in need of additional attention and in determining compensation.

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Operating Results

The following table provides selected statement of operations data for the periods indicated.

	Percentage of Net Sales		
	2013	2012	2011
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	46.2	47.5	48.3
Gross profit	53.8	52.5	51.7
Selling, general and administrative expenses	46.7	49.1	50.9
Income before income taxes	7.0	3.5	0.7
Net income	4.3	2.2	2.5

Net Sales

Comparable-store or "comp-store" sales is a measure which indicates the performance of our existing stores by comparing the growth in sales for these stores for a particular period over the corresponding period in the prior year. Stores are considered non-comparable if open for less than 12 full calendar months or if the selling square footage has been changed significantly during the past 12 full calendar months. Large clearance sales events from warehouses or temporary locations are also excluded from comparable store sales, as are periods when stores are closed or being remodeled. As a retailer, comp-store sales is an indicator of relative customer spending and store performance.

Total sales increased $76.0 million or 11.3% in 2013 and $49.2 million or 7.9% in 2012. Comparable store sales increased 11.0% or $72.0 million in 2013 and 6.8% or $42.2 million in 2012. The remaining $4.0 million in 2013 and $7.0 million in 2012 of the changes were from closed, new and otherwise non-comparable stores.

The following outlines our sales and comp-store sales increases and decreases for the periods indicated. (Amounts and percentages may not always add to totals due to rounding.)

	December 31,								
	2013			2012			2011		
	Net Sales		Comp-Store Sales	Net Sales		Comp-Store Sales	Net Sales		Comp-Store Sales
Period Ended	Dollars in millions	% Increase (decrease) over prior period	% Increase (decrease) over prior period	Dollars in millions	% Increase (decrease) over prior period	% Increase (decrease) over prior period	Dollars in millions	% Increase (decrease) over prior period	% Increase (decrease) over prior period
Q1	$ 186.1	13.8%	11.5%	$ 163.6	6.1%	5.7%	$ 154.2	(1.2)%	(0.6)%
Q2	171.1	12.9	11.2	151.5	5.9	5.6	143.1	(1.4)	(1.4)
Q3	192.7	11.6	11.8	172.7	11.1	10.0	155.4	(1.1)	(0.6)
Q4	196.2	7.6	9.5	182.3	8.4	6.0	168.3	3.8	3.5
Year	$ 746.1	11.3%	11.0%	$ 670.1	7.9%	6.8%	$ 620.9	0.1%	0.3%

Sales in 2013 increased as the fundamental drivers of home furnishings purchases continue to recover. We capitalized on this trend with improved merchandising and expansion of our complimentary in-home design service. These generated an increase in our average ticket of 7.8% and a 19.8% increase in our custom order upholstery business.

Sales in 2012 increased at a strong pace as our industry began its recovery. Our average ticket was up 7.8% as our customers responded to the value offered in our fashionable better quality merchandise. Sales in the upholstery product category showed strength increasing 12.6% over 2011 including a 17.9% increase in custom and special orders.

Sales in 2011 remained slightly below 2010 through the first three quarters of the year. We had better results in the historically stronger fourth quarter. Mattress sales continued to provide a growing percentage of our business for 2011. The appeal of our higher price point products resulted in a higher average ticket for 2011.

2014 Outlook
Our total sales for 2014 and comparable store sales growth will be measured against tougher comparisons. We believe our appealing merchandise and expanded special order and service offerings will be important drivers for our 2014 sales results.

Gross Profit

Our cost of sales consist primarily of the purchase price of the merchandise together with inbound freight, handling within our distribution centers and transportation costs to the local markets we serve. Our gross profit is primarily dependent upon vendor pricing, the mix of products sold and promotional pricing activity. Substantially all of our occupancy and home delivery costs are included in selling, general and administrative expenses as is a portion of our warehousing expenses. Accordingly, our gross profit may not be comparable to those entities that include some of these expenses in cost of goods sold.

Year-to-Year Comparisons
Gross profit as a percentage of net sales increased to 53.8% in 2013 compared to 52.5% in 2012. Our focus on higher price point products and pricing discipline were key to the gross profit improvement combined with a $1.1 million smaller LIFO impact and an $0.8 million out-of-period adjustment. Excluding the impact of the out-of-period adjustment, gross profit was 53.7%, up 120 basis points over 2012.

Gross profit as a percentage of net sales increased to 52.5% in 2012 as compared to 51.7% in 2011. The expansion of our assortment's upper-middle price point products, increased sales of custom upholstery, and successful new product introductions combined to generate the gross profit improvement.

2014 Outlook
Our merchandising strategy will be similar to 2013 using promotional pricing selectively and focusing on product fashion and customer service. We expect that annual gross profit margins for 2014 will be 53.8%, slightly ahead of the adjusted 53.7% achieved in 2013.

Selling, General and Administrative Expenses

SG&A expenses are comprised of five categories: selling; occupancy; delivery and certain warehousing costs; advertising and administrative. Selling expenses primarily are comprised of compensation of sales associates and sales support staff, and fees paid to credit card and third-party finance companies. Occupancy costs include rents, depreciation charges, insurance and property taxes, repairs and maintenance expense and utility costs. Delivery costs include personnel, fuel costs, and depreciation and rental charges for rolling stock. Warehouse costs include supplies, depreciation and rental charges for equipment. Advertising expenses are primarily media production and space, direct mail costs, market research expenses, employee compensation and agency fees. Administrative expenses are comprised of compensation costs for store personnel exclusive of sales associates, information systems, executive, accounting, merchandising, advertising, supply chain, real estate and human resource departments.

Year-to-Year Comparisons
Our SG&A costs increased $19.8 million or 6.0% for 2013 compared to 2012. This change was driven by our 11.3% increase in sales. SG&A costs increased $13.0 million or 4.1% for 2012 compared to 2011. The change was largely due to greater occupancy expense, increased advertising and marketing spending, higher delivery costs and greater administrative expenses. Total SG&A costs, as a percentage of net sales were 46.7% for 2013 as compared to 49.1% for 2012 and 50.9% for 2011.

Selling expenses generally vary with sales volume. The amounts paid for bank card charges depends upon how many customers choose that payment option. The cost of our third-party financing offers will vary based on usage and the types of credit programs we offer and those selected by our customers. These costs remained relatively flat as a percentage of net sales over the past three years.

Occupancy costs increased $2.2 million in 2013 over 2012 primarily due to higher depreciation expense resulting from new stores opened in 2012 and existing store renovations. Occupancy costs decreased $1.2 million in 2012 from 2011 as rent and utility expenses declined. Our Bright Inspirations project has also caused some reductions in repairs and maintenance which was offset by increased depreciation. We expect occupancy costs will increase slightly in 2014 as new store openings are primarily late in the year.

Delivery expense increased only 4.2% in 2013 over 2012 versus the 11.3% increase in sales due to efficiencies and a higher average ticket. Delivery costs in 2012 were relatively flat compared to 2011 despite a 7.9% increase in sales due to reductions in insurance costs offset by increases in salaries.

Total advertising and marketing costs as a percentage of sales were 6.0% for 2013, 6.5% for 2012 and 6.9% for 2011. We increased our spending $1.2 million in 2013 and $0.8 million in 2012. Our focus continues to be on television branding messages and electronic advertising that highlight Havertys fashionable products and service.

Administrative costs increased $7.4 million or 9.7% for 2013 compared to 2012. The change was driven by an increase in incentive and compensation expense and higher health insurance costs. Administrative costs increased $4.8 million or 6.8% in 2012 from 2011 primarily due to higher incentive compensation, salaries, stock-based compensation expense and retirement benefits.

2014 Outlook
The fixed and discretionary type expenses within SG&A for the full year of 2014 are expected to be approximately $232 million to $234 million, up approximately 4.1% to 5.0% over those same costs in 2013. These expenses are expected to be incurred at a slightly higher rate in the second half of the year. The main increases in this category are expected to be for advertising expenses, personnel costs, and new store occupancy expense.

Variable costs within SG&A are expected to be 17.0% to 17.2% as a percent of sales for 2014.

We expect that total SG&A expenses for 2014 will be slightly lower than 2013 levels as a percentage of net sales if we are able to leverage our fixed costs with increased sales.

Provision for Income Taxes

Our effective tax rate was 38.5, 36.6% and (235.9)% for 2013, 2012 and 2011, respectively. Refer to Note 7 of the Notes to the Consolidated Financial Statements for a reconciliation of our income tax expense to the federal income tax rate.

Our 2013 rate varies from the 35% U.S. federal statutory rate primarily due to state income taxes.

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Our 2012 rate included a benefit from income taxes of $0.7 million related to the change in our uncertain tax positions. This benefit was partially offset by changes in our receivables and state net operating loss carryforwards of $0.3 million.

Our 2011 rate included a benefit from income taxes of $14.1 million related to the release of almost all of the valuation allowance against our net deferred tax assets. The $14.1 million benefit related to the release includes approximately $7.7 million that was originally charged to accumulated other comprehensive income for pension liabilities but due to the prohibition against "backward tracing" the release is included in the continuing operations provision. Our 2011 rate also includes a $0.7 million unfavorable impact of a change in treatment of certain state port credits by the state of Georgia. These credits were almost completely reserved in our valuation allowance as are the remaining credits. During 2011 we also finalized the net operating loss carryback and amended returns for the tax years 2005 through 2008. We adjusted the related receivables for refunds of tax and interest and amounts available for federal and state net operating loss carryforwards. This resulted in additional expense of $0.4 million.

Liquidity and Capital Resources

Overview of Liquidity
Our primary cash requirements include working capital needs, contractual obligations, benefit plan contributions, income tax obligations and capital expenditures. We have funded these requirements exclusively through cash generated from operations and have not used our credit facility since 2008. We believe funds generated from our expected results of operations and available cash and cash equivalents will be sufficient to fund our primary obligations and complete projects that we have underway or currently contemplate for the next fiscal and foreseeable future years.

At December 31, 2013, our cash and cash equivalents balance was $83.2 million an increase of $29.6 million compared to December 31, 2012. This increase in cash primarily resulted from strong operating results and improved working capital requirements offset by purchases of property and equipment. Additional discussion of our cash flow results, including the comparison of 2013 activity to 2012, is set forth in the Analysis of Cash Flows section.

At December 31, 2013, our outstanding indebtedness was $17.2 million in lease obligations required to be recorded on our financial statements. We had no amounts outstanding and $43.8 million available under our revolving credit facility.

Capital Expenditures
Our primary capital requirements have been focused on our stores and the development of both proprietary and purchased information systems. Our capital expenditures were $20.2 million in 2013, $4.8 million less than in 2012.

Our future capital requirements will depend in large part on the number of and timing for new stores we open within a given year, the investments we make to the improvement and maintenance of our existing stores, and our investment in distribution improvements and new information systems to support our key strategies. In 2014, we anticipate that our capital expenditures will be approximately $35.0 million, refer to our Store Expansion and Capital Expenditures discussion below.

Analysis of Cash Flows

The following table illustrates the main components of our cash flows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Net cash provided by operating activities	$55,889	$52,168	$19,072
Capital expenditures	(20,202)	(25,014)	(17,566)
Free cash flow	$35,687	$27,154	$1,506
Net cash used in investing activities	$(20,120)	$(24,766)	$(24,222)
Net cash used in financing activities	$(6,134)	$(23,437)	$(3,310)

Cash flows from operating activities. During 2013, net cash provided by operating activities was $55.9 million. Our cash provided by operating activities was mainly the result of pre-tax income generated during 2013. Cash from net income, net of depreciation and amortization and stock-based compensation expense, along with cash provided by working capital, was partially reduced by pension plan contributions. Pension plan contributions in 2013 included a $4.2 million discretionary contribution made to improve the funded status of the plan and as part of our broader pension de-risking strategy.

The primary components of the changes in working capital are listed below:

- Decrease in inventories of $5.4 million, mainly due to timing of sales and replenishment.
- Decrease in other liabilities of $9.0 million, and increase in other assets of $9.9 million mainly due to the shift from a $6.8 million pension plan liability to a $9.4 million pension asset.
- Decrease in accounts payable of $6.4 million.

During 2012, net cash provided by operating activities was $52.2 million. We generated net income of $14.9 million during the year, and depreciation and amortization totaled $19.4 million. Working capital increased and the major components of the change are listed below.

- Increase in customer deposits of $6.4 million as the level of our special order business increased and deliveries at the end of 2012 were hampered by product availability.
- Increase in accounts payable of $7.0 million, offset by increased inventory levels of $3.5 million. These increases were primarily due to our higher level of purchases in advance of the Chinese New Year and in response to our increased sales activity.
- Decrease in other liabilities of $3.5 million as the pension plan liability decreased $4.3 million.

During 2011, net cash provided by operating activities was $19.1 million. We had net income of $15.5 million and depreciation and amortization of $18.2 million which were reduced by deferred income tax benefit of $7.9 million. The primary change in working capital was a $3.5 million increase in prepaid expenses.

Cash flows used in investing activities. Net cash used in investing activities was $20.1 million, $24.8 million and $24.2 million for 2013, 2012 and 2011, respectively. In each of these years, the amounts of cash used in investing activities consisted principally of capital expenditures related to store construction and improvements and information technology projects, refer to our Store Expansion and Capital Expenditures discussion below. During 2013, we invested in our distribution system for future expansion and added capacity to our internal cloud architecture to support our sales systems and video communications. The increase in cash flows used in investing activities from 2011 to 2012 was primarily the result of additional capital spending in 2012 offset by the initial outlay of $6.8 million to restricted cash as insurance collateral during 2011. During 2012, we completed information technology projects

replacing our core network that controls the communication between our stores and data centers and invested in cloud infrastructure. During 2011, we completed information technology projects in the e-commerce and finance areas.

Cash flows used in financing activities. Net cash used in financing activities was $6.1 million for 2013, $23.4 million for 2012 and $3.3 million for 2011. During 2013 the number of restricted shares vesting increased as the acceleration goals of certain grants were met. This increased the withholding taxes for vested shares and contributed to the tax benefit from stock-based plans. During 2012 we paid a special dividend of approximately $22.0 million and we had expiring in-the-money options which generated additional option exercise activity in 2012. During 2013, 2012, and 2011, we did not make any draws on our revolving credit facility.

Long-Term Debt

In September 2011 Havertys entered into an Amended and Restated Credit Agreement (the "Credit Agreement") with a bank. Refer to Note 5 of the Notes to Consolidated Financial Statements for information about our Credit Agreement.

Off-Balance Sheet Arrangements

We do not generally enter into off-balance sheet arrangements. We did not have any relationships with unconsolidated entities or financial partnerships which would have been established for the purposes of facilitating off-balance sheet financial arrangements for any period during the three years ended December 31, 2013. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

The following summarizes our contractual obligations and commercial commitments as of December 31, 2013 (in thousands):

		Payments Due or Expected by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Lease obligations(1)	$ 24,002	$ 1,938	$ 4,254	$ 4,440	$ 13,370
Operating leases	228,108	31,296	60,135	51,873	84,804
Purchase orders	83,707	83,707	—	—	—
Total contractual obligations(2)	$ 335,817	$ 116,941	$ 64,389	$ 56,313	$ 98,174

(1) These amounts are for our lease obligations recorded in our consolidated balance sheets, including interest amounts. For additional information about our leases, refer to Note 8 of the Notes to the Consolidated Financial Statements.

(2) The contractual obligations do not include any amounts related to our pension plans. For additional information about our plans, refer to Note 10 of the Notes to the Consolidated Financial Statements.

Store Expansion and Capital Expenditures

We have entered new markets and made continued improvements and relocations of our store base. The following outlines the change in our selling square footage for each of the three years ended December 31 (square footage in thousands):

	2013		2012		2011	
Store Activity:	# of Stores	Square Footage	# of Stores	Square Footage	# of Stores	Square Footage
Opened	—	—	4	139	3	101

Closed	3	103	1	32	2	84
Year end balances	119	4,259	122	4,353	119	4,246

During 2013 we closed our Clearwater, Florida store in January, the Jackson, Mississippi location in April and the Roanoke, Virginia store in May. We also had major remodeling projects in four stores which increased their selling square footage.

The following table summarizes our planned store activity in 2014.

Location	Quarter Opened	Category
Atlanta, Georgia	Q-3	Existing Market
Fort Worth, Texas	Q-3	Existing Market
Orlando, Florida	Q-4	Relocation
To be announced	Q-4	Existing Market
Fayetteville, North Carolina	Q-4	Relocation
To be announced	Q-4	Relocation

These plans and other changes should increase net selling space in 2014 by approximately 1.8% assuming the new stores open and existing stores close as planned.

Our investing activities in stores and operations in 2013, 2012 and 2011 and planned outlays for 2014 are categorized in the table below. Capital expenditures for stores in the years noted do not necessarily coincide with the years in which the stores open.

(Approximate in thousands)	Proposed 2014	2013	2012	2011
Stores:				
New or replacement stores1	$15,000	$100	$9,500	$7,800
Remodels/expansions	7,000	11,200	5,500	4,900
Other improvements	5,000	3,900	4,600	2,300
Total stores	27,000	15,200	19,600	15,000
Distribution	3,500	2,300	1,600	200
Information technology	4,500	2,700	3,800	2,400
Total	$35,000	$20,200	$25,000	$17,600

1 Includes $4.8 million for purchase of leased locations in 2011.

Critical Accounting Estimates and Assumptions

Our discussion and analysis is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures. On an on-going basis, we evaluate our estimates, including those related to accounts receivable and allowance for doubtful accounts, pension and retirement benefits, self-insurance and realizability of deferred tax assets. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used or changes in the accounting estimate that are reasonably likely to occur could materially change the financial statements.

We believe the following critical accounting policies reflect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Pension and Retirement benefits. Pension and other retirement plans' costs require the use of assumptions for discount rates, investment returns, projected salary increases and mortality rates. Management is required to make certain critical estimates related to actuarial assumptions used to determine our pension expense and related obligation. We believe the most critical assumptions are related to (1) the discount rate used to determine the present value of the liabilities and (2) the expected long-term rate of return on plan assets. All of our actuarial assumptions are reviewed annually. Changes in these assumptions could have a material impact on the measurement of our pension expense and related obligation.

At each measurement date, we determine the discount rate by reference to rates of high quality, long-term corporate bonds that mature in a pattern similar to the future payments we anticipate making under the plans. As of December 31, 2013 and 2012, the weighted-average discount rates used to compute our benefit obligation were 4.93% and 4.13% respectively.

The expected long-term rate of return on plan assets is based upon the long-term outlook of our investment strategy as well as our historical returns and volatilities for each asset class. We also review current levels of interest rates and inflation to assess the reasonableness of our long-term rates. Our pension plan investment objective is to ensure our plan has sufficient funds to meet its benefit obligations when they become due. As a result, we periodically revise asset allocations, where appropriate, to improve returns and manage risk. The weighted-average expected long-term rates of return used to calculate our net periodic benefit cost were 6.65% in 2013 and 6.75% in 2012.

For purposes of determining the periodic expense of our defined benefit plan, we use the fair value of plan assets as the market related value. A one-percentage-point change in the assumed rates would have the following effects on 2013 pension expense:

(Approximate in thousands)	1.0% Increase	1.0% Decrease
Increase (decrease) for a 1% change in discount rate	$(604)	$669
Increase (decrease) for a 1% change in expected long-term return on plan assets	$(744)	$744

Refer to Note 10 to the Notes to Consolidated Financial Statements for additional information about our pension plans and related actuarial assumptions.

Self-Insurance. We are self-insured for certain losses related to worker's compensation, general liability and vehicle claims for amounts up to a deductible per occurrence. Our reserve is developed based on historical claims data and contains an actuarially developed incurred but not reported component. The resulting estimate is discounted and recorded as a liability. Our actuarial assumptions and discount rates are reviewed periodically and compared with actual claims experience and external benchmarks to ensure appropriateness. A one-percentage-point change in the actuarial assumption for the discount rate would impact 2013 expense for insurance by approximately $80,000, a 1.36% change.

We became primarily self-insured for employee group health care claims in 2012. We have purchased insurance coverage in order to establish certain limits to our exposure on both a per claim and aggregate basis. We record an accrual for the estimated amount of self-insured health care claims incurred by all participants but not yet reported (IBNR) using an actuarial method of applying a development factor to the reported monthly claims amounts. The Company's risk management and accounting management utilize a consistent methodology which involves various assumptions, judgment and other factors. The most significant factors which impact the determination of a required

accrual are the historical pattern of the timeliness of claims processing, any changes in the nature or types of benefit plans, changes in the plan benefit designs, and medical trends and inflation. Historical experience is continually monitored, and accruals are adjusted when warranted by changes in facts and circumstances. The Company believes that the total health care cost accruals are reasonable and adequate to cover future payments on incurred claims.

Stock-based compensation. We have stock-based compensation plans and since 2004 have made grants of restricted stock, restricted stock units, and stock-settled appreciation rights. See Note 11, Stock Based Compensation Plans, to the Notes to the Consolidated Financial Statements for a complete discussion of our stock-based compensation programs. We recognize stock-based compensation expense based on the fair value of the respective awards. We estimated the fair value of our stock-settled appreciation rights awards as of the grant date based upon a Black-Scholes-Merton option pricing model. We estimate the fair value of our restricted stock awards and units as of the grant date utilizing the closing market price of our stock on that date. The compensation expense associated with these awards is recorded in the consolidated statements of income with a corresponding credit to common stock.

Valuation Allowance of Deferred Tax Assets. Tax law requires items to be included in the tax return at different times than when these items are reflected in the consolidated financial statements. As a result, the annual tax rate reflected in our consolidated financial statements is different than that reported in our tax return. Some of these differences are permanent, such as expenses that are not deductible in our tax return, and some differences reverse over time, such as depreciation expense. These timing differences create deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities. The
tax rates used to determine deferred tax assets or liabilities are the enacted tax rates in effect for the year and manner in which the differences are expected to reverse.

We evaluate our ability to realize the tax benefits associated with deferred tax assets by analyzing our forecasted taxable income using both historical and projected future operating results, the reversal of existing taxable temporary differences, taxable income in prior carryback years (if permitted) and the availability of tax planning strategies. A valuation allowance is required to be established unless we determine that it is more likely than not that the Company will ultimately realize the tax benefit associated with a deferred tax asset. The valuation of deferred tax assets requires judgment in assessing the likely future tax consequences of events that have been recognized in our financial statements or tax returns and future profitability. Our accounting for deferred tax consequences represents our best estimate of future events. Changes in our current estimates, due to unanticipated events or otherwise, could have a material impact on our financial condition and results of operations.

Due to the losses in the fourth quarter of 2008, and considering projections for 2009 we expected that in 2009 we would be in a cumulative loss position (defined as a pre-tax cumulative loss for the latest three years). We recorded a $14.7 million increase to a valuation allowance against substantially all of our net deferred tax assets during the fourth quarter of 2008.

Our profitability in the fourth quarter of 2011 was sufficient such that we were no longer in a cumulative loss position. The sustained improvements in our results and a review of other positive and negative evidence led us to conclude that the valuation allowance for most of our net deferred tax assets was no longer required. Accordingly, during the fourth quarter of 2011 we released $14.1 million of our valuation allowance.

As of December 31, 2012, the Company’s valuation allowance on deferred tax assets was $1.4 million, related to state income tax credits that were not expected to be realized. This allowance was fully released during 2013 as these tax credits expired.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

In the ordinary course of business, we are exposed to various market risks, including fluctuations in interest rates. To manage the exposure related to this risk, we may use various derivative transactions. As a matter of policy, we do not engage in derivatives trading or other speculative activities. Moreover, we enter into financial instruments transactions with either major financial institutions or high credit-rated counterparties, thereby limiting exposure to credit and performance-related risks.

We have exposure to floating interest rates through our Credit Agreement. Therefore, interest expense will fluctuate with changes in LIBOR and other benchmark rates. We do not believe a 100 basis point change in interest rates would have a significant adverse impact on our operating results or financial position.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of our independent registered public accounting firm, the Consolidated Financial Statements of Havertys and the Notes to Consolidated Financial Statements, and the supplementary financial information called for by this Item 8, are set forth on pages F-1 to F-22 of this report. Specific financial statements and supplementary data can be found at the pages listed in the following index:

Index	Page
Financial Statements	
Report of Independent Registered Public Accounting Firm on the Consolidated Financial Statements	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Income	F-3
Consolidated Statements of Comprehensive Income	F-4
Consolidated Statements of Stockholders' Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7
Schedule II – Valuation and Qualifying Accounts	F-23

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

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. Our management has evaluated, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective for the purpose of providing reasonable assurance that the information we must disclose in reports that we file or submit under the Securities Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to the Company's management, including its CEO and CFO, as appropriate to allow

timely decisions regarding required disclosures.

(b) Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework). Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2013.

Attestation Report of the Independent Registered Public Accounting Firm. Ernst & Young LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued their report, included herein, on the effectiveness of our internal control over financial reporting.

(c) Changes in Internal Control over Financial Reporting. During the fourth quarter of 2013, there were no changes in our internal control over financial reporting that have affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting

The Board of Directors and Stockholders of
Haverty Furniture Companies, Inc.

We have audited Haverty Furniture Companies, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 1992 framework (the COSO criteria). Haverty Furniture Companies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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 Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the 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 detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Haverty Furniture Companies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2013 consolidated financial statements of Haverty Furniture Companies, Inc. and our report dated March 7, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 7, 2014

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth certain information as of March 1, 2014, regarding our executive officers:

Name	Position with the Company	Age	Date Assumed an Executive Officer Position
Clarence H. Smith	Chairman of the Board, President and Chief Executive Officer	63	May 1984
Steven G. Burdette	Executive Vice President, Stores	52	May 2003
J. Edward Clary	Senior Vice President, Distribution and Chief Information Officer	53	May 2003
Thomas P. Curran	Senior Vice President, Marketing	61	May 1999
Allan J. DeNiro	Senior Vice President, Chief People Officer	60	October 2004
Dennis L. Fink	Executive Vice President, Chief Financial Officer	62	January 1993
Richard D. Gallagher	Senior Vice President, Merchandising	52	February 2009
Rawson Haverty, Jr.	Senior Vice President, Real Estate and Development Director	57	May 1992
Jenny Hill Parker	Senior Vice President, Finance, Secretary and Treasurer	55	August 1996
Janet E. Taylor	Senior Vice President, General Counsel	52	September 2005

Rawson Haverty, Jr. and Clarence H. Smith are first cousins.

These officers are elected or appointed annually by the Board of Directors for terms of one year or until their successors are elected and qualified, subject to removal by the Board at any time. These individuals have each been executive officers of Havertys for each of the last five years.

We have adopted a Code of Conduct (the "Code") for our directors, officers (including our principal executive officer, and principal financial and accounting officer) and employees. The Code is available on our website at www.havertys.com. In the event we amend or waive any provisions of the Code applicable to our principal executive officer or principal financial and accounting officer, we will disclose the same by filing a Form 8-K. The information contained on or connected to our Internet website is not incorporated by reference into this Form 10-K and should not be considered part of this or any other report that we file or furnish to the SEC.

The remaining information called for by this item is incorporated by reference to "Election of Directors," "Corporate Governance," "Board and Committees" and "Other Information – Section 16(a) Beneficial Ownership Reporting Compliance" in our 2014 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in our 2014 Proxy Statement with respect to executive compensation and transactions under the heading "Compensation Discussion and Analysis" is incorporated herein by reference in response to this item.

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

The information contained in our 2014 Proxy Statement with respect to the ownership of common stock and Class A common stock by certain beneficial owners and management, and with respect to our compensation plans under which equity securities are authorized for issuance under the headings "Ownership of Company Stock by Directors and Management" and "Equity Compensation Plan Information," is incorporated herein by reference in response to this item.

For purposes of determining the aggregate market value of our common stock and Class A common stock held by non-affiliates, shares held by all directors and executive officers have been excluded. The exclusion of such shares is not intended to, and shall not, constitute a determination as to which persons or entities may be "affiliates" as defined under the Securities Exchange Act of 1934.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information contained in our 2014 Proxy Statement with respect to certain relationships, related party transactions and director independence under the headings "Certain Relationships and Related Transactions" and "Corporate Governance – Director Independence" is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the heading "Audit Fees and Related Matters" in our 2014 Proxy Statement is incorporated herein by reference to this item.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements. The following documents are filed as part of this report:

Consolidated Balance Sheets – December 31, 2013 and 2012
Consolidated Statements of Income – Years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Comprehensive Income – Years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Stockholders' Equity – Years ended December 31, 2013, 2012 and 2011
Consolidated Statements of Cash Flows – Years ended December 31, 2013, 2012 and 2011
Notes to Consolidated Financial Statements

(2) Financial Statement Schedule.

The following financial statement schedule of Haverty Furniture Companies, Inc. is filed as part of this Report and should be read in conjunction with the Consolidated Financial Statements:

Schedule II – Valuation and Qualifying Accounts

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All other schedules have been omitted because they are inapplicable or the required information is included in the Consolidated Financial Statements or notes thereto.

(3) Exhibits:

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

Each exhibit identified below is filed as part of this report. Exhibits not incorporated by reference to a prior filing are designated by an "*"; all exhibits not so designated are incorporated herein by reference to a prior filing as indicated. Exhibits designated with a "+" constitute a management contract or compensatory plan or arrangement. Our SEC File Number is 1-14445 for all exhibits filed with the Securities Exchange Act reports.

Exhibit No.	Exhibit
3.1	Articles of Amendment and Restatement of the Charter of Haverty Furniture Companies, Inc. effective May 2006 (Exhibit 3.1 to our 2006 Second Quarter Form 10-Q).
3.2	Amended and Restated By-Laws of Haverty Furniture Companies, Inc., as amended effective April 30, 2007 (Exhibit 3.2 to our 2007 First Quarter Form 10-Q).
10.1	Amended and Restated Credit Agreement by and among Haverty Furniture Companies, Inc. and Havertys Credit Services, Inc., as the Borrowers, SunTrust Bank, as the Issuing Bank and Administrative Agent and SunTrust Robinson Humphrey, Inc. as Lead Arranger, dated September 1, 2011 (Exhibit 10.1 to our 2011 Third Quarter Form 10-Q).
10.2	Haverty Furniture Companies, Inc., Class A Shareholders Agreement, made as of June 5, 2012, by and among, Haverty Furniture Companies, Inc., Villa Clare Partners, L.P., Clarence H. Smith, H5, L.P., Rawson Haverty, Jr., Ridge Partners, L.P. and Frank S. McGaughey (Exhibit 10.1 to our Form 8-K filed June 8, 2012); Parties added to the Agreement and Revised Annex I as of November 1, 2012 – Marital Trust FOB Margaret M. Haverty and Marital Trust B FOB Margaret M. Haverty; Parties added to the Agreement as of December 11, 2012 – Margaret Munnerlyn Haverty Revocable Trust (Exhibit 10.1 to our First Quarter 2013 Form 10-Q); Parties added to the Agreement as of July 5, 2013 – Richard McGaughey (Exhibit 10.1 to our Second Quarter 2013 Form 10-Q).
+10.3	1998 Stock Option Plan, effective as of December 18, 1997 (Exhibit 10.1 to our Registration Statement on Form S-8, File No. 333-53215); Amendment No. 1 to our 1998 Stock Option Plan effective as of July 27, 2001 (Exhibit 10.2 to our Registration Statement on Form S-8, File No. 333-66012).
+10.4	2004 Long-Term Incentive Compensation Plan effective as of May 10, 2004 (Exhibit 5.1 to our Registration Statement on Form S-8, File No. 333-120352).
*+10.5	Amended and Restated Directors' Compensation Plan, effective as of February 18, 2014.

+10.6	Amended and Restated Supplemental Executive Retirement Plan, effective January 1, 2009 (Exhibit 10.9 to our 2009 Form 10-K).
+10.7	Form of Agreement dated December 9, 2011 regarding Change in Control with the Named Executive Officers and a Management Director (Exhibit 10.6 to our 2011 Form 10-K).
+10.8	Form of Agreement dated December 9, 2011, regarding Change in Control with Executive Officers who are not Named Executive Officers or Management Directors (Exhibit 10.7 to our 2011 Form 10-K).

+10.9	Top Hat Mutual Fund Option Plan, effective as of January 15, 1999 (Exhibit 10.15 to our 1999 Form 10-K).
10.10	Lease Agreement dated July 26, 2001; Amendment No. 1 dated November, 2001 and Amendment No. 2 dated July 29, 2002 between Haverty Furniture Companies, Inc. as Tenant and John W. Rooker, LLC as Landlord (Exhibit 10.1 to our 2002 Third Quarter Form 10-Q). Amendment No. 3 dated July 29, 2005 and Amendment No. 4 dated January 22, 2006 between Haverty Furniture Companies, Inc. as Tenant and ELFP Jackson, LLC as predecessor in interest to John W. Rooker, LLC as Landlord (Exhibit 10.15.1 to our 2006 Form 10-K).
10.11	Contract of Sale dated August 6, 2002, between Haverty Furniture Companies, Inc. as Seller and HAVERTACQII LLC, as Landlord (Exhibit 10.2 to our 2002 Third Quarter Form 10-Q).
10.12	Lease Agreement dated August 6, 2002, between Haverty Furniture Companies, Inc. as Tenant and HAVERTACQII LLC, as Landlord (Exhibit 10.3 to our 2002 Third Quarter Form 10-Q).
*10.13	Amended and Restated Retailer Program Agreement, dated November 5, 2013, between Haverty Furniture Companies, Inc. and Capital Retail Bank (formerly known as GE Money Bank). Portions of this document have been redacted pursuant to a request for confidential treatment filed pursuant to the Freedom of Information Act.
+10.14	Form of Stock-Settled Appreciation Rights Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.2 to our Current Report on Form 8-K dated February 12, 2008).
+10.15	Form of Stock-Settled Appreciation Rights Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated February 2, 2009).
+10.16	Form of Restricted Stock Units Award Agreement in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated January 22, 2010).
+10.17	Form of Restricted Stock Units Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated January 31, 2011).
+10.18	Form of Restricted Stock Units Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated January 30, 2012).
+10.19	Form of Restricted Stock Units Award Notice and Form of Stock Settled Appreciation Rights Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibits 10.1 and 10.2 to our Current Report on Form 8-K dated January 30, 2013).

*21	Subsidiaries of Haverty Furniture Companies, Inc.
*23.1	Consent of Independent Registered Public Accounting Firm.
*31.1	Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*31.2	Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*32.1	Certification pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 7, 2014.

HAVERTY FURNITURE COMPANIES, INC.

By: /s/ CLARENCE H. SMITH
Clarence H. Smith
Chairman of the Board, President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on March 7, 2014.

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

/s/ FRANK S. McGAUGHEY, III
Frank S. McGaughey, III
Director

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

/s/ TERENCE F. McGUIRK
Terence F. McGuirk
Director

/s/ JOHN T. GLOVER
John T. Glover
Director

/s/ VICKI R. PALMER
Vicki R. Palmer
Director

/s/ RAWSON HAVERTY, JR.
Rawson Haverty, Jr.
Director

/s/ FRED L. SCHUERMANN
Fred L. Schuermann
Director

/s/ L. PHILLIP HUMANN
L. Phillip Humann
Lead Director

/s/ AL TRUJILLO
Al Trujillo
Director

/s/ MYLLE H. MANGUM
Mylle H. Mangum
Director

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
Haverty Furniture Companies, Inc.

We have audited the accompanying consolidated balance sheets of Haverty Furniture Companies, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Haverty Furniture Companies, Inc. at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Haverty Furniture Companies, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 1992 framework and our report dated March 7, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 7, 2014

Haverty Furniture Companies, Inc.
Consolidated Balance Sheets

	December 31,	
(In thousands, except per share data)	2013	2012
Assets		
Current assets		
Cash and cash equivalents	$83,185	$53,550
Restricted cash and cash equivalents	7,016	7,013
Accounts receivable	8,172	9,710
Inventories	91,483	96,902
Prepaid expenses	6,494	9,532
Other current assets	4,349	3,187
Total current assets	200,699	179,894
Accounts receivable, long-term	832	814
Property and equipment	189,242	193,085
Deferred income taxes	13,253	24,366
Other assets	13,829	3,937
Total assets	$417,855	$402,096
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$21,810	$28,178
Customer deposits	19,008	20,963
Accrued liabilities	36,338	33,272
Deferred income taxes	—	6,595
Current portion of lease obligations	959	881
Total current liabilities	78,115	89,889
Lease obligations, less current portion	16,196	18,473
Other liabilities	25,280	34,306
Commitments	—	—
Total liabilities	119,591	142,668
Stockholders' equity		
Capital Stock, par value $1 per share		
Preferred Stock, Authorized – 1,000 shares; Issued: None		
Common Stock, Authorized – 50,000 shares; Issued: 2013 – 27,853; 2012 – 27,212	27,853	27,212
Convertible Class A Common Stock, Authorized – 15,000 shares; Issued: 2013 – 2,915; 2012 – 3,297	2,915	3,297
Additional paid-in capital	77,406	73,803
Retained earnings	281,222	254,310
Accumulated other comprehensive loss	(15,412)	(23,378)
Less treasury stock at cost – Common Stock (2013 – 7,731; 2012 – 7,741) and Convertible Class A Common Stock (2013 and 2012 – 522)	(75,720)	(75,816)
Total stockholders' equity	298,264	259,428
Total liabilities and stockholders' equity	$417,855	$402,096

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

Haverty Furniture Companies, Inc.
Consolidated Statements of income

(In thousands, except per share data)	Year Ended December 31, 2013	2012	2011
Net sales	$746,090	$670,073	$620,903
Cost of goods sold	344,594	318,038	300,187
Gross profit	401,496	352,035	320,716
Credit service charges	320	293	460
Gross profit and other revenue	401,816	352,328	321,176
Expenses:			
Selling, general and administrative	348,599	328,826	315,865
Interest, net	1,107	624	737
Provision for doubtful accounts	120	165	167
Other income, net	(497)	(803)	(196)
Total expenses	349,329	328,812	316,573
Income before income taxes	52,487	23,516	4,603
Income tax expense (benefit)	20,222	8,605	(10,860)
Net income	$32,265	$14,911	$15,463
Basic earnings per share:			
Common Stock	$1.45	$0.69	$0.71
Class A Common Stock	$1.37	$0.58	$0.67
Diluted earnings per share:			
Common Stock	$1.41	$0.67	$0.70
Class A Common Stock	$1.35	$0.59	$0.67
Basic weighted average common shares outstanding:			
Common Stock	19,865	19,096	18,633
Class A Common Stock	2,558	2,943	3,287
Diluted weighted average common shares outstanding:			
Common Stock	22,815	22,382	22,153
Class A Common Stock	2,558	2,943	3,287

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

Haverty Furniture Companies, Inc.
Consolidated Statements of COMPREHENSIVE income

(In thousands)	Year Ended December 31,		
	2013	2012	2011
Net income	$ 32,265	$ 14,911	$ 15,463
Other comprehensive income (loss)			
Defined benefit pension plans:			
Net gain (loss) during year	10,943	339	(10,315)
Amortization of prior service cost	210	210	210
Amortization of net loss	1,695	1,873	947
Tax	(4,882)	(921)	3,389
Defined benefit pension plan, net	7,966	1,501	(5,769)
Other comprehensive income	—	117	201
Total other comprehensive income (loss)	7,966	1,618	(5,568)
Total comprehensive income	$ 40,231	$ 16,529	$ 9,895

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

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Haverty Furniture Companies, Inc.
Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share data)	Year Ended December 31,					
	2013		2012		2011	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
Common Stock:						
Beginning balance	27,212,184	$27,212	26,578,193	$26,578	26,272,106	$26,272
Conversion of Class A Common Stock	382,199	382	344,802	345	211,440	212
Stock compensation transactions, net	259,029	259	289,189	289	94,647	94
Ending balance	27,853,412	27,853	27,212,184	27,212	26,578,193	26,578
Class A Common Stock:						
Beginning balance	3,297,433	3,297	3,642,235	3,642	3,853,675	3,854
Conversion to Common Stock	(382,199)	(382)	(344,802)	(345)	(211,440)	(212)
Ending balance	2,915,234	2,915	3,297,433	3,297	3,642,235	3,642
Treasury Stock:						
Beginning balance (includes 522,410 shares Class A Stock for each of the years presented; remainder are Common Stock)	(8,263,557)	(75,816)	(8,271,024)	(75,847)	(8,282,677)	(75,959)
Directors' Plan	10,143	96	25,649	249	11,653	112
Purchases	—	—	(18,182)	(218)	—	—
Ending balance	(8,253,414)	(75,720)	(8,263,557)	(75,816)	(8,271,024)	(75,847)
Additional Paid-in Capital:						
Beginning balance		73,803		69,209		67,214
Stock option and restricted stock issuances		(1,928)		(1,605)		(237)
Tax benefit related to stock-based plans		1,754		289		15
Directors' Plan		454		147		157
Amortization of restricted stock		3,323		2,553		2,060
Ending balance		77,406		73,803		69,209
Retained Earnings:						
Beginning balance		254,310		264,083		251,229
Net income		32,265		14,911		15,463
Cash dividends (Common Stock: 2013 - $0.24; 2012 - $1.12 and 2011 - $0.12 per share Class A Common Stock: 2013 - $0.225, 2012 - $1.0625 and 2011 - $0.1125 per share)		(5,353)		(24,684)		(2,609)
Ending balance		281,222		254,310		264,083

Accumulated Other Comprehensive Loss:			
Beginning balance	(23,378)	(24,996)	(19,428)
Pension liabilities adjustment, net of taxes	7,966	1,501	(5,769)
Other	—	117	201
Ending balance	(15,412)	(23,378)	(24,996)
Total Stockholders' Equity	$298,264	$259,428	$262,669

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

Haverty Furniture Companies, Inc.
Consolidated Statements of Cash flows

(In thousands)	Year ended December 31, 2013	2012	2011
Cash Flows from Operating Activities			
Net income	$32,265	$14,911	$15,463
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	21,450	19,415	18,242
Stock-based compensation expense	3,323	2,553	2,060
Tax benefit from stock-based plans	(1,754)	(289)	(15)
Deferred income taxes	(652)	(2,209)	(7,947)
Provision for doubtful accounts	120	165	167
Other	459	614	346
Changes in operating assets and liabilities:			
Accounts receivable	1,400	1,210	2,299
Inventories	5,419	(3,458)	(1,775)
Customer deposits	(1,955)	6,391	987
Other assets and liabilities	(2,638)	1,819	(11,714)
Accounts payable and accrued liabilities	(1,548)	11,046	959
Net Cash Provided by Operating Activities	55,889	52,168	19,072
Cash Flows from Investing Activities			
Capital expenditures	(20,202)	(25,014)	(17,566)
Restricted cash and cash equivalents	(3)	(200)	(6,813)
Other investing activities	85	448	157
Net Cash Used in Investing Activities	(20,120)	(24,766)	(24,222)
Cash Flows from Financing Activities			
Proceeds from borrowings under revolving credit facilities	—	—	—
Payments of borrowings under revolving credit facilities	—	—	—
Net change in borrowings under revolving credit facilities	—	—	—
Payments on lease obligations	(867)	(766)	(588)
Proceeds from exercise of stock options	872	2,457	285
Tax benefit from stock-based plans	1,754	289	15
Dividends paid	(5,353)	(24,684)	(2,609)
Other financing activities	(2,540)	(733)	(413)
Net Cash Used In Financing Activities	(6,134)	(23,437)	(3,310)
Increase (Decrease) in cash and Cash Equivalents	29,635	3,965	(8,460)
Cash and Cash Equivalents at Beginning of Year	53,550	49,585	58,045
Cash and Cash Equivalents at End of Year	$83,185	$53,550	$49,585

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

Notes To Consolidated Financial Statements

Note 1, Description of Business and Summary of Significant Accounting Policies:

Business:
Haverty Furniture Companies, Inc. (“Havertys,” “we,” “our,” or “us”) is a retailer of a broad line of residential furniture in the middle to upper-middle price ranges. We have 119 showrooms in 16 states all operated using the Havertys name and we do not franchise our stores. We offer financing through an internal revolving charge credit plan as well as a third-party finance company. We operate in one reportable segment, home furnishings retailing.

Basis of Presentation:
The consolidated financial statements include the accounts of Havertys and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

Cash and Cash Equivalents:
Cash and cash equivalents includes all liquid investments with a maturity date of less than three months when purchased. Cash equivalents also include amounts due from third-party financial institutions for credit and debit card transactions which typically settle in five days.

Restricted Cash and Cash Equivalents:
Our insurance carrier requires us to collateralize a portion of our workers’ compensation obligations. We chose to change our collateral from a letter of credit to an escrow account during the second quarter of 2011. These funds are investments in money market funds held by an agent. The agreement with our carrier governing these funds is on an annual basis expiring on December 31.

Inventories:
Inventories are stated at the lower of cost or market. Cost is determined using the last-in, first-out (LIFO) method.

Property and Equipment:
Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Leasehold improvements and buildings under lease are amortized over the shorter of the estimated useful life or the lease term of the related asset. Amortization of buildings under lease is included in depreciation expense.

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

Buildings under lease	15 years

Customer Deposits:

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

Revenue Recognition:
We recognize revenue from merchandise sales and related service fees, net of sales taxes, upon delivery to the customer. A reserve for merchandise returns and customer allowances is estimated based on our historical returns and allowance experience and current sales levels.

We typically offer our customers an opportunity for us to deliver their purchases and most choose this service. Delivery fees of approximately $27,588,000, $21,699,000 and $21,492,000 were charged to customers in 2013, 2012 and 2011, respectively, and are included in net sales. The costs associated with deliveries are included in selling, general and administrative expenses and were approximately $32,736,000, $31,411,000 and $31,218,000 in 2013, 2012 and 2011, respectively.

Credit service charges are recognized as revenue as assessed to customers according to contract terms. The costs associated with credit approval, account servicing and collections are included in selling, general and administrative expenses.

Cost of Goods Sold:
Our cost of goods sold includes the direct costs of products sold, warehouse handling and transportation costs.

Selling, General and Administrative Expenses:
Our selling, general and administrative (“SG&A”) expenses are comprised of advertising, selling, occupancy, delivery and administrative costs as well as certain warehouse expenses. The costs associated with our purchasing, warehousing, delivery and other distribution costs included in SG&A expense were approximately $64,302,000, $61,991,000 and $62,857,000 in 2013, 2012 and 2011, respectively.

Deferred Escalating Minimum Rent and Lease Incentives:
Certain of our operating leases contain predetermined fixed escalations of the minimum rentals during the term of the lease. For these leases, we recognize the related rental expense on a straight-line basis over the life of the lease, beginning with the point at which we obtain control and possession of the leased properties, and record the difference between the amounts charged to operations and amounts paid as “Accrued liabilities.” The liability for deferred escalating minimum rent approximated $11,581,000 and $12,003,000 at December 31, 2013 and 2012, respectively. Any lease incentives we receive are deferred and subsequently amortized over a straight-line basis over the life of the lease as a reduction of rent expense. The liability for lease incentives approximated $1,766,000 and $2,918,000 at December 31, 2013 and 2012, respectively.

Advertising Expense:
Advertising costs, which include television, radio, newspaper and other media advertising, are expensed upon first showing. The total amount of prepaid advertising costs included in other current assets was approximately $604,000 and $631,000 at December 31, 2013 and 2012, respectively. We incurred approximately $43,030,000, $41,883,000 and $41,591,000 in advertising expense during 2013, 2012 and 2011, respectively.

Interest Expense, net:
Interest expense is comprised of amounts incurred related to our debt and lease obligations recorded on our balance sheet, net of interest income. The total amount of interest expense was approximately $1,218,000, $866,000 and $845,000 during 2013, 2012 and 2011, respectively.

Other Income, net:
Other income, net includes any gains or losses on sales of property and equipment and miscellaneous income or expense items outside of core operations.

Self-Insurance:
We are self-insured, for amounts up to a deductible per occurrence, for losses related to general liability, workers' compensation and vehicle claims. Beginning in 2012 we became primarily self-insured for employee group health care claims. We maintain an accrual for these costs based on claims filed and an estimate of claims incurred but not reported or paid, based on historical data and actuarial estimates. The reserves for self-insurance is included in accrued liabilities and other liabilities and totaled $8,220,000 and $7,227,000 at December 31, 2013 and 2012, respectively.

Fair Values of Financial Instruments:
The fair values of our cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and customer deposits approximate their carrying amounts due to their short-term nature. The assets that are related to our self-directed, non-qualified deferred compensation plans for certain executives and employees are valued using quoted market prices, a Level 1 valuation technique. The assets totaled approximately $2,081,000 and $1,549,000 at December 31, 2013 and 2012, respectively, and are included in other assets. The related liability of the same amount is included in other liabilities.

Impairment of Long-Lived Assets:
We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If an indicator of impairment is identified, we evaluate the long-lived assets at the individual property or store level, which is the lowest level at which individual cash flows can be identified. When evaluating these assets for potential impairment, we first compare the carrying amount of the asset to the store's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the store's assets' estimated fair value, which is determined on the basis of fair value for similar assets or future cash flows (discounted and with interest charges). If required, an impairment loss is recorded in SG&A expense for the difference in the asset's carrying value and the asset's estimated fair value. No such losses were recorded in 2013, 2012, and 2011.

Earnings Per Share:
We report our earnings per share using the two class method. The income per share for each class of common stock is calculated assuming 100% of our earnings are distributed as dividends to each class of common stock based on their contractual rights. See Note 12 for the computational components of basic and diluted earnings per share.

Comprehensive Income:
Accumulated other comprehensive income ("AOCI"), net of income taxes, were comprised of unrecognized pension liability adjustments totaling approximately $15,412,000 and $23,378,000 at December 31, 2013 and 2012, respectively. The amounts reclassified out of AOCI to SG&A related to our defined benefit pension plans.

Recently Issued and Adopted Accounting Pronouncement:

In February 2013, the Financial Accounting Standards Board ("FASB") issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU 2013-02), which is effective prospectively for public companies for reporting periods beginning after December 15, 2012. This new accounting standard improves the reporting of reclassifications out of AOCI by requiring an entity to report the effect of significant reclassifications out of AOCI on the respective line items in net income if the amount

being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. We adopted this new guidance on January 1, 2013 and the adoption did not have a material effect on our consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This accounting standard will require the presentation of certain unrecognized tax benefits as reductions to deferred tax assets rather than as liabilities in the Consolidated Balance Sheets when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The new standard requires adoption on a prospective basis in the first quarter of 2015; however, early adoption is permitted. We do not anticipate that this adoption will have a significant impact on our financial position, results of operations, or cash flows.

Note 2, Accounts Receivable:

Amounts financed under our in-house credit programs, as a percent of net sales including sales tax, were approximately 3.6% in 2013, 4.6% in 2012 and 5.2% in 2011. The credit programs selected most often by our customers is "12 months no interest with equal monthly payments." The terms of the other programs vary as to payment terms (30 days to three years) and interest rates (0% to 21%). The receivables are collateralized by the merchandise sold.

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. These receivable balances have been historically collected earlier than the scheduled dates. The amounts due per the scheduled payment dates approximate as follows: $8,395,000 in 2014, $766,000 in 2015, $128,000 in 2016 and $65,000 in 2017 for receivables outstanding at December 31, 2013.

Accounts receivable are shown net of the allowance for doubtful accounts of approximately $350,000 and $395,000 at December 31, 2013 and 2012, respectively. We provide an allowance utilizing a methodology which considers the balances in problem and delinquent categories of accounts, historical write-offs, existing economic conditions and management judgment. We assess the adequacy of the allowance account at the end of each quarter. Interest assessments are continued on past-due accounts but no "interest on interest" is recorded. Delinquent accounts are generally written off automatically after the passage of nine months without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of a discharged bankruptcy or other circumstances that make further collections unlikely.

We believe that the carrying value of existing customer receivables, net of allowances, approximates fair value because of their short average maturity. Concentrations of credit risk with respect to customer receivables are limited due to the large number of customers comprising our account base and their dispersion across 16 states.

Note 3, Inventories:

Inventories are measured using the last-in, first-out (LIFO) method of valuation because it results in a better matching of current costs and revenues. The excess of current costs over our carrying value of inventories was approximately $18,737,000 and $18,996,000 at December 31, 2013 and 2012, respectively. The use of the LIFO valuation method as compared to the FIFO method had a positive impact on our cost of goods sold of approximately $259,000 in 2013, and a negative impact of $886,000 in 2012 and $250,000 in 2011. During 2013 and 2011, inventory quantities declined resulting in liquidations of LIFO inventory layers. The effect of the liquidations (included in the preceding LIFO impact amounts) decreased cost of goods sold by an immaterial amount in 2013 and approximately $211,000 or $0.01 per diluted share of common stock in 2011. We believe this information is meaningful to the users of these consolidated financial statements for analyzing the effects of price changes, for better understanding our financial position and for comparing such effects with other companies.

Note 4, Property and Equipment:

Property and equipment are summarized as follows:

(In thousands)	2013	2012
Land and improvements	$47,650	$46,703
Buildings and improvements	235,468	232,077
Furniture and fixtures	92,375	83,976
Equipment	39,954	37,346
Buildings under lease	19,577	22,177
Construction in progress	902	425
	435,926	422,704
Less accumulated depreciation	(240,808)	(225,048)
Less accumulated lease amortization	(5,876)	(4,571)
Property and equipment, net	$189,242	$193,085

During 2012, we transferred approximately $1,217,000 from "Other Assets" to "Property and Equipment" due to our decision to lease a retail location which had been listed for sale.

Note 5, Credit Arrangement:

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

The $50.0 million revolving credit facility is secured by inventory, accounts receivable, cash and certain other personal property. Our Credit Agreement includes negative covenants that limit our ability to, among other things (a) incur, assume or permit to exist additional indebtedness or guarantees; (b) incur liens and engage in sale leaseback transactions or real estate sales in excess of $100.0 million; (c) pay dividends or redeem or repurchase capital stock; (d) engage in certain transactions with affiliates; and (e) alter the business that we conduct. These covenants are not expected to impact our liquidity or capital resources.

Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was $53.2 million and there were no outstanding letters of credit at December 31, 2013. Amounts available are based on the lesser of the borrowing base or the $50.0 million line amount and reduced by $6.2 million since a fixed charge coverage ratio test was not met for the immediately preceding twelve months, resulting in a net availability of $43.8 million. There were no borrowed amounts outstanding under the Credit Agreement at December 31, 2013, and we are in compliance with its terms and there exists no default or event of default.

Note 6, Accrued Liabilities and Other Liabilities:

Accrued liabilities and other liabilities consist of the following:

(In thousands)	2013	2012
Accrued liabilities:		
Employee compensation, related taxes and benefits	$14,318	$11,798
Taxes other than income and withholding	8,231	7,782
Self-insurance reserves	5,326	4,095
Other	8,463	9,597
	$36,338	$33,272
Other liabilities:		
Accrued defined benefit pension plan	$—	6,768
Straight-line lease liability	11,581	12,003
Other	13,699	15,535
	$25,280	$34,306

Note 7, Income Taxes:

Income tax expense (benefit) consists of the following:

(In thousands)	2013	2012	2011
Current			
Federal	$18,253	$9,375	$(3,136)
State	2,621	1,439	223
	20,874	10,814	(2,913)
Deferred			
Federal	(706)	(2,235)	(7,002)
State	54	26	(945)
	(652)	(2,209)	(7,947)
	$20,222	$8,605	$(10,860)

The differences between income tax expense in the accompanying Consolidated Financial Statements and the amount computed by applying the statutory Federal income tax rate are as follows:

(In thousands)	2013	2012	2011
Statutory rates applied to income before income taxes	$18,370	$8,231	$1,565
State income taxes, net of Federal tax benefit	1,610	769	143
Net permanent differences	316	8	33
Change in deferred tax asset valuation allowance	(1,363)	(1,207)	(14,121)
Change in state credits	1,466	1,129	717
Change for net operating loss carrybacks, amended returns and related receivables	(204)	342	422
Change in deferred tax rate	—	(125)	274
Change in reserve for uncertain tax positions	—	(674)	42
Other	27	132	65
	$20,222	$8,605	$(10,860)

Our 2011 benefit includes a $717,000 impact of the change in treatment of ports credits by the state of Georgia. These credits were almost completely reserved in our valuation allowance as are the remaining revised credits. Our expense in 2013 and 2012 includes the impact of state credits which expired. The change in state credits in 2013 and 2012 is the unused amounts which expired as of each of the end of the tax years.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The amounts in the following table are grouped based on broad categories of items that generate the deferred tax assets and liabilities.

(In thousands)	2013	2012
Deferred tax assets:		
Accounts receivable related	$610	$578
Net property and equipment	11,977	10,313
Leases	5,007	5,608
Accrued liabilities	776	655
State tax credits	110	1,576
Pension	4,633	9,515
Other	28	37
Total deferred tax assets	23,141	28,282
Deferred tax liabilities:		
Inventory related	8,951	8,446
Other	643	702
Total deferred tax liabilities	9,594	9,148
Valuation allowance	—	(1,363)
Net deferred tax assets	$13,547	$17,771

Deferred tax assets and deferred tax liabilities which are current are netted against each other as are non-current deferred tax assets and non-current deferred tax liabilities as they relate to each tax-paying component for presentation in the consolidated balance sheets. These groupings are detailed in the following table:

(In thousands)	2013	2012
Current assets (liabilities):		
Current deferred assets	$11,048	$5,060
Current deferred liabilities	(10,754)	(10,292)
Valuation allowance	—	(1,363)
	294	(6,595)
Non-current assets (liabilities):		
Non-current deferred assets	39,974	46,997
Non-current deferred liabilities	(26,721)	(22,631)
	13,253	24,366
Net deferred tax assets	$13,547	$17,771

We review our deferred tax assets to determine the need for a valuation allowance based on evidence to conclude that it is more-likely-than-not they will be realized.

Our profitability in the fourth quarter of 2011 was sufficient such that we were no longer in a cumulative loss position. The sustained improvements in our results since mid-2009 and a review of other positive and negative evidence led us to conclude that a valuation allowance for most of our net deferred tax assets was no longer required. Accordingly, during the fourth quarter of 2011 we released $14.1 million of our valuation allowance. As of December 31, 2012 and 2011 our valuation allowance on deferred tax assets was $1.4 million and $2.6 million, respectively, and was related to state income tax credits.

We file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With respect to U.S. federal, state and local jurisdictions, with limited exceptions, we are no longer subject to income tax audits for years before 2009.

Uncertain Tax Positions: A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In thousands)	2013	2012	2011
Balance at January 1	$ —	$ 783	$ 785
Gross increases – tax positions in prior period	—	—	38
Gross decreases – tax positions in prior period	—	—	(40)
Reductions related to settlements with taxing authorities and the lapse of the statute of limitations	—	(783)	—
Balance at December 31	$ —	$ —	$ 783

During 2012 we settled federal and state audits and the statute of limitations lapsed eliminating our unrecognized tax positions and reducing our effective tax rate by approximately $674,000. Interest and penalties are recognized as components of income tax expense. We had approximately $285,000 of accrued interest and penalties at December 31, 2011.

Note 8, Long-Term Debt and Lease Obligations:

Long-term debt and lease obligations are summarized as follows:

(In thousands)	2013	2012
Revolving credit notes (a)	$—	$—
Lease obligations (b)	17,155	19,354
	17,155	19,354
Less portion classified as current	(959)	(881)
	$16,196	$18,473

(a) We have a revolving credit agreement as described in Note 5.
(b) These obligations are related to retail stores under lease with aggregate net book values of approximately $13,701,000 and $17,607,000 at December 31, 2013 and 2012, respectively. The obligation and book values were reduced by $2,600,000 in 2013 as one property was completed and accounting for its lease finalized.

The approximate aggregate maturities of lease obligations during the five years subsequent to December 31, 2013 and thereafter are as follows: 2014 - $959,000; 2015 - $1,168,000; 2016 - $1,320,000, 2017 - $1,431,000; 2018 - $1,559,000 and $10,718,000 thereafter. These maturities are net of imputed interest of approximately $6,847,000 at December 31, 2013.

Cash payments for interest were approximately $1,185,000, $834,000 and $790,000 in 2013, 2012 and 2011, respectively.

Note 9, Stockholders' Equity:

Common Stock has a preferential dividend rate of at least 105% of the dividend paid on Class A Common Stock. Class A Common Stock has greater voting rights which include: voting as a separate class for the election of 75% of the total number of directors and on all other matters subject to shareholder vote, each share of Class A Common Stock has ten votes and votes with the Common Stock as a single class. Class A Common Stock is convertible at the holder's option at any time into Common Stock on a 1-for-1 basis; Common Stock is not convertible into Class A Common Stock.

Note 10, Benefit Plans:

We have a defined benefit pension plan (the "pension plan") covering substantially all employees hired on or before December 31, 2005. The pension plan was closed to any employees hired after that date. The benefits are based on years of service and the employee's final average compensation. Effective January 1, 2007, there are no new benefits earned under the pension plan for additional years of service after December 31, 2006. All current participants in the pension plan keep any and all benefits that they had accrued up until December 31, 2006.

We also have a non-qualified, non-contributory supplemental executive retirement plan (the "SERP") for employees whose retirement benefits are reduced due to their annual compensation levels. The SERP provides annual benefits amounting to 55% of final average earnings less benefits payable from our pension plan and Social Security benefits. The SERP limits the total amount of annual retirement benefits that may be paid to a participant from all sources (Retirement Plan, Social Security and the SERP) to $125,000. The SERP is not funded so we pay benefits directly to participants.

The following table summarizes information about our pension plan and SERP.

	Pension Plan		SERP	
(In thousands)	2013	2012	2013	2012
Change in benefit obligation:				
Benefit obligation at beginning of the year	$80,610	$77,677	$6,368	$6,175
Service cost	—	—	134	97
Interest cost	3,278	3,506	259	262
Actuarial losses	(6,838)	5,172	(595)	31
Benefits paid	(3,594)	(5,745)	(192)	(197)
Benefit obligation at end of year	73,456	80,610	5,974	6,368
Change in plan assets:				
Fair value of plan assets at beginning of year	73,842	66,571	—	—
Employer contribution	4,200	3,000	192	197
Actual return on plan assets	8,456	10,016	—	—
Benefits paid	(3,594)	(5,745)	(192)	(197)
Fair value of plan assets at end of year	82,904	73,842	—	—
Funded status of the plan – (underfunded)	$9,448	$(6,768)	$(5,974)	$(6,368)
Accumulated benefit obligations	$73,456	$80,610	$5,974	$6,309

Amounts recognized in the consolidated balance sheets consist of:

(In thousands)	Pension Plan 2013	Pension Plan 2012	SERP 2013	SERP 2012
Noncurrent assets	$9,448	$—	$—	$—
Current liabilities	—	—	(214)	(222)
Noncurrent liabilities	—	(6,768)	(5,760)	(6,146)
	$9,448	$(6,768)	$(5,974)	$(6,368)

Amounts recognized in accumulated other comprehensive income (loss) before the effect of income taxes consist of:

(In thousands)	Pension Plan 2013	Pension Plan 2012	SERP 2013	SERP 2012
Prior service cost	$—	$—	$(641)	$(851)
Net actuarial loss	(11,176)	(23,150)	(568)	(1,232)
	$(11,176)	$(23,150)	$(1,209)	$(2,083)

Net pension cost included the following components:

(In thousands)	Pension Plan 2013	Pension Plan 2012	Pension Plan 2011	SERP 2013	SERP 2012	SERP 2011
Service cost-benefits earned during the period	$—	$—	$—	$134	$97	$102
Interest cost on projected benefit obligation	3,278	3,506	3,686	259	262	286
Expected return on plan assets	(4,948)	(4,474)	(4,230)	—	—	—
Amortization of prior service cost	—	—	—	210	210	210
Amortization of actuarial loss	1,627	1,847	941	68	26	6
Net pension costs	$(43)	$879	$397	$671	$595	$604

The estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost in 2014 is approximately $316,000 for the pension plan and $210,000 for the SERP.

Assumptions

We use a measurement date of December 31 for our pension and other benefit plan. Weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	2013	2012
Discount rate	4.93 %	4.13 %
Rate of compensation increase	n/a	3.50 %

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	2013	2012	2011
Discount rate	4.13 %	4.60 %	5.45 %
	6.65 %	6.75 %	7.10 %

Expected long-term return on plan assets			
Rate of compensation increase	3.50 %	3.50 %	3.50 %

For purposes of determining the periodic expense of our defined benefit plans, we use fair market value of plan assets as the market related value.

Plan Assets

The Board of Director's Executive Compensation and Employee Benefits Committee (the "Compensation Committee") is responsible for administering our pension plan. The primary investment objective of the pension plan is to ensure, over its long-term life, an adequate pool of assets to support the benefit obligations to participants, retirees and beneficiaries. An important secondary objective is to be able to improve the pension plan's funded status which reduces employer contributions. In meeting these objectives, the Compensation Committee seeks to achieve a high level of investment return consistent with a prudent level of portfolio risks.

Factors such as asset class allocations, long-term rates of return (expected and actual), and results of periodic asset liability modeling studies are considered when constructing the long-term rate of return assumptions for our pension plan. While historical rates of return are an important factor in the analysis, we also take into consideration data points from other external sources.

The assets of the plan, excluding Haverty stock, are being invested according to the following asset allocation guidelines, established to reflect the growth expectations and risk tolerance of the Compensation Committee. Haverty stock has a target weight of 5% of total plan assets with a tactical range of zero to 10%.

Security Class	Strategic Target		Tactical Range	
Equity:				
International Equity	10	%	0% - 20	%
Domestic Equity	15	%	5% - 25	%
Total Equity	25	%	15% - 35	%
U.S. Fixed Income	75	%	65% - 85	%
Cash	0	%	0% - 10	%
Total Fund	100	%		

Our pension plan assets are valued based on observable inputs obtained from independent sources. Most of the assets are held in audited institutional mutual funds and collective trusts. Since the net asset values of these funds are not quoted on actively traded markets, they are classified in a Level 2 valuation category. Some of the holdings in these funds are valued using quoted market prices for similar instruments in active markets, a Level 2 valuation technique. The remaining assets are valued using quoted market prices, a Level 1 valuation technique. The fair values by asset category are as follows (in thousands):

	Fair Value Measurements					
	December 31, 2013			December 31, 2012		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Money Market Funds	$380	$380	$—	$518	$518	$—
Equity Securities:						
Haverty Class A Common Stock	6,348	6,348		3,348	3,348	
U.S. Large Cap Passive(a)	9,151		9,151	16,927		16,927
U.S. Small/Mid Cap Growth	1,183		1,183	2,162		2,162
U.S. Small/Mid Cap Value	1,174		1,174	2,052		2,052
International Equity	6,316		6,316	11,276		11,276
Emerging Markets Equity	1,530		1,530	2,891		2,891
	25,702	6,348	19,354	38,656	3,348	35,308
Fixed Income:						
Opportunistic(b)	8,143		8,143	5,125		5,125
Passive	4,294		4,294	2,641		2,641
Long Duration Active(c)	16,964		16,964	10,278		10,278
Long Duration Passive	6,478		6,478	3,150		3,150

Long Duration Investment Grade(d)	20,943		20,943	13,474		13,474
	56,822	—	56,822	34,668	—	34,668
Total	$82,904	$6,728	$76,176	$73,842	$3,866	$69,976

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500.
(b) This fund invests primarily in U.S. dollar-denominated, investment grade bonds, including government securities, corporate bonds, and mortgage and asset-backed securities. This fund may also invest a significant portion of its assets in any combination of non-investment grade bonds, non-U.S. dollar denominated bonds, and bonds issued by issuers in emerging capital markets.
(c) This category invests primarily in U.S. dollar-denominated, investment grade bonds, including government securities, corporate bonds, and mortgage and asset-backed securities, among others.
(d) This category invests primarily in U.S. dollar-denominated, investment grade corporate bonds as well as U.S. Treasury bonds.

Cash Flows
There were no minimum funding requirements to the pension plan in 2013 or 2014. We contributed $4,200,000 to the pension plan in 2013 and do not expect to make contributions in 2014. The following schedule outlines the expected benefit payments:

(In thousands)	Pension Plan	SERP
2014	$ 3,875	$ 214
2015	3,997	225
2016	4,157	256
2017	4,378	365
2018	4,528	370
2019-2023	23,454	2,100

Other Plans
We have an employee savings/retirement (401(k)) plan to which substantially all our employees may contribute. We match employee contributions 100% of the first 1% of eligible pay and 50% of the next 5% contributed by participants. We expensed matching employer contributions of approximately $3,104,000, $2,907,000 and $2,666,000 in 2013, 2012 and 2011, respectively.

We offer no post-retirement benefits other than the plans discussed above and no significant post-employment benefits.

Note 11, Stock-Based Compensation Plans:

We have issued options and awards for Common Stock under two stock-based employee compensation plans, the 2004 Long Term Incentive Plan (the "2004 LTIP Plan") and the 1998 Stock Option Plan (the "1998 Plan"). As of December 31, 2013, 715,433 shares were available for awards and options under the 2004 LTIP Plan. No new awards may be granted under the 1998 Plan and as of December 31, 2013 all previously granted awards have been exercised, forfeited, or expired.

The following table summarizes our equity award activity during the years ended December 31, 2013, 2012 and 2011:

	Restricted Stock Award		Stock-Settled Appreciation Rights		Options	
	Shares or Units	Weighted-Average Award Price	Rights	Weighted-Average Award Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2011	289,125	11.65	144,049	8.87	830,427	15.18
Granted	249,600	12.67	—	—	—	—
Exercised or restrictions lapsed(1)	(104,000)	12.03	—	—	(25,000)	10.81
Forfeited or expired	(2,700)	12.39	—	—	(513,327)	15.95
Outstanding at December 31, 2011	432,025	12.13	144,049	8.87	292,100	14.20
Granted	252,700	12.34	—	—	—	—
Exercised or restrictions lapsed(1)	(127,050)	11.87	(22,300)	8.94	(236,100)	12.89
Forfeited or expired	(1,750)	12.34			(6,000)	12.84
Outstanding at December 31, 2012	555,925	12.28	121,749	8.85	50,000	20.56
Granted	162,150	18.15	112,000	18.14	—	—
Exercised or restrictions lapsed(1)	(277,975)	12.24	(84,049)	8.90	(48,000)	20.75
Forfeited or expired	(3,100)	15.00	—	—	(2,000)	15.90
Outstanding at December 31, 2013	437,000	14.46	149,700	15.78	—	—
Exercisable at December 31, 2013			37,700	$ 8.76	—	—
Exercisable at December 31, 2012			96,224	$ 8.89	50,000	$ 20.56
Exercisable at December 31, 2011			80,508	$ 8.91	292,100	$ 14.20

(1) The total intrinsic value of options and stock-settled appreciation rights exercised was approximately $1,312,000, $760,000 and $49,000 in 2013, 2012 and 2011, respectively.

The weighted average fair value for the stock-settled appreciation rights granted in 2013 was $6.50 estimated at the date of grant using a Black-Scholes pricing model with the following weighted average assumptions: risk-free interest rate of 1.0%, expected life of 6 years, expected volatility of 41.5% per year and expected dividend yield of 1.2%. The aggregate intrinsic value of vested and outstanding stock-settled appreciation rights at December 31, 2013 was approximately $850,000 and $2,324,000, respectively.

The total fair value of restricted common stock shares that vested in 2013, 2012 and 2011 was approximately $6,308,000, $1,528,000 and $1,251,000, respectively. The aggregate intrinsic value of outstanding restricted stock awards was $13,678,000 at December 31, 2013.

Grants of restricted common stock, restricted units, and stock-settled appreciation rights are made to certain officers and key employees under the 2004 LTIP Plan. The restrictions on the awards generally lapse or vest annually, primarily over four year periods. The compensation is being charged to selling, general and administrative expense over the respective grants' vesting periods, primarily on a straight-line basis, and was approximately $3,323,000, $2,553,000 and $2,060,000 in 2013, 2012 and 2011, respectively. As of December 31, 2013, the total compensation cost related to unvested equity awards was approximately $4,412,000 and is expected to be recognized over a weighted-average period of 2.6 years.

Note 12, Earnings Per Share:

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

Numerator:	2013	2012	2011
Common:			
Distributed earnings	$4,787	$21,721	$2,244
Undistributed earnings (loss)	23,972	(8,522)	11,005
Basic	28,759	13,199	13,249
Class A Common earnings	3,506	1,712	2,214
Diluted	$32,265	$14,911	$15,463
Class A Common:			
Distributed earnings	$566	$2,963	$365
Undistributed earnings (loss)	2,940	(1,251)	1,849
	$3,506	$1,712	$2,214

Denominator:	2013	2012	2011
Common:			
Weighted average shares outstanding - basic	19,865	19,096	18,633
Assumed conversion of Class A Common Stock	2,558	2,943	3,287
Dilutive options, awards and common stock equivalents	392	343	233
Total weighted average diluted Common Stock	22,815	22,382	22,153
Class A Common:			
Weighted average shares outstanding	2,558	2,943	3,287
Basic net earnings per share			
Common Stock	$1.45	$0.69	$0.71
Class A Common Stock	$1.37	$0.58	$0.67
Diluted net earnings per share			
Common Stock	$1.41	$0.67	$0.70
Class A Common Stock	$1.35	$0.59	$0.67

At December 31, 2012, and 2011, we did not include options to purchase approximately 50,000 and 772,000 shares of Havertys Common Stock, respectively, in the computation of diluted earnings per common share because the exercise prices of those options were greater than the average market price and their inclusion would have been antidilutive.

A special cash dividend of $1.00 for Common Stock and $0.95 for Class A Common Stock was paid in the fourth quarter of 2012.

Note 13, Commitments:

We lease certain property and equipment under operating leases. Initial lease terms range from 5 years to 30 years and certain leases contain renewal options ranging from one to 25 years or provide for options to purchase the related property at fair market value or at predetermined purchase prices. The leases generally require us to pay all maintenance, property taxes and insurance costs.

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The following schedule outlines the future minimum lease payments and rentals under operating leases:

(In thousands)	Operating Leases
2014	$31,296
2015	30,941
2016	29,194
2017	26,850
2018	25,023
Subsequent to 2019	84,804
Total minimum payments	228,108
Less total minimum sublease rentals	(24)
Net minimum lease payments	$228,084

Step rent and other lease concessions (free rent periods) are taken into account in computing lease expense on a straight-line basis. Lease concessions for capital improvements have not been significant, but are recorded as a reduction of expense over the term of the lease. Net rental expense applicable to operating leases consisted of the following for the years ended December 31:

	2013	2012	2011
Property			
Minimum	$27,370	$27,633	$28,347
Additional rentals based on sales	—	—	34
Sublease income	(146)	(137)	(292)
	27,224	27,496	28,089
Equipment	2,444	2,162	1,997
	29,668	$29,658	$30,086

Note 14, Supplemental Cash Flow Information:

Income Taxes Paid and Refunds Received
We paid state and federal income taxes of approximately $20,432,000, $9,197,000 and $513,000 in 2013, 2012 and 2011, respectively. We also received income tax refunds of approximately $3,003,000, $662,000 and $1,824,000 in 2013, 2012 and 2011, respectively.

Non-Cash Transactions
We increased property and equipment and lease obligations related to new retail stores by approximately $7,073,000 in 2012 and $4,535,000 in 2011. We reduced property and equipment and lease obligations by approximately $2,600,000 in 2013 as one property was completed and accounting for its lease finalized.

Note 15, Selected Quarterly Financial Data (Unaudited):

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2013 and 2012 (in thousands, except per share data):

	2013 Quarter Ended			
	March 31	June 30	September 30	December 31
Net sales	$186,090	$171,114	$192,722	$196,164
Gross profit	100,309	91,311	103,877	106,000
Credit service charges	86	76	78	79
Income before taxes	13,450	7,866	15,388	15,783
Net income	8,260	4,830	9,494	9,681
Basic net earnings per share:				
Common	0.37	0.22	0.42	0.43
Class A Common	0.35	0.20	0.40	0.41
Diluted net earnings per share:				
Common	0.36	0.21	0.42	0.42
Class A Common	0.34	0.20	0.40	0.41

The first quarter of 2013 includes a benefit of $0.8 million to gross profit, a $0.02 per share impact, for an out-of-period adjustment.

	2012 Quarter Ended			
	March 31	June 30	September 30	December 31
Net sales	$163,569	$151,519	$172,677	$182,307
Gross profit	85,341	79,749	90,673	96,271
Credit service charges	76	71	69	77
Income before taxes	4,021	3,766	5,636	10,093
Net income	2,457	2,361	3,314	6,779
Basic net earnings per share:				
Common	0.11	0.11	0.15	0.31
Class A Common	0.11	0.10	0.14	0.28
Diluted net earnings per share:				
Common	0.11	0.11	0.15	0.30
Class A Common	0.11	0.10	0.14	0.29

Because of rounding the amounts will not necessarily add to the totals computed for the year. Also because of rounding and the use of the two class method in calculating per share data, the quarterly per share data will not necessarily add to the annual totals.

Schedule II – Valuation and Qualifying Accounts
Haverty Furniture Companies, Inc. and subsidiaries:

Column A	Column B	Column C	Column D	Column E
(In thousands)	Balance at beginning of period	Additions charged to costs and expenses	Deductions Describe (1)(2)	Balance at end of period
Year ended December 31, 2013:				
Allowance for doubtful accounts	$395	$120	$165	$350
Reserve for cancelled sales and allowances	$1,152	$10,402	$10,277	$1,277
Year ended December 31, 2012:				
Allowance for doubtful accounts	$525	$165	$295	$395
Reserve for cancelled sales and allowances	$1,100	$9,027	$8,975	$1,152
Year ended December 31, 2011:				
Allowance for doubtful accounts	$700	$167	$342	$525
Reserve for cancelled sales and allowances	$1,210	$8,193	$8,303	$1,100

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

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