

CONSOLIDATED GRAPHICS INC /TX/
Form SC 13D
November 01, 2013

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

SCHEDULE 13D

(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO § 240.13d-1(a) AND
AMENDMENTS THERETO FILED PURSUANT TO § 240.13d-2(a)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

Consolidated Graphics, Inc.

(Name of Issuer)

COMMON STOCK, PAR VALUE \$0.01 PER SHARE

(Title of Class of Securities)

209341106

(CUSIP Number)

Suzanne S. Bettman

R.R. Donnelley & Sons Company

111 South Wacker Drive

Chicago, Illinois 60606

(312) 326-8000

with a copy to:

Audra D. Cohen

Krishna Veeraraghavan

Sullivan & Cromwell LLP

125 Broad Street

New York, New York 10004

(212) 558-4000

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

October 23, 2013

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), Rule 13d-1(f) or Rule 13d-1(g), check the following box. "

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 13d-7 for other parties to whom copies are to be sent.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, *see* the Notes).

SCHEDULE 13D

CUSIP NO. 209341106

1 NAME OF REPORTING PERSON

R.R. Donnelley & Sons Company
2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ☐ (b) ☐

3 SEC USE ONLY

4 SOURCE OF FUNDS

OO
5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS
2(d) OR 2(e)

..
6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware
NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 0
8 SHARED VOTING POWER

OWNED BY

EACH

2,472,121⁽¹⁾
REPORTING 9 SOLE DISPOSITIVE POWER

PERSON

WITH

0

10 SHARED DISPOSITIVE POWER

0

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

2,472,121⁽¹⁾

12 CHECK BOX IF AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

..

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

23.4%⁽²⁾

14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)

CO

⁽¹⁾ The shares of Common Stock, par value \$0.01 per share (Common Stock), of Consolidated Graphics, Inc., a Texas corporation (Consolidated Graphics or the Issuer), covered by this item may be deemed beneficially owned by R.R. Donnelley & Sons Company, a Delaware corporation (R.R. Donnelley), under a Voting Agreement, dated as of October 23, 2013 (the Voting Agreement), among R.R. Donnelley, Joe R. Davis (the Shareholder) and the Issuer, obligating the Shareholder to vote such shares in accordance with the terms of

- the Voting Agreement. The number of shares listed above comprises (i) 1,594,121 shares of Common Stock and (ii) 878,000 shares of Common Stock issuable upon exercise of outstanding options to acquire shares of Common Stock (any option to acquire shares of Common Stock, a Consolidated Graphics Stock Option) that are fully vested and subject to the Voting Agreement. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by R.R. Donnelley that it is the beneficial owner of any shares of Common Stock for purposes of Section 13(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), or for any other purpose, and such beneficial ownership is expressly disclaimed.
- (2) The percentage used herein is calculated based on 9,687,642 shares of Common Stock outstanding as of July 31, 2013, as set forth in the Issuer's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, and 878,000 shares of Common Stock issuable upon exercise of the fully vested Consolidated Graphics Stock Options that are subject to the Voting Agreement.

Item 1. Security and Issuer.

This statement relates to shares of Common Stock, par value \$0.01 per share, of the Issuer. The principal executive offices of the Issuer are located at 5858 Westheimer Road, Suite 200, Houston, Texas 77057.

Item 2. Identity and Background.

This statement is being filed by R.R. Donnelley, whose principal business address is 111 South Wacker Drive, Chicago, Illinois 60606. R.R. Donnelley is a global provider of integrated communications providing premedia, printing, logistics and business process outsourcing services to clients in virtually every private and public sector.

(a)-(c); (f) The name, residence or business address, present principal occupation or employment, the name, principal business and address of any corporation or other organization in which such employment is conducted, and the citizenship of each of the directors and executive officers of R.R. Donnelley is set forth in Schedule I hereto.

(d)-(e) During the last five years, neither R.R. Donnelley nor, to the knowledge of R.R. Donnelley, any of the persons listed in Schedule I hereto, (i) has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction as a result of which such person was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

See Item 4 below.

The Shareholder entered into the Voting Agreement as a material condition and inducement to the willingness of R.R. Donnelley and Merger Sub to enter into the Merger Agreement. The shares of Common Stock to which this statement relates have not been purchased by R.R. Donnelley and no funds were expended in connection with the execution of the Voting Agreement.

Item 4. Purpose of Transaction.

(a)-(j) On October 23, 2013, the Issuer, R.R. Donnelley and Hunter Merger Sub, Inc., a Texas corporation and a wholly owned subsidiary of R.R. Donnelley (Merger Sub), entered into that certain Agreement and Plan of Merger,

dated as of October 23, 2013 (the Merger Agreement). The Merger Agreement provides, among other things, for the merger of Merger Sub with and into the Issuer (the Merger), with the Issuer surviving (the Surviving Corporation) as a wholly owned subsidiary of R.R. Donnelley.

Pursuant to the Merger Agreement, at the Effective Time (as defined in the Merger Agreement), (i) each share of Common Stock issued and outstanding immediately prior to the Effective Time, other than Excluded Shares (as defined in the Merger Agreement), will be converted into the right to receive (x) \$34.44 in cash (the Per Share

Cash Amount) and (y) 1.651 (the Exchange Ratio) validly issued, fully paid and non-assessable shares of common stock, par value \$1.25 per share (each, a Parent Share), of R.R. Donnelley (collectively, the Per Share Merger Consideration) and (ii) each Consolidated Graphics Stock Option will be converted into the right to receive an amount in cash equal to the excess, if any, of (x)(1) the Per Share Cash Amount plus (2) the product of the Exchange Ratio and an amount equal to the average of the closing sale prices of Parent Shares on The Nasdaq Global Select Market (Nasdaq) for each of the ten (10) consecutive trading days ending with the third (3rd) complete trading day prior to the date of the closing of the Merger minus (y) the per share exercise price of the applicable Consolidated Graphics Stock Option immediately prior to the Effective Time.

The consummation of the Merger is subject to customary conditions, including the (i) approval of the Merger Agreement by holders of at least 66 $\frac{2}{3}$ % of the outstanding shares of Common Stock (the Shareholder Approval), (ii) absence of any law or order prohibiting the closing, (iii) expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iv) effectiveness of the registration statement on Form S-4 that R.R. Donnelley will file to register the Parent Shares to be issued in the Merger and (v) approval of the listing of the Parent Shares to be issued in the Merger on Nasdaq.

Pursuant to the Merger Agreement, at the Effective Time, (i) the Issuer's Restated Articles of Incorporation, as amended, and the Issuer's Third Amended and Restated By-Laws, as amended, will be amended in their entirety to read as set forth in Exhibit B and Exhibit C to the Merger Agreement, respectively, and as so amended, shall be the articles of incorporation and the by-laws of the Surviving Corporation, until thereafter duly amended as provided therein or by applicable law, (ii) the directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation until their respective successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Texas Business Organizations Code (the TBOC) and the articles of incorporation and the by-laws of the Surviving Corporation and (iii) the officers of the Issuer immediately prior to the Effective Time shall, from and after the Effective Time, be the officers of the Surviving Corporation until their respective successors have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the TBOC and the articles of incorporation and by-laws of the Surviving Corporation.

The Issuer has made customary representations, warranties and covenants in the Merger Agreement, including a covenant to conduct the businesses of the Issuer and its subsidiaries in the ordinary course of business consistent with past practice prior to the Effective Time. Further, pursuant to the Merger Agreement, the Issuer has agreed that, after the date of the Merger Agreement and prior to the Effective Time, it will not declare, set aside for payment or pay dividend on, or make any other distribution, in respect of any shares of capital stock (whether payable in cash, stock, property or otherwise). The Merger Agreement also contains a customary no shop covenant prohibiting the Issuer from soliciting, or providing non-public information or entering into discussions or negotiations concerning, proposals relating to alternative business combination transactions, subject to the fulfillment of certain fiduciary requirements of the Issuer's board of directors (the Consolidated Graphics Board). In certain circumstances, the Consolidated Graphics Board has the right to change its recommendation due to an intervening event or in support of a superior proposal . The Issuer has agreed to submit the Merger Agreement to a vote of the holders of shares of Common Stock for the purpose of obtaining the Shareholder Approval notwithstanding such a change in recommendation, unless the Merger Agreement has been terminated in accordance with its terms prior to the meeting of the holders of shares of Common Stock.

The Merger Agreement may be terminated by each of R.R. Donnelley and the Issuer under certain circumstances, including if the Merger is not consummated by July 23, 2014, which date can be extended to October 23, 2014 to obtain certain regulatory approvals (the Outside Date). The Merger Agreement also contains certain termination rights for both R.R. Donnelley and Consolidated Graphics, and further provides that, upon termination of the Merger Agreement under specified circumstances, the Issuer will be required to pay R.R. Donnelley a termination fee of \$15 million (including in the event that R.R. Donnelley terminates the Merger Agreement as a result of a change in the

recommendation of the Consolidated Graphics Board or the Issuer terminates the Merger Agreement to enter into an agreement with respect to a superior proposal). Such termination fee will also be payable by the Issuer where the Merger Agreement is terminated (i) by either the Issuer or R.R. Donnelley as a result of a failure to obtain the Shareholder Approval at a meeting of holders of shares of Common Stock, (ii) by R.R. Donnelley as a result of a failure by the Issuer to take a vote of holders of shares of Common Stock to approve the Merger Agreement prior to the Outside Date, (iii) by either the Issuer or R.R. Donnelley as a result of the Merger not being consummated prior to the Outside Date, (iv) by R.R. Donnelley as a result of a breach by the Consolidated Graphics Board in any material respect

of its no shop obligations under the Merger Agreement or (v) by R.R. Donnelley as a result of the uncured breach by the Issuer of any of its representations, warranties, covenants or agreements under the Merger Agreement that would cause any of the conditions to R.R. Donnelley's obligation to consummate the Merger not to be satisfied, in each case, after the Issuer has received, or any person has publicly announced an intention to make, a proposal relating to an alternative business combination transaction that is not publicly and unconditionally withdrawn prior to certain specified time periods, followed within twelve (12) months by the Issuer or any of its subsidiaries entering into a binding agreement with respect to, or consummating, approving or recommending to the holders of shares of Common Stock a proposal for, an alternative business combination transaction. In addition, the Issuer would also be required to reimburse R.R. Donnelley for up to \$3 million in expenses if the Merger Agreement is terminated (i) by the Issuer to enter into an agreement with respect to a superior proposal, (ii) by either the Issuer or R.R. Donnelley as a result of a failure to obtain the Shareholder Approval at a meeting of holders of shares of Common Stock, (iii) by either the Issuer or R.R. Donnelley as a result of the Merger not being consummated prior to the Outside Date in a circumstance in which the termination fee becomes subsequently payable or (iv) by R.R. Donnelley as a result of (w) a change in the recommendation of the Consolidated Graphics Board, (x) a failure by the Issuer to take a vote of holders of shares of Common Stock prior to the Outside Date, (y) a breach by the Consolidated Graphics Board in any material respect of its no shop obligations under the Merger Agreement or (z) the uncured breach by the Issuer of any of its representations, warranties, covenants or agreements under the Merger Agreement that would cause any of the conditions to R.R. Donnelley's obligation to consummate the Merger not to be satisfied.

Prior to the closing of the Merger, the Issuer has agreed to cooperate with R.R. Donnelley to take all actions reasonably necessary, proper or advisable on its part under applicable laws and rules and regulations of the New York Stock Exchange (the NYSE) to enable the delisting by the Surviving Corporation of the shares of Common Stock from the NYSE and the deregistration of the shares of Common Stock under the Exchange Act.

In connection with the execution of the Merger Agreement, R.R. Donnelley and the Issuer entered into the Voting Agreement with the Shareholder, pursuant to which, among other things, the Shareholder has agreed to vote all of the shares of Common Stock and any other voting capital stock beneficially owned by the Shareholder (collectively, the Covered Shares) (i) in favor of the approval of the Merger Agreement and any related proposal in furtherance thereof and/or in furtherance of effecting the Merger and other transactions contemplated by the Merger Agreement, (ii) against any action or agreement that would result in a breach in any material respect of any covenant, representation or warranty or any obligation or agreement of the Issuer under the Merger Agreement or that is otherwise in opposition to, or competitive or inconsistent with, the Merger or any of the other transactions contemplated by the Merger Agreement, (iii) against any extraordinary corporate transaction (other than the Merger) or any other Alternative Proposal (as defined in the Merger Agreement) and (iv) to the extent reasonably requested by R.R. Donnelley, against any other action, agreement or transaction submitted for the vote or written consent of the holders of shares of Common Stock that could reasonably be expected to impede, interfere with, delay, postpone, discourage, frustrate the purposes of or adversely affect the consummation of the Merger and any other transaction contemplated by the Merger Agreement.

The Voting Agreement prohibits the Shareholder from transferring the Covered Shares, subject to certain exceptions, and contains a customary no shop covenant prohibiting the Shareholder from soliciting, or providing non-public information or entering into discussions or negotiations concerning, an Alternative Proposal. The Voting Agreement also contains restrictions on the Shareholder's ability to compete or interfere with the business of R.R. Donnelley and its affiliates (including the Surviving Corporation and its subsidiaries) for a period of three years after the closing of the Merger. In addition, the Shareholder and R.R. Donnelley have agreed to negotiate and execute a consulting agreement under which the Shareholder would act as a consultant to R.R. Donnelley for three years after the closing of the Merger for \$200,000 per year.

The Voting Agreement will terminate upon the termination of the Merger Agreement or on the date of any amendment or modification to the Merger Agreement without the consent of the Shareholder that decreases the

amount of, or changes the mix of cash and stock comprising, the Per Share Merger Consideration.

The foregoing descriptions of the Merger Agreement and the Voting Agreement do not purport to be complete and are qualified in their entirety by reference to the Merger Agreement and the Voting Agreement, which are filed as Exhibit 2.1 and Exhibit 10.1, respectively, to R.R. Donnelley's Current Report on Form 8-K filed the Securities and Exchange Commission (the "SEC") on October 28, 2013 and are incorporated herein by reference.

Except as contemplated by the Merger Agreement, the Voting Agreement or as otherwise set forth in this Item 4, neither R.R. Donnelley nor, to the knowledge of R.R. Donnelley, any of the persons listed in Schedule I hereto has any present plans or proposals that relate to or would result in any of the transactions described in subparagraphs (a) through (j) of Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer.

(a)-(b) For the purposes of Rule 13d-3 promulgated under the Exchange Act, R.R. Donnelley may be deemed to be the beneficial owner of an aggregate of 2,472,121 shares of Common Stock in connection with the Voting Agreement. Pursuant to the obligations of the Shareholder under the Voting Agreement, R.R. Donnelley may be deemed to have shared power to vote up to an aggregate of 2,472,121 shares of Common Stock in favor of the approval of the Merger Agreement, and thus, for the purposes of Rule 13d-3 promulgated under the Exchange Act, R.R. Donnelley may be deemed to be the beneficial owner of an aggregate of 2,472,121 shares of Common Stock. Based on 9,687,642 shares of Common Stock outstanding as of July 31, 2013, as set forth in the Issuer's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013, and 878,000 shares of Common Stock issuable upon exercise of the fully vested Consolidated Graphics Stock Options that are subject to the Voting Agreement, R.R. Donnelley may be deemed to beneficially own approximately 23.4% of the issued and outstanding shares of Common Stock. Neither the filing of this Schedule 13D nor any of its contents shall be deemed to constitute an admission by R.R. Donnelley that it is the beneficial owner of any shares of Common Stock for purposes of Section 13(d) of the Exchange Act, or for any other purpose, and such beneficial ownership is expressly disclaimed.

To the knowledge of R.R. Donnelley, none of the persons listed in Schedule I hereto is the beneficial owner of any shares of Common Stock.

(c) Except as described in Item 4 hereof or as listed in Schedule I hereto, no transactions in the Common Stock were effected by R.R. Donnelley, or, to the knowledge of R.R. Donnelley, any of the persons listed in Schedule I hereto, during the past sixty (60) days.

(d) R.R. Donnelley has no right to receive dividends from, or the proceeds from the sale of, the Covered Shares.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

Except as set forth in this Schedule 13D, to the knowledge of R.R. Donnelley, there are no contracts, arrangements, understandings or relationships (legal or otherwise), among the persons named in Item 2 or listed in Schedule I hereto, or between such persons and any person with respect to any securities of the Issuer, including, but not limited to, transfer or voting of any of the shares of Common Stock, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

Item 7. Material to be Filed as Exhibits.

Exhibit No.	Description
Exhibit 1.01	Agreement and Plan of Merger, dated as of October 23, 2013, by and among Consolidated Graphics, Inc., R.R. Donnelley & Sons Company, and Hunter Merger Sub, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by R.R. Donnelley & Sons Company with the SEC on October 28, 2013).
Exhibit 1.02	Voting Agreement, dated as of October 23, 2013, among R.R. Donnelley & Sons Company, Joe R. Davis and Consolidated Graphics, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by R.R. Donnelley & Sons Company with the SEC on October 28, 2013).

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

DATED: November 1, 2013

R.R. Donnelley & Sons Company

By: /s/ Suzanne S. Bettman
Suzanne S. Bettman
Executive Vice President, General Counsel and
Secretary

SCHEDULE I**DIRECTORS AND EXECUTIVE OFFICERS OF R.R. DONNELLEY**

Residence or Business		Name, Address and Principal	
Name	Address	Principal Occupation	Business of Employer
<i>Directors</i>⁽¹⁾			
Thomas J. Quinlan III	99 Park Avenue, New York, New York 10016	President and Chief Executive	R.R. Donnelley & Sons
		Officer, R.R. Donnelley & Sons Company	Company, 111 South Wacker Drive, Chicago, Illinois 60606
		None	Not Applicable
Stephen M. Wolf	10 E. Washington Street, Middleburg, Virginia 20117	None	Not Applicable
Susan M. Cameron	3081 N.E. 39th Street, Fort Lauderdale, Florida 33308	None	Not Applicable
Lee A. Chaden	2815 Bartram Road, Winston-Salem, North Carolina 27106	None	Not Applicable
Richard L. Crandall	601 E. Hopkins Avenue, Suite 202, Aspen, Colorado 81611	Founder and Chairman, Enterprise Software Roundtable; Managing Director, Arbor Partners, LLC	Enterprise Software Roundtable, 601 E. Hopkins Avenue, Suite 202, Aspen, Colorado 81611
			Arbor Partners, LLC, 130 South First Street, Ann Arbor, Michigan 48104
Susan M. Gianinno	4 Herald Square, 950 Sixth Avenue, New York, New York 10001	Chairman and Chief Executive Officer, Publicis USA	Publicis USA, 4 Herald Square, 950 Sixth Avenue, New York, New York 10001

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Judith H. Hamilton	2 Sierra Lane, Portola Valley, California 94028	None	Not Applicable
Jeffrey G. Katz	2955 Campus Drive, Suite 300, San Mateo, California 94403	Chief Executive Officer, Wize Commerce	Wize Commerce, 2955 Campus Drive, Suite 300, San Mateo, California 94403
Richard K. Palmer ⁽²⁾	1000 Chrysler Drive, CIMS 485-11-96, Auburn Hills, Michigan 48326	Chief Financial Officer, Fiat S.p.A.; Chief Financial Officer, Chrysler Group LLC	Chrysler Group / Fiat S.p.A., 1000 Chrysler Drive, CIMS 485-11-96, Auburn Hills, Michigan 48326
John C. Pope	810 South Ridge Road, Lake Forest, Illinois 60045	Chairman, PFI Group, LLC	PFI Group, LLC, 810 South Ridge Road, Lake Forest, Illinois 60045
Michael T. Riordan	W3563 Meredith Lane, Green Lake, Wisconsin 54941	None	Not applicable
Oliver R. Sockwell	1685 Myrtle Street, N.W., Washington, D.C. 20012	None	Not applicable
<i>Executive Officers</i> ⁽¹⁾			
Thomas J. Quinlan III	99 Park Avenue, New York, New York 10016	President and Chief Executive Officer, R.R. Donnelley & Sons Company	R.R. Donnelley & Sons Company, 111 South Wacker Drive, Chicago, Illinois 60606

Suzanne S. Bettman	111 South Wacker Drive Chicago, Illinois 60606	Executive Vice President,	R.R. Donnelley & Sons
		General Counsel, Corporate	Company, 111 South Wacker
		Secretary and Chief	Drive, Chicago, Illinois 60606
		Compliance Officer,	
		R.R. Donnelley & Sons	
Andrew B. Coxhead	111 South Wacker Drive Chicago, Illinois 60606	Company	
		Senior Vice President, Chief	R.R. Donnelley & Sons
		Accounting Officer,	Company, 111 South Wacker
		R.R. Donnelley & Sons	Drive, Chicago, Illinois 60606
		Company	
Daniel L. Knotts	4101 Winfield Road, Warrenville, Illinois 60555	Chief Operating Officer,	R.R. Donnelley & Sons
		R.R. Donnelley & Sons	Company, 111 South Wacker
		Company	Drive, Chicago, Illinois 60606
Daniel N. Leib	111 South Wacker Drive Chicago, Illinois 60606	Chief Financial Officer,	R.R. Donnelley & Sons
		R.R. Donnelley & Sons	Company, 111 South Wacker
		Company	Drive, Chicago, Illinois 60606

(1) Except where otherwise noted, all directors and executive officers are citizens of the United States.

(2) Mr. Palmer is a citizen of the United Kingdom.

Mr. Palmer has over 24 years of experience with the Company. Mr. Haverty is member of the Board of Directors of the High Museum of Art and the Center for Ethics of Emory University.

L. PHILLIP HUMANN

Director since 1992

Age 62

Mr. Humann has been Chairman of the Board of SunTrust Banks, Inc. a multi-bank holding company, since March 1998. He also served as Chief Executive Officer of SunTrust Banks, Inc. from March 1998 to January 2007 and as President from March 1998 to December 2004. Mr. Humann is a director of Coca-Cola Enterprises Inc. and Equifax, Inc. He currently serves on Havertys Executive Committee and Compensation Committee.

MYLLE H. MANGUM

Director since 1999

Age 59

Ms. Mangum has served as Chief Executive Officer of IBT Enterprises, LLC, a provider of design, construction and consultant services for the retail banking and specialty retail industries, since October 2003. She was formerly the Chief Executive Officer of True Marketing Services, focusing on consolidating marketing services companies. From 1999 to 2002, she was Chief Executive Officer of MMS Incentives, Inc., a private equity company concentrating on high-tech marketing solutions. Ms. Mangum is a director of Barnes Group, Inc., Matria Healthcare, Inc., Collective Brands, Inc. and Emageon Inc. Ms. Mangum currently serves as chairman of Havertys Compensation Committee and as a member of the Executive Committee.

FRANK S. McGAUGHEY, III

Director since 1995

Age 59

Mr. McGaughey has served as a partner in the law firm of Powell Goldstein LLP since 1980. Mr. McGaughey is a member of the Board of Trustees of the Woodruff Arts Center and the Sara Giles Moore Foundation. He currently serves as chairman of Havertys Governance Committee and as a member of the Executive Committee.

CLARENCE H. SMITH

Director since 1989

Age 57

Mr. Smith has served as President and Chief Executive Officer of Havertys since January 2003. He served as President and Chief Operating Officer of the Company from May 2002 until he assumed the position of Chief Executive Officer in January 2003. Mr. Smith was named Chief Operating Officer of Havertys in May 2000 and served as Senior Vice President, General Manager, Stores, from 1996 to 2000. He is a director of Oxford Industries, Inc. and a member of the Board of Trustees of Marist School. Mr. Smith currently serves on Havertys Executive Committee.

AL TRUJILLO

Director since 2003

Age 48

Mr. Trujillo served as President and Chief Executive Officer of Recall Corporation, a global information management Company from 1992 until his retirement in May 2007. Recall Corporation is a Subsidiary of Brambles Industries, Ltd. located in Sydney, Australia. He is an Advisory Board Member of the College of Engineering at Georgia Tech Institute of Technology. Mr. Trujillo currently serves on Havertys Governance Committee and Compensation Committee.

Clarence H. Ridley, Clarence H. Smith and Rawson Haverty, Jr. are first cousins and are officers of the Company.

NOMINEES FOR ELECTION BY HOLDERS OF COMMON STOCK

TERENCE F. McGUIRK

Director since 2002

Age 56

Mr. McGuirk has served as Chairman and President of the Atlanta Braves baseball organization since 2001. He was Vice Chairman of Turner Broadcasting System, Inc., a subsidiary of Time Warner Inc. from 2001 to May 2007. From 1996 to 2001, Mr. McGuirk served as Chairman and Chief Executive Officer of Turner Broadcasting System, Inc. He is a director of The Sea Island Company and a member of the Board of Trustees of Piedmont Hospital Medical Center and The Westminster Schools. Mr. McGuirk currently serves on Havertys' Compensation Committee.

VICKI R. PALMER

Director since 2001

Age 54

Ms. Palmer has served as Executive Vice President, Financial Services and Administration for Coca-Cola Enterprises Inc., a bottler of soft drink products, since 2004. From 1999 to 2004 she served as Senior Vice President, Treasurer and Special Assistant to the CEO of Coca-Cola Enterprises Inc. Ms. Palmer is a director of First Horizon National Corporation and is a member of the Board of Trustees of Spelman College and Woodward Academy. She currently serves on Havertys' Audit Committee and Governance Committee.

FRED L. SCHUERMANN

Director since 2001

Age 62

Mr. Schuermann was President and Chief Executive Officer of Ladd Furniture from 1996 until he retired in 2001. He was Chairman of Ladd Furniture, Inc. from 1998 until its acquisition by La-Z-Boy, Inc. in January 2000. Mr. Schuermann currently serves on Havertys' Governance

Committee and Audit Committee.

INFORMATION ABOUT THE GOVERNANCE OF OUR COMPANY

Board Committees and Related Matters

Havertys' business is managed under the direction and oversight of its Board of Directors. The Board appoints our Chairman and Chief Executive Officer and our senior management team who are responsible for the day-to-day conduct of Havertys' business. The primary responsibility of the Board is to review and regularly monitor the effectiveness of Havertys' fundamental operating plans, business strategies, policies and decisions.

The Board of Directors conducts its business through meetings of the Board and the following standing committees: an Executive Committee, an Audit Committee, an Executive Compensation and Employee Benefits Committee (the Compensation Committee) and a Nominating and Corporate Governance Committee (the Governance Committee).

Additional information, including the charters of each of these committees, can be viewed on our website: www.havertys.com (About Us, Corporate Governance). Copies of the charters are available free of charge to any stockholder requesting them by contacting the Corporate Secretary, 780 Johnson Ferry Road, Suite 800, Atlanta, Georgia 30342.

Executive Committee

The Executive Committee's primary function is to facilitate the management of the business and affairs of Havertys during the intervals between the meetings of the Board. The Executive Committee can exercise the powers of the Board as conferred by Havertys' By-Laws and governed by law. The Executive Committee met twice during 2007.

Members:

Clarence H. Ridley, Chairman
Mylle H. Mangum
Clarence H. Smith

L. Phillip Humann
Frank S. McGaughey, III

Audit Committee

The Audit Committee's primary function is to represent and assist the Board in fulfilling its oversight responsibility relating to the quality and integrity of our annual and interim external consolidated financial statements and financial reporting process, the adequacy and effectiveness of internal controls, the internal audit function, the annual independent audit of our financial statements and other matters the Board deems appropriate. The Board has determined that each member of the Audit Committee meets the independence requirements of the New York Stock Exchange (NYSE) where our stock is listed and Havertys' Corporate Governance Principles. Each member of the Audit Committee is financially literate, knowledgeable and qualified to review financial statements and the Board has determined that each Audit Committee member is an audit committee financial expert and independent under Securities and Exchange Commission (SEC) regulations. The Audit Committee met six times during 2007. The Audit Committee's report is on page 15.

Members:

John T. Glover, Chairman
Fred L. Schuermann

Vicki R. Palmer

Compensation Committee

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The Compensation Committee provides assistance to the Board in the areas of Havertys' compensation philosophy, including succession planning for and evaluating the performance and approving the compensation and benefits the Chairman of the Board, Chief Executive Officer and other senior members of management (Executive Officers). The Compensation Committee also has the responsibility for

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recommending, reviewing and administering Havertys' equity based incentive compensation plans and other benefit plans. The Board determined that each member of the Compensation Committee meets the independence requirements of the NYSE and Havertys' Corporate Governance Principles. The Compensation Committee met three times during 2007. The Compensation Discussion and Analysis begins on page 17 and the Compensation Committee Report is on page 26.

Members:

Mylle H. Mangum, Chairman
Terence F. McGuirk

L. Phillip Humann
Al Trujillo

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised entirely of independent directors. There are no relationships required to be disclosed under this caption.

Governance Committee

The Governance Committee has the primary responsibility for considering and making recommendations concerning the composition and structure of the Board, establishing policies relating to the recruitment of board members, director compensation and reviewing and recommending corporate governance policies and issues. Each member of the Governance Committee meets the independence requirements of the NYSE and Havertys' Corporate Governance Principles. The Governance Committee met twice during 2007.

Members:

Frank S. McGaughey, III, Chairman
Fred L. Schuermann

Vicki R. Palmer
Al Trujillo

Director Compensation

Retainer fees were paid to directors in 2007 in accordance with the Director Compensation Plan approved by stockholders in May 2006. The Plan provides that two-thirds of the annual retainer be paid in shares of Havertys Common Stock and the remaining one-third may, at the election of the director, be paid in cash or shares of Havertys Common Stock. Retainer fees for 2007 were paid on May 11 and November 1. In 2007, the retainer fee paid to non-employee directors was \$45,000 of which \$30,000 must be paid in shares of Havertys' Common Stock. Non-employee directors also receive \$1,250 for each Board meeting or Committee meeting attended. The 2007 annual fees paid for service to the committee chairmen were: \$10,000 to Mr. Glover as chairman of the Audit Committee, \$7,500 to Ms. Mangum as chairman of the Compensation Committee and \$5,000 to Mr. McGaughey as chairman of the Governance Committee. The Governance Committee annually reviews the fees paid to directors. Employee directors receive no compensation for attending Board or Committee meetings and effective in 2007, the Governance Committee discontinued payment of a retainer fee of \$3,000 to employee directors. Director compensation in 2008 will remain the same as in 2007.

Havertys maintains a Directors' Deferred Compensation Plan ("Deferred Plan") that permits all directors to defer to a future date receipt of payment of retainer fees and/or meeting fees which would otherwise be paid in cash or in shares of Common Stock for their services. Under the Deferred Plan, such deferred fees, plus accrued interest (at a rate determined annually in accordance with the Deferred Plan which is not above market), shall be distributed in the future to a director in one lump sum or in no more than ten equal annual installments, or in accordance with the terms of the Deferred Plan. Five directors participated in the Deferred Plan in 2007 and will also participate in 2008. Directors are reimbursed for transportation and other expenses incurred in attending Board and Committee meetings. There were no equity awards made during 2007 to directors under the Company's 2004 Long-Term Incentive Plan. The Company does not provide any pension or other benefits to its directors.

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The table below sets forth the compensation expensed by the Company for payment to directors for the year ended December 31, 2007.

Name	Fees Earned or	Stock Compensation	Awards	Total Stock	Total (\$)
	Paid in Cash	Fees Eared or Paid in			
	(\$)	Stock (\$) ⁽¹⁾	(\$) ⁽²⁾	Compensation	
Clarence H. Ridley ⁽³⁾	\$	\$	\$	\$	\$
John T. Glover	22,500	45,000		45,000	67,500
Rawson Haverty, Jr. ⁽⁴⁾					
L. Phillip Humann	10,000	45,000		45,000	55,000
Mylle H. Mangum	15,750	30,000		30,000	45,750
Frank S. McGaughey, III	30,000	30,000		30,000	60,000
Terence F. McGuirk	21,250	30,000		30,000	51,250
Vicki R. Palmer	30,000	30,000		30,000	60,000
Fred L. Schuermann	30,000	30,000		30,000	60,000
Clarence H. Smith ⁽³⁾					
Al Trujillo	10,000	45,000		45,000	55,000

⁽¹⁾ The directors' retainer fee for 2007 was \$45,000 for non-employee directors which was paid two-thirds in stock and one-third in cash with elections by Messrs. Glover, Humann and Trujillo for payment of their retainer fees in all stock. Messrs. Ridley, Haverty and Smith, as employee directors did not receive a fee for serving on the Board.

⁽²⁾ No stock awards were granted to directors in 2007.

⁽³⁾ See Summary Compensation Table for additional disclosure related to Clarence H. Ridley and Clarence H. Smith, who are also Named Executive Officers of Havertys.

⁽⁴⁾ See Related Party Transactions for additional disclosure related to Rawson Haverty, Jr. who is also an officer of Havertys.

Attendance. In 2007, the Board held four meetings and Committees of the Board held a total of 13 meetings. Each director attended more than 70% of the aggregate number of all meetings of the Board and committees on which he or she served during 2007.

Corporate Governance

Director Independence. The listing requirements of the NYSE require that a majority of the members of a listed company's board of directors must be independent. The question of independence is to be determined by the board with respect to every director, in line with the rules of the NYSE. Based upon the NYSE rules, our Board has determined a majority of its current members are independent.

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The NYSE rules also require that certain of our committees be composed entirely of independent directors. Our Committees covered by this requirement are the Audit Committee, the Governance Committee, and the Compensation Committee. Our Board has determined that all current members of the Audit Committee, the Governance Committee, and the Compensation committee are independent under the NYSE rules.

The Board considers the independence issue not merely from the standpoint of a director, but also from that of persons or organizations with which the director has an affiliation. An independent director is free of any relationship with Havertys or its management that may impair the director's ability to make independent judgments. Particular attention is paid to whether a director is independent from management and to any financial relationships that may exist with a director or a related interest.

Generally, borrowing relationships with directors and their affiliates are considered immaterial and will not impair independence so long as the terms of the relationship are similar to other comparable borrowers. In other words, normal, arms-length credit relationships entered into in the ordinary course of business do not negate director independence. A director who is an executive officer of a company that makes payments to or receives payments from Havertys for property or services in an amount which, in any fiscal year, is greater than 2% of such director's company's consolidated gross revenues will not be considered independent.

The following directors have been deemed by the Board to be independent after applying the guidelines set forth above: Mmes. Mangum and Palmer and Messrs. Glover, Humann, McGuirk, McGaughey, Schuermann and Trujillo.

Director Nominations. The Governance Committee has the responsibility of reviewing qualifications of the candidates for Board membership in accordance with procedures established by Havertys' Corporate Governance Principles, applicable law and regulations. The Governance Committee will consider recommendations for directors submitted by stockholders. Stockholders should submit their recommendations in writing to the Governance Committee (See, *Communications with Directors*). The proponent should submit evidence that he or she is a stockholder of Havertys, together with a statement of the proposed nominee's qualifications to be a director. There is no difference in the manner in which the Governance Committee evaluates proposed nominees based upon whether the proposed nominee is recommended by a stockholder.

In its assessment of each potential candidate, the Governance Committee will review the nominee's experience, independence, understanding of Havertys or other related industries and such other factors as the Governance Committee determines are pertinent in light of the current needs of the Board. Diversity of race, ethnicity, gender and age are factors considered in evaluating nominees for Board membership. The Governance Committee will also take into account the ability of a director to devote the time and effort necessary to fulfill his or her responsibilities.

Nominees may be suggested by directors, members of management, stockholders or, in some cases, by a third-party search firm. In identifying and considering candidates for nomination to the Board of Directors, the Governance Committee considers, in addition to the requirements set out in Havertys' Corporate Governance Principles and the Governance Committee's charter, quality of experience, the needs of Havertys and the range of talent and experience represented on the Board. The Governance Committee sometimes uses the services of a third-party executive search firm to assist it in identifying and evaluating possible nominees for director.

Corporate Governance Principles. Our Corporate Governance Principles, together with the Board committee charters, provide the framework for the effective corporate governance of Havertys. The Board of Directors adopted these guidelines to address certain governance matters including the role of the Board, qualifications and responsibilities of directors, director compensation, management succession and director education. These governance principles are designed to maximize long-term stockholder value and promote the highest ethical conduct among Havertys' directors and employees. A copy of the Corporate Governance Principles is available on our website at www.havertys.com.

Executive Sessions of Independent Directors. The Board of Directors has a policy of scheduling an executive session of the independent directors as part of every regularly scheduled quarterly meeting of the Board. Mr. McGaughey, as chairman of the Governance Committee, has been requested by the independent directors to preside over these sessions and to convey to management any issues of concern.

Code of Business Conduct and Ethics. All of our directors and employees, including our Chairman of the Board, Chief Executive Officer and other senior executives, are required to comply with our Code of Business Conduct and Ethics (the "Code") to help ensure that our business is conducted in accordance with the highest standards of ethical behavior. Havertys' continued growth and profitability are linked to our ability to make decisions that are consistent with our traditional business values and ethical principles. The Code is published on our website at www.havertys.com.

Communications with Directors. Stockholders and other interested parties may communicate with any director, committee member or the Board by writing to the following address: Board of Directors, c/o Corporate Secretary, Haverty Furniture Companies, Inc., 780 Johnson Ferry Road, Suite 800, Atlanta, Georgia 30342. Please specify to whom your correspondence should be directed. The Corporate Secretary has been instructed by the Board to review and promptly forward all correspondence (except advertising material and ordinary business matters) to the relevant director, committee member or the full Board, as indicated in the correspondence. A copy of the Director's Communication Policy is available on our website at www.havertys.com.

Board Committee Charters. The charters for each of the standing committees of the Board as well as our Corporate Governance Guidelines, Director's Communication Policy and Code may be accessed through our website at www.havertys.com. Additionally, copies may be requested in writing by submitting the request to Corporate Secretary, Haverty Furniture Companies, Inc., 780 Johnson Ferry Road, Suite 800, Atlanta, Georgia 30342.

Board and Committee Evaluation. During 2007 and 2008, the Board of Directors and each Board Committee participated in self-evaluation and assessment processes in order to improve the efficiency and effectiveness of the Board and each committee.

Mandatory Retirement. Our independent directors are subject to a mandatory retirement age and cannot stand for re-election in the calendar year following their 72nd birthday. The Board of Directors may ask a director to continue service beyond age 72 under certain circumstances upon review by the Governance Committee.

Directors' Attendance at Annual Stockholders' Meeting. Havertys does not have a policy regarding director attendance at the Annual Meeting. Historically, this meeting is held in Maryland, the state of Havertys' incorporation, and typically is a very brief meeting conducted by Havertys Corporate Secretary. Generally, no stockholders are in attendance.

Certain Relationships and Related Transactions

Related Party Transaction Policy

We recognize that transactions between Havertys and any of its directors or executives can present potential or actual conflicts of interest and create the appearance that Havertys' decisions are based on considerations other than the best interest of Havertys and its shareholders. Our Corporate Governance Principles and the Code, which applies to all employees and directors, provides that all conflicts of interest should be avoided, however, Havertys recognizes that there are situations where such transactions may be in, or may not be inconsistent with, the best interest of the Company. Therefore, the Company adopted in 2008, a written Related Party Transaction Policy ("Policy") which details the policies and procedures for approving a related party transaction. The term "related party transaction" is defined as any transaction, arrangement or relationship or any series of similar transactions arrangements or relationships in which (1) the aggregate amount involved will exceed \$120,000 in any calendar year, (2) we are a participant, and (3) the related party has or will have a direct or indirect interest (other than

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solely as a result of being a director or a less than 10% beneficial owner of another entity). Under the Company's Policy, any relationship, arrangement or transactions between the Company and (a) a director, executive officer or any immediate family member of either a director or an executive officer, (b) any stockholder owning more than 5% of either class of the Company's common stock or (c) any entity owned or controlled by a director, executive officer or immediate family member of such individuals, or an entity in which any of the individuals named above has a ownership interest or control.

The Board has determined that the Nominating and Corporate Governance Committee is best suited to review and approve related party transactions. The Governance Committee has adopted standing pre-approvals under the policy for limited transactions with related persons. Pre-approved transactions include: (i) employment of executive officers; (ii) director compensation; (iii) certain transactions with other companies in which the related party's only relationship is as an employee, director or beneficial owner of less than 10 percent of that company's stock; (iv) certain Company charitable contributions; (v) certain transactions where the related person's interest arises solely from the ownership of the Company's common stock and all holders of the Company's common stock receive the same benefits; (vi) certain banking related services in which the terms of such transactions are generally the same as or similar to accounts offered to others in the ordinary course of business; (vii) transactions involving competitive bids and (viii) transactions made on the same or similar terms available to all Company employees.

Related Party Transactions

Mr. Rawson Haverty, Jr. serves as the Company's Senior Vice President, Real Estate and is a director and beneficial owner of more than 5% of the Company's Class A Common Stock. During 2007, Mr. Haverty earned a salary of \$221,500 which was approved by our Compensation Committee in accordance with our compensation practices applicable to our Executive Officers.

SunTrust Banks, Inc. (SunTrust) engaged in ordinary course of business banking transactions with us in 2007, and provided investment and trust services on terms comparable to other customers similarly situated. We have unsecured revolving credit facilities with a group of five banks, including SunTrust. As of December 31, 2007, Haverty's indebtedness and total amounts committed under the revolving credit facilities allocable to SunTrust totaled approximately \$1,321,000, and the greatest such amount during 2007 was \$11,946,000. L. Phillip Humann, one of our directors, is Chairman of the Board of Directors of SunTrust.

AUDIT COMMITTEE MATTERS

Audit Committee Report

The Audit Committee has reviewed and discussed with Havertys' management and Ernst & Young LLP ("Ernst & Young"), the independent registered public accounting firm, the consolidated financial statements set forth in Havertys 2007 Annual Report on Form 10-K for the year ended December 31, 2007, including a discussion of the reasonableness of significant judgments, the clarity of disclosures in the financial statements and the Company's internal controls over financial reporting. The Committee also reviewed the disclosures made in "Management's Discussions and Analysis of Financial Condition and Results of Operations" included in the Company's 2007 Annual Report on Form 10-K for the year ended December 31, 2007.

The Committee has discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended. In addition the Committee has discussed with the independent auditors the auditor's independence from the Company and its management, including the matters in the written disclosures and the letter provided by the independent auditors to the Committee as required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, and has considered the compatibility of non-audit services with the auditor's independence.

The Committee discussed with Ernst & Young the overall scope and plans for their integrated audit. The Committee met with Ernst & Young, with and without management present, to discuss the results of their examinations, their evaluations of Havertys' internal controls and the overall quality of Havertys' financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors that the audited financial statements be included in Havertys' Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission.

The Audit Committee:

John T. Glover, Chairman

Vicki R. Palmer

Fred L. Schuermann

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under such acts.

Audit Fees and Related Matters

Ernst & Young served as independent auditors of Havertys' annual financial statements for the year ended December 31, 2007. The Audit Committee has not yet selected an independent auditor for Havertys for the year ended December 31, 2008. Historically, the independent auditors are selected in May at the first meeting of the newly appointed Audit Committee. It is expected that the Audit Committee will engage an independent auditor in May 2008. No representative of Ernst & Young will be present at the Annual Meeting. Aggregate fees for professional services rendered for Havertys for the years ended December 31, 2007 and 2006, were:

	December 31,	December 31,
	2007	2006
Audit	\$ 780,272	\$ 794,210
Audit-related	44,000	42,000
Tax	109,636	97,695
All Other	2,500	1,500
Total	\$ 936,408	\$ 935,405

Audit Fees. These represent professional services fees for the audit of our annual financial statements, audit of our internal controls over financial reporting, review of the quarterly financial statements included in Forms 10-Q, accounting consultations and issuance of debt compliance letters. These fees were paid to Ernst & Young.

Audit-related: These are professional fees for employee benefit plan audits and other related matters. These fees were paid to Windham Brannon, P.C.

Tax Fees. These are fees for professional services related to tax compliance services and assistance in responding to various tax authorities. These fees were paid to Ernst & Young.

All other Fees. These are subscription fees to an on-line accounting and research tool. These fees were paid to Ernst & Young.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services, and other services performed by the independent auditor. The policy provides for pre-approval by the Audit Committee of specifically defined audit and non-audit services. Unless the specific service has been previously pre-approved with respect to that year, the Audit Committee must approve the permitted service before the independent auditor is engaged to perform it. The Audit Committee has delegated to the Chairman of the Audit Committee authority to approve permitted services provided that the Chairman reports any decisions to the Committee at its next scheduled meeting. Tax services comprising less than ten percent of the tax fees were approved by the Audit Committee under the pre-approval policies and procedures.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

COMPENSATION DISCUSSION AND ANALYSIS

Compensation Philosophy

Havertys' executive compensation philosophy is directed at attracting, retaining and motivating highly qualified executives that are dedicated to the long-term success of Havertys and to align their interests with the long-term interests of Havertys' stockholders by providing appropriate competitive compensation and financial reward. Our compensation setting process consists of establishing targeted overall compensation for each senior executive and then allocating that compensation among base salary, equity awards and cash incentive compensation. In support of this philosophy, the executive compensation program is designed to reward performance relevant to Havertys' short-term and long-term success based on corporate and individual performance. At the senior-most levels for 2007, we designed the incentive compensation to reward company-wide performance through tying awards primarily to earnings per share. For other senior executives, we design incentive compensation to reward the achievement of specific operational goals within areas under the control of the relevant individuals, although company-wide performance is also a significant factor. Finally, we endeavor to ensure that our compensation program is perceived as fundamentally fair to all stakeholders.

Overview of Process and Compensation Components

The compensation of our executives is broken into three components: base salary, annual cash incentive compensation and long-term equity awards. Base salaries are set for our executive officers at the regularly scheduled meeting of the Compensation Committee held at the beginning of each year. At this meeting, the Compensation Committee also approves and adopts the management incentive plan for the new year and typically grants stock awards to all of our executive officers and certain other eligible employees.

We choose to pay each component of compensation in keeping with our compensation philosophy. The amount of each component is determined by or under the direction of the Compensation Committee and is based on the results of independent evaluations which the Compensation Committee had conducted by the consulting firm Mercer in 2004. The peer group in that evaluation consisted of retailing, home furnishing and other companies with a special retail focus of comparable size and complexity to ours. Our Compensation Committee took Mercer's recommendations and input from our new human resources executive into consideration when setting compensation for 2005. These results were the base from which the changes to the bonus and equity components of executive compensation were made for 2006 and 2007.

It has been the practice of the Compensation Committee to review the history of all the components of each executive officer's total compensation over each of the past three years and relate the compensation of the executive officers with that of the executive officers of peer companies. Typically, the chief executive officer makes recommendations to the chairman and the Compensation Committee with respect to the executive officers. Such executive officers are not present at the time of these deliberations. The Compensation Committee may accept or adjust such recommendations. The Compensation Committee reviews the performance and compensation of the chairman and chief executive officer and, following discussions with those individuals establishes their compensation levels.

Our policy for allocating between long-term and currently paid compensation is to ensure adequate base compensation to attract and retain personnel, while providing incentives to maximize long-term value for our company and our stockholders. Likewise, we provide cash compensation in the form of base salary to

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meet competitive salary norms and reward good performance against specific short-term goals on an annual basis in the form of cash incentive compensation. We provide non-cash compensation relative to the performance of general management responsibilities, difficulty of achieving desired results and contribution as a member of the executive management team. The components of our targeted compensation package for the named executive officers for 2007 ranged from 52% to 55% in salaried compensation, 31% to 34% in cash incentive compensation, and 12% to 17% in equity awards.

The Committee retained the consulting firm Pearl Meyer & Partners (Pearl Meyer) in late 2007 to analyze and evaluate the current compensation levels and components for the Company's executive officers. This resulted in a change primarily in the non-cash equity awards component of compensation for executive officers for 2008.

Summary Compensation Table

The following tables and footnotes discuss the compensation paid or accrued for the last two years to (i) our chief executive officer and chief financial officer and (ii) our three most highly compensated executive officers (the named executive officers or NEOs).

					Change in			
					Pension Value			
					And			
					Non-qualified			
					Non-Equity		All	
					Stock	Compensation	Other	
Name and Principal		Salary	Bonus	Awards	Incentive Plan	Earnings	Compensation	Total
Position	Year	(\$)	(\$)	(\$) ⁽¹⁾	(\$) ⁽²⁾	(\$)	(\$) ⁽³⁾	(\$)
Clarence H. Ridley	2007	\$ 420,000	\$	\$98,960	\$ 37,800	\$ 28,612	\$7,260	\$ 592,632
Chairman	2006	410,000		165,346	96,000	118,066	5,967	795,379
Clarence H. Smith	2007	450,000		143,181	43,900	44,869	7,716	689,666
President & CEO	2006	420,000		97,418	105,000	39,759	6,000	668,177
Dennis L. Fink	2007	330,000		86,124	39,600	46,975	7,755	510,454
EVP & CFO	2006	320,000	10,000	53,734	71,000	52,242	2,933	509,909
M. Tony Wilkerson	2007	280,000	22,000	72,253	8,400	58,737	7,672	449,062
EVP, Merchandising	2006	270,000	8,000	46,002	73,000	54,543	2,862	454,407
Steven G. Burdette ⁽⁴⁾	2007	235,000	15,000	66,100	35,300	10,615	7,739	369,754
SVP, Operations								

- (4) Mr. Burdette became a named executive officer in 2007.
- (5) There were no stock options granted to the named executive officers in 2007.

Base Salary for Executive Officers

The Compensation Committee reviews the base salaries for each named executive officer on a yearly basis and advises the Board as to the appropriateness and reasonableness of the salaries. Consistent with our compensation philosophy, we reviewed both internal and external factors to determine the appropriate compensation for Mr. Ridley, Mr. Smith and the other named executive officers and the Company's other senior executives. This review is based on competitive compensation data as well as a subjective evaluation of each executive's contribution to Havertys performance and the executive's level of experience and responsibilities. Adjustments are made as necessary in light of past performance and the potential for making significant contributions in the future in order to ensure compensation levels are appropriate and competitive.

We believe the base salary range for each executive position reflects a median base salary range for Havertys' comparative peer group. The Compensation Committee, after reviewing a competitive compensation analysis performed in late 2007 by the consulting firm Pearl Meyer, determined that the annual base salaries for 2008 will increase by 1% to 6% for each of the named executive officers. For compensation purposes, the Compensation Committee performs a yearly evaluation of Messrs. Ridley's and Smith's performance. The other named executive officers' performance is evaluated by Mr. Smith and discussed with the Compensation Committee.

Annual Cash Incentive Compensation

Each Havertys executive is eligible for an annual cash incentive award. Cash incentive awards are intended to reward key employees based on both Havertys' performance and the individual's performance, motivate key employees and provide competitive cash compensation opportunities to executive officers.

We believe that incentive compensation for executive officers should be directly linked to the achievement of specified financial and non-financial objectives. An executive of Havertys will earn total compensation that is competitive with the market only if Havertys achieves corporate financial performance goals and incentive compensation is paid. If goals are exceeded, incentive compensation can cause total compensation to exceed median market levels.

This performance-based structure keeps a sizeable portion of the compensation for the senior management group at risk because the value of such compensation depends largely on the degree of success in attaining both Company and individual performance objectives. Havertys' pay for performance philosophy is intended to encourage achievement of both short-term and long-term financial and operational objectives. We have placed and will continue to place an increasing emphasis on compensation tied to the meeting of objectives which are aligned with those of the stockholders.

2007 Cash Incentives (Non-Equity Incentive Plan Compensation): The Compensation Committee approved a management incentive plan (Incentive Plan) to determine cash incentives for Havertys' executive officers for 2007. The Incentive Plan provided for cash incentives based on a combination of Havertys achieving a threshold amount of earnings per share on a quarterly and annual basis and the executive officer meeting three additional performance criteria as established by the Compensation Committee for each individual. Performance goals, in addition to the earnings per share threshold, included increases in comparable store sales, improvements in gross profit margins and reductions of selling, general and administrative expenses as well as certain strategic, critical and individual initiatives. The performance goals and their respective weighting in determining bonuses varied by executive officer.

The Incentive Plan provided for the NEOs target cash incentives to range from 60% to 65% of 2007 base salary. The amount of compensation to be paid to each NEO ranged from 0% to 110% of the target cash incentives based upon the extent to which the performance objectives under each of the four established criteria or goals were met. The minimum level of performance was set at 90% of each goal and if the minimum level was not met, no cash bonus relative to that goal was paid. See the columns labeled Estimated Possible Payout under Non-Equity Incentive Plan Awards of the Grants of Plan-Based Awards Table on page 21. The actual payments are shown in the Summary Compensation Table on page 18 and ranged from 9% to 15% of base salary.

2008 Cash Incentives (Non-Equity Incentive Plan Compensation): The Compensation Committee has approved a management incentive plan (2008 Incentive Plan) to determine cash incentives for Havertys executive officers in 2008. The 2008 Incentive Plan provides for cash incentives based on the Company achieving a target earnings per share (EPS) as established by the Compensation Committee. Pursuant to the Plan, the Executive Officers are eligible to receive a target payout of 33% of the amount of their annual base salary if the pre-established target EPS is achieved and one or more individual goals are met. The cash incentive paid will be reduced ratably for actual Company performance from 50% to 100% of the target EPS. Failure to reach at least 50% of the target EPS goal will result in a zero payout under the Plan. No Executive Officer is eligible for a payment in excess of the target payout under the Plan.

Bonuses: In its discretion, the Compensation Committee approved cash bonuses for 2007 to certain Executive Officers that are not NEOs based on subjective criteria and performance against individual objectives for the year. These discretionary bonuses ranged from 0% to 11% of base salary.

Equity Compensation

Our practice is to determine the approximate dollar amount of equity compensation that we want to provide and to then grant a number of shares of restricted stock that have a fair market value comparable to that amount on the date of grant. We determine the fair market value based upon the closing price of our stock on the date of determination. With the exception of significant promotions and new hires, we generally make these awards at the first meeting of the Compensation Committee each year following the availability of the preliminary financial results for the prior year. Grants were made on February 1, 2007 and on February 6, 2008. This timing was selected because it enables us to consider prior year performance by Havertys and the potential recipients and our expectations for the current year. The awards also are made as early as practicable in the year in order to maximize the time period for the incentives associated with the awards. The Compensation Committee's schedule is determined in advance, and the proximity of any awards to earnings announcements or other market events is coincidental. The Compensation Committee grants restricted stock to individuals that are not members of Havertys Management Committee, generally based upon the recommendations of the chief executive officer, and has delegated stock award granting authority for a small, specific number of shares to the chief executive officer to be made during the ensuing year.

Restricted stock awards are made based on a number of factors including company and individual performance. Accordingly, the number of shares awarded to individuals will vary from year to year. The stock awards made in 2007 and prior were time based and generally vest in equal increments over four years.

The Compensation Committee in February 2008, based upon recommendations from Pearl Meyer granted Performance Accelerated Restricted Stock Awards (PARS) and Stock Settled Appreciation Rights (SARs) to the Company's Executive Officers in lieu of restricted stock awards. The SARs will vest

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over four years from date of grant. The PARS will vest 100% in 2015 and could be subject to accelerated vesting if certain market price per share goals are met by the Company.

Over the past several years, we have decreased our use of stock options and increased our use of restricted stock. This modification in our equity compensation structure is consistent with competitive market trends. More importantly, the use of restricted stock awards and SARs make more efficient use of our equity program's share reserves and reduce overall dilution because it takes fewer shares than options to deliver the same amount of incentive compensation opportunity. The SARs granted in 2008 will provide value to the executives only if the price of the Company's stock increases. The timing of receipt and value of the PARS is also directly tied to the value of the Company's stock.

In establishing award levels, we generally do not consider the equity ownership levels of the recipients or prior awards that are fully vested. It is our belief that competitors who might try to hire away our employees would not make a higher offer because of equity ownership in Haverty's and, accordingly, to remain competitive we do not adjust for that factor either.

Grants of Plan Based Awards Table

The following table sets forth certain information with respect to the estimated payouts which were possible under our non-equity incentive plan and the restricted stock awards granted during the year ended December 31, 2007 to each of our named executive officers. The actual payouts are shown in the Summary Compensation Table. There were no awards granted under equity incentive plans or stock option awards in 2007.

					All Other Stock
					Awards:
Estimated Possible Payouts Under Non-Equity Incentive					Number of
Name	Grant Date	Plan Awards (\$)			Shares of Stock (#)
		Threshold	Target	Maximum	
Clarence H. Ridley	02/01/2007	\$ 12,600	\$ 252,000	\$ 277,200	7,000
Clarence H. Smith	02/01/2007	14,625	292,500	321,800	8,000
Dennis L. Fink	02/01/2007	9,900	198,000	217,800	6,000
M. Tony Wilkerson	02/01/2007	8,400	168,000	184,800	4,000
Steven G. Burdette	02/01/2007	7,050	141,000	155,100	5,000

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Outstanding Equity Awards Value at Fiscal Year-End Table

The following table includes certain information with respect to the value of all unexercised options previously awarded to the named executive officers at December 31, 2007. All of the option awards are exercisable and no awards have been made under an equity incentive plan. The market value of shares of stock that have not vested is based on the closing market price of \$8.99, at December 31, 2007.

		Option Awards			Stock Awards	
		Number of			Number of	Market Value
		Securities			Shares of	of Shares
		Underlying	Option	Option	Stock That	of Stock
	Date	Exercisable	Exercise	Expiration	Have Not	that Have
Name	Awarded	Options (#)	Price (\$)	Date	Vested	Not Vested (\$)
Clarence H. Ridley	10/29/99	6,000	\$ 13.7500	10/29/09		
	10/31/00	6,000	\$ 11.2500	10/31/10		
	01/18/01	25,000	\$ 10.8125	01/18/11		
	12/20/01	50,000	\$ 15.9400	12/20/11		
	12/19/02	22,000	\$ 12.9000	19/19/12		
	12/09/03	25,000	\$ 20.3000	12/09/10		
	12/20/04				7,500	\$ 67,425
	02/23/06				5,250	\$ 47,198
	02/01/07				7,000	\$ 62,930
Clarence H. Smith	12/16/98	6,000	\$ 10.1250	12/16/08		
	10/21/99	25,000	\$ 13.8750	10/21/09		
	10/26/00	12,284	\$ 11.6250	10/26/10		
	12/20/01	30,000	\$ 15.9400	12/20/11		
	12/19/02	22,000	\$ 12.9000	12/19/12		
	12/09/03	25,000	\$ 20.3000	12/09/10		
	12/20/04					