

HAVERTY FURNITURE COMPANIES INC

Form 10-Q

November 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number: 1-14445

HAVERTY FURNITURE COMPANIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

58-0281900

(State of incorporation)

(I.R.S. Employer Identification No.)

780 Johnson Ferry Road, Suite 800

Atlanta, Georgia

30342

(Address of principal executive office) (Zip Code)

(404) 443-2900

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

The numbers of shares outstanding of the registrant's two classes of \$1 par value common stock as of October 31, 2015, were: Common Stock – 20,099,961; Class A Common Stock – 2,052,049.

HAVERTY FURNITURE COMPANIES, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$ 73,287	\$65,481
Investments	6,750	7,250
Restricted cash and cash equivalents	8,003	8,017
Accounts receivable	6,113	7,146
Inventories	105,165	107,139
Prepaid expenses	6,991	6,418
Other current assets	7,459	8,010
Total current assets	213,768	209,461
Accounts receivable, long-term	714	731
Property and equipment	231,699	225,162
Deferred income taxes	19,964	17,610
Other assets	6,336	8,023
Total assets	\$ 472,481	\$460,987
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 25,486	\$24,152
Customer deposits	30,265	23,687
Accrued liabilities	37,759	39,960
Deferred income taxes	5,701	5,689
Current portion of lease obligations	3,007	2,387
Total current liabilities	102,218	95,875
Lease obligations, less current portion	50,909	46,678
Other liabilities	25,741	26,351
Commitments	—	—
Total liabilities	178,868	168,904
Stockholders' equity		
Capital Stock, par value \$1 per share		
Preferred Stock, Authorized – 1,000 shares; Issued: None		
Common Stock, Authorized – 50,000 shares; Issued: 2015 – 28,460; 2014 – 28,327;	28,460	28,327
Convertible Class A Common Stock, Authorized – 15,000 shares; Issued: 2015 – 2,576; 2014 – 2,603	2,576	2,603
Additional paid-in capital	82,088	79,726
Retained earnings	272,783	260,031
Accumulated other comprehensive loss	(1,993)	(2,168)
Less treasury stock at cost – Common Stock (2015 – 8,362; 2014 – 7,759) and Convertible Class A Common Stock (2015 and 2014 – 522)	(90,301)	(76,436)

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Total stockholders' equity	293,613	292,083
Total liabilities and stockholders' equity	\$ 472,481	\$460,987

See notes to these condensed consolidated financial statements.

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HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data – Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	\$209,921	\$198,541	\$588,984	\$555,411
Cost of goods sold	98,179	92,338	274,413	257,201
Gross profit	111,742	106,203	314,571	298,210
Credit service charges	71	72	213	223
Gross profit and other revenue	111,813	106,275	314,784	298,433
Expenses:				
Selling, general and administrative	98,720	93,575	283,767	267,515
Provision for doubtful accounts	83	69	167	203
Other income, net	2	(12)	(945)	(186)
Total expenses	98,805	93,632	282,989	267,532
Income before interest and income taxes	13,008	12,643	31,795	30,901
Interest expense, net	594	175	1,614	666
Income before income taxes	12,414	12,468	30,181	30,235
Income tax expense	4,759	4,644	11,574	11,454
Net income	\$7,655	\$7,824	\$18,607	\$18,781
Other comprehensive income				
Adjustments related to retirement plans; net of tax expense of \$36 and \$109 in 2015 and \$50 and \$150 in 2014.	\$59	\$82	\$175	\$244
Comprehensive income	\$7,714	\$7,906	\$18,782	\$19,025
Basic earnings per share:				
Common Stock	\$0.34	\$0.35	\$0.83	\$0.84
Class A Common Stock	\$0.32	\$0.33	\$0.78	\$0.75
Diluted earnings per share:				
Common Stock	\$0.34	\$0.34	\$0.81	\$0.82
Class A Common Stock	\$0.32	\$0.33	\$0.78	\$0.76
Cash dividends per share:				
Common Stock	\$0.100	\$1.080	\$0.260	\$1.240
Class A Common Stock	\$0.095	\$1.025	\$0.245	\$1.175

See notes to these condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	\$ 18,607	\$ 18,781
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,967	16,632
Share-based compensation expense	3,142	2,530
Provision for doubtful accounts	167	203
Other	618	549
Changes in operating assets and liabilities:		
Accounts receivable	883	1,462
Inventories	1,974	(3,339)
Customer deposits	6,578	9,813
Other assets and liabilities	(1,078)	(379)
Accounts payable and accrued liabilities	(4,027)	2,800
Net cash provided by operating activities	45,831	49,052
Cash Flows from Investing Activities:		
Capital expenditures	(22,523)	(22,049)
Maturities of certificates of deposit	2,500	—
Restricted cash and cash equivalents	14	(1,001)
Other	21	407
Net cash used in investing activities	(19,988)	(22,643)
Cash Flows from Financing Activities:		
Construction allowance receipts	4,773	—
Payments on lease obligations	(1,801)	(729)
Taxes on vested restricted shares	(1,152)	(2,060)
Dividends paid	(5,855)	(27,976)
Common stock purchased	(14,002)	—
Other	—	(170)
Net cash used in financing activities	(18,037)	(30,935)
Increase (decrease) in cash and cash equivalents during the period	7,806	(4,526)
Cash and cash equivalents at beginning of period	65,481	83,185
Cash and cash equivalents at end of period	\$ 73,287	\$ 78,659

See notes to these condensed consolidated financial statements.

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

NOTE A – Business and Reporting Policies

Haverty Furniture Companies, Inc. ("Havertys," "the Company," "we," "our," or "us") is a retailer of a broad line of residential furniture in the middle to upper-middle price ranges. We operate all of our stores using the Havertys brand and do not franchise our concept. We operate in one reportable segment, home furnishings retailing. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. The financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe all adjustments, normal and recurring in nature, considered necessary for a fair presentation have been included.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results could differ from those estimates.

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

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification. The Company considers the applicability and impact of all ASU's. Newly effective ASU's not noted herein were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

For further information, refer to the consolidated financial statements and footnotes thereto included in Havertys' Annual Report on Form 10-K for the year ended December 31, 2014.

NOTE B – Restricted Cash and Cash Equivalents

Our insurance carrier requires us to collateralize a portion of our workers' compensation obligations. These escrowed funds are shown as restricted cash and cash equivalents on our consolidated balance sheet and are investments in money market funds held by an agent. The annual agreement with our carrier governing these funds expires on December 31, 2015.

NOTE C – Investments

We have purchased certificates of deposit held for investment with original maturities greater than three months. The fair values of the certificates of deposit approximates their carrying amounts. Certificates of deposit with remaining maturities less than one year totaled \$6.8 million and are classified as current and those with remaining maturities greater than one year totaled \$0.8 million and are included in other assets.

HAVERTY FURNITURE COMPANIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE D – Accounts Receivable

Amounts financed under our in-house credit programs are less than 3.5% as a percent of net sales and are not significant. The in-house credit program selected most often by our customers is "12 months no interest with equal monthly payments." The terms of the other programs vary as to payment terms (30 days to 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: \$6.4 million in one year, \$0.6 million in two years, and \$0.2 million beyond two years for receivables outstanding at September 30, 2015.

Accounts receivable are shown net of the allowance for doubtful accounts of \$0.3 million at September 30, 2015 and \$0.4 million at December 31, 2014. We provide an allowance utilizing a methodology which considers the balances in problem and delinquent categories of accounts, historical write-offs, existing economic conditions and management judgment. Interest assessments are continued on past-due accounts but no "interest on interest" is recorded. Delinquent accounts are generally written off automatically after the passage of nine months without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of a discharged bankruptcy or other circumstances that make further collections unlikely.

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 E – Interim LIFO Calculations

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on actual inventory levels. Accordingly, interim LIFO calculations must necessarily be based on management's estimates. Since these estimates may be affected by factors beyond management's control, interim results are subject to change based upon the final year-end LIFO inventory valuations.

NOTE F – Fair Value 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 values due to their short-term nature. The assets related to our self-directed, non-qualified deferred compensation plans for certain executives and employees are valued using quoted market prices multiplied by the number of shares held, a Level 1 valuation technique. The assets related to our deferred compensation plans totaled approximately \$3.1 million at September 30, 2015 and \$2.7 million at December 31, 2014 and are included in other assets. The related liability of the same amount is included in other liabilities.

NOTE G - Other income, net:

Other income, net includes gains or losses on sales of property and equipment and miscellaneous income or expense items outside of core operations. We settled credit card antitrust litigation in the second quarter of 2015 and received a payment of \$0.8 million.

HAVERTY FURNITURE COMPANIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE H – Income Taxes

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter we update our estimate of the annual effective tax rate, and if our estimated tax rate changes, we make a year to date adjustment.

Our effective tax rate for the nine months ended September 30, 2015 and 2014 was 38.3% and 37.9%, respectively. The primary difference in the effective rate and the statutory rate is due to state income taxes.

NOTE I – Pension Plans

On May 13, 2014, our defined benefit plan (the "Pension Plan") was terminated effective July 20, 2014. During the fourth quarter of 2014 Pension Plan participants received their earned benefits through the payment of lump-sum cash distributions, roll-over payments to other retirement accounts, and the purchase of annuity contracts from a third-party insurance company. The Pension Plan was fully funded so no company contributions were required in 2014 to completely settle our obligations. Additional information regarding the settlement of the Pension Plan can be found in our Annual Report on Form 10 K for the year ended December 31, 2014.

We also have a non-qualified, non-contributory supplemental executive retirement plan (SERP) for employees whose retirement benefits are reduced due to their annual compensation levels. The SERP limits the total amount of annual retirement benefits that may be paid to a participant in the SERP 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.

Net pension costs included the following components (in thousands):

	SERP Three Months Ended September 30, 2015 2014		Pension Plan Three Months Ended September 30, 2015 2014	
Service cost-benefits earned during period	\$32	\$31	\$N/A	\$—
Interest cost on projected benefit obligations	79	73		881
Expected return on plan assets	—	—		(1,214)
Amortization of prior service costs	52	53		—
Amortization of actuarial (gain) loss	42	—		79
Net pension costs	\$205	\$157	\$N/A	\$(254)
	SERP Nine Months Ended September 30, 2015 2014		Pension Plan Nine Months Ended September 30, 2015 2014	

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Service cost-benefits earned during period	\$96	\$93	\$N/A	\$—
Interest cost on projected benefit obligations	236	219		2,643
Expected return on plan assets	—	—		(3,642)
Amortization of prior service costs	157	157		—
Amortization of actuarial (gain) loss	127	—		237
Net pension costs	\$616	\$469	\$N/A	\$(762)

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HAVERTY FURNITURE COMPANIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE J – Stock Based Compensation Plan

As more fully discussed in Note 12 of the notes to the consolidated financial statements in our 2014 Annual Report on Form 10-K, we have awards outstanding for Common Stock under stock-based employee compensation plans.

The following table summarizes our award activity during the nine months ended September 30, 2015:

	Restricted Stock Awards		Stock-Settled Appreciation Rights	
	Shares or Units	Weighted-Average Award Price	Rights	Weighted-Average Award Price
Outstanding at December 31, 2014	321,322	\$ 20.49	129,975	\$ 16.04
Granted	175,135	23.97	—	—
Restrictions lapsed or exercised	(147,595)	18.94	(19,100)	8.74
Forfeited	(4,702)	24.96	—	—
Outstanding at September 30, 2015	344,160	\$ 22.87	110,875	\$ 17.29
Exercisable at September 30, 2015	—	—	58,875	\$ 16.54

Grants of equity awards are made to certain officers and key employees under stockholder approved long-term incentive plans. The restrictions on most of the awards generally lapse annually, primarily over four year periods. During 2015, the Company granted 52,377 awards for which the shares ultimately issued will be based upon the achievement of various performance measures. The restricted units earned under most of these awards vest after three years. The compensation is being charged to selling, general and administrative expense over the respective grants' vesting periods, primarily on a straight-line basis. Stock based compensation expense for the nine months ended September 30, 2015 and September 30 2014, was approximately \$3.1 million and \$2.5 million, respectively. The aggregate intrinsic value of outstanding restricted common stock grants was \$8.1 million at September 30, 2015. The aggregate intrinsic value of vested and outstanding stock-settled appreciation rights at September 30, 2015 was approximately \$0.4 million and \$0.7 million, respectively.

As of September 30, 2015, the remaining unamortized compensation cost related to unvested equity awards was approximately \$5.5 million and scheduled to be recognized over a weighted-average period of 2.3 years.

NOTE K – 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.

The Common Stock of the Company has a preferential dividend rate of at least 105% of the dividend paid on the Class A Common Stock. The Class A Common Stock, which has ten votes per share as opposed to one vote per share for the Common Stock (on all matters other than the election of directors), may be converted at any time on a one-for-one basis into Common Stock at the option of the holder of the Class A Common Stock.

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

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

	Three Months Ended September 30, 2015 2014		Nine Months Ended September 30, 2015 2014	
Numerator:				
Common:				
Distributed earnings	\$2,051	\$22,181	\$5,348	\$25,434
Undistributed earnings	4,935	(15,057)	11,633	(8,330)
Basic	6,986	7,124	16,981	17,104
Class A Common earnings	669	700	1,626	1,677
Diluted	\$7,655	\$7,824	\$18,607	\$18,781
Class A Common:				
Distributed earnings	\$195	\$2,202	\$507	\$2,542
Undistributed earnings	474	(1,502)	1,119	(865)
	\$669	\$700	\$1,626	\$1,677
Denominator:				
Common:				
Weighted average shares outstanding - basic	20,448	20,535	20,538	20,383
Assumed conversion of Class A Common Stock	2,061	2,151	2,074	2,223
Dilutive options, awards and common stock equivalents	282	253	295	330
Total weighted-average diluted Common Stock	22,791	22,939	22,907	22,936
Class A Common:				
Weighted average shares outstanding	2,061	2,151	2,074	2,223

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Net Sales

Our sales are generated by customer purchases of home furnishings. Revenue is recognized upon delivery to the customer.

Comparable-store or "comp-store" sales for the periods presented are sales from stores open throughout the period and the corresponding prior year period. If a store expansion results in a 10% or greater increase in selling square footage, its sales are removed from the comparable store sales base until it has been open a full 12 months. We included 116 stores in comp-store sales for the third quarter and 114 for the nine months ended September 30, 2015.

The following outlines our sales and comp-store sales increases and decreases for the periods indicated (dollars in millions, amounts and percentages may not always add to totals due to rounding):

Period	2015					2014				
	Net Sales		Comp-Store			Net Sales		Comp-Store		
	Total	%	\$	%	\$	Total	%	\$	%	\$
	Dollars	Change	Change	Change	Change	Dollars	Change	Change	Change	Change
Q1	\$191.3	5.3	% \$ 9.6	3.8%	\$ 6.6	\$181.7	(2.3)%	\$ (4.4)	(0.9)%	\$ (1.6)
Q2	187.7	7.2	12.6	4.8	8.2	175.1	2.4	4.0	3.2	5.3
Q3	209.9	5.7	11.4	3.0	5.9	198.5	3.0	5.8	3.5	6.6
9 months ended September 30	\$589.0	6.0	% \$ 33.6	3.8%	\$ 20.7	\$555.4	1.0	% \$ 5.5	1.9	% \$ 10.3
Q4	—	—	—	—	—	213.0	8.6	16.8	8.3	15.9
Year	—	—	—	—	—	\$768.4	3.0	% \$ 22.3	3.6	% \$ 26.2

During the first half of 2015, we experienced some imported product availability issues resulting from the West Coast port slowdown. This hampered both delivery throughput and our ability to predict future delivery dates for potential sales. Lead times did stabilize over the latter months of the second quarter of the year and our stocking position is improved.

Our average written ticket was up 6.9% for the third quarter and 5.0% for the first nine months compared to the 2014 periods. The custom order segment of our upholstery sales continued to show strength as written business increased 10.4% in the third quarter of 2015 and 11.0% for the first nine months.

Beginning in March 2015 new competition entered the Dallas, Texas market, where we have 12 stores in the metropolitan area. This has pressured sales and gross profit at rates we had expected.

Gross Profit

Gross profit for the third quarter of 2015 was 53.2%, down 30 basis points compared to the prior year period and slightly better than our estimates. Gross profit for the first nine months of 2015 was 53.4% compared to 53.7% for the same period of 2014. We had a larger than normal number of new merchandise group introductions over the last quarter of 2014 and the first quarter of 2015. The closeout sales of the replaced products contributed to slightly lower

margins in the first nine months of 2015.

We do not expect to modify our promotional strategy in the fourth quarter and our expectation for annual gross profit margins for 2015 is now approximately 53.4%, a change from our previous estimate of 53.3%.

Substantially all of our occupancy and home delivery costs are included in selling, general and administrative expenses as are a portion of our warehousing expenses. Accordingly, our gross profit may not be comparable to those entities that include these costs in cost of goods sold.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are comprised of five categories: selling; occupancy; delivery and certain warehousing costs; advertising and marketing; and administrative.

Our SG&A costs as a percent of sales for the third quarter decreased slightly to 47.0% for 2015 from 47.1% for 2014. Total SG&A dollars for the third quarter of 2015 increased \$5.1 million compared to the prior year period. We have the overhead in place for four additional stores versus last year and have increased our in-home design staff. Our selling costs increased \$2.0 million in 2015 over 2014 due mainly to greater sales commissions as sales increased 5.7%, the training and additional staffing in our new stores, and higher third party creditor costs. Occupancy expense rose \$1.4 million primarily due to increases in depreciation. Our warehouse and delivery expense rose \$0.6 million in the current year period due to higher wages and temporary labor partially offset by fuel costs. Advertising and marketing expenses were relatively flat with the prior year quarter. Administrative costs rose \$1.4 million or 6.9% primarily from higher administrative and management salaries and benefits.

Our SG&A costs as a percent of sales for the first nine months of the year was unchanged at 48.2% for 2015 and 2014. Total SG&A dollars increased \$16.3 million for the nine months ended September 30, 2015 compared to the prior year period. We have the overhead in place for four additional stores versus last year and have increased our in-home design staff. Our selling costs increased \$7.4 million in 2015 over 2014 due mainly to greater sales commissions, the training and additional staffing in our new stores, and higher third party creditor costs. Occupancy expense rose \$3.6 million primarily due to increases in depreciation for new, relocated, and renovated stores. Our warehouse and delivery expense rose \$1.8 million in the first nine months of 2015 compared to the prior year period as we incurred additional personnel costs partly due to disruptions in the supply chain. Administrative costs rose \$3.6 million or 5.9% for the first nine months of 2015 over the 2014 period.

Our normal fixed and discretionary type expenses within SG&A costs are still expected to be approximately \$240 million to \$241 million for the full year 2015 versus the \$231 million, for the same costs in 2014. The increase is due to new stores, and higher advertising and personnel costs. The fixed and discretionary expenses were \$178.3 million for the first nine months of 2015. The variable type costs within SG&A for the first nine months of 2015 were 17.9% and are now expected to be approximately 17.8% percent of sales for the full year, a change from our previous estimate of 17.7%.

Interest Expense

Our interest expense is primarily driven by amounts related to our lease obligations. For leases accounted for as capital and financing lease obligations, we only record straight-line rent expense for the land portion in occupancy costs in SG&A along with depreciation on the additional asset recorded. Rental payments are recognized as a reduction of the obligations and as interest expense. The number of stores, including those under construction, which are accounted for in this manner and the related financing lease obligations increased for the quarter and nine months ended September 30, 2015 compared to the prior year periods.

Liquidity and Capital Resources

Our primary cash requirements include working capital needs, contractual obligations, income tax obligations and capital expenditures. We have funded these requirements primarily through cash generated from operations. We have no funded debt and our lease obligations are primarily due to arrangements that are not considered capital leases but must be recorded on our balance sheets. We believe funds generated from our expected results of operations and available cash and cash equivalents will be sufficient to fund our primary obligations, dividends, stock repurchases and complete capital projects that we have underway or currently contemplate.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

We also have a \$50.0 million revolving credit facility. Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was \$48.7 million and there were no outstanding letters of credit at September 30, 2015. Amounts available are based on the lesser of the borrowing base of \$48.7 million 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 \$42.5 million. There were no borrowed amounts outstanding under the facility at September 30, 2015.

Summary of Cash Activities

Our cash flows provided by operating activities totaled \$45.8 million in the first nine months of 2015 compared to \$49.1 million for the same period of 2014. Cash from net income, adjusted for depreciation and stock-based compensation was greater in 2015 compared to 2014 but was offset by changes in working capital. These changes included a decrease versus an increase in inventories and a smaller increase in customer deposits in 2015 compared to 2014. For additional information about the changes in our assets and liabilities refer to our Balance Sheet Changes discussion.

Our cash flows used in investing activities totaled \$20.0 million in the first nine months of 2015 versus \$22.6 million for the same period of 2014. Maturities of certificates of deposit of \$2.5 million in 2015 and an increase of \$1.0 million in restricted cash in 2014 were offset by greater capital expenditures in 2015 of \$0.5 million.

Financing activities used \$18.0 million in the first nine months of 2015 compared to a \$30.9 million for the same period of 2014. This difference was primarily the result of the payment of a special dividend of \$22.6 million in 2014. During 2015 the Company purchased \$14.0 million in treasury stock. These expenditures were partly offset by the receipt of \$4.8 million in construction allowances in 2015 from landlords at stores where Havertys is considered the owner of the property during the construction period.

Balance Sheet Changes for the Nine Months Ended September 30, 2015

Our balance sheet as of September 30, 2015, as compared to our balance sheet as of December 31, 2014, changed as follows:

- decrease in inventories of \$2.0 million as we rationalized our warehouse inventory levels offset by inventory for four new stores;
- increase in property and equipment of \$6.5 million primarily due to capital expenditures and additional leased properties recorded on our balance sheet;
- increase in deferred income taxes of \$2.4 million primarily due to finalizing deductions related to the change in the tangible property regulations;
- increase in customer deposits of \$6.6 million as undelivered sales increased partly due to growth in special orders;
- decrease in accrued liabilities of \$2.2 million due to timing of payments; and
- increase in lease obligations of \$4.9 million as additional assets were recorded on our balance sheet.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Store Plans and Capital Expenditures

The following table summarizes our store activity in 2015.

Location	Opening (Closing)	Category
Coconut Creek, FL	Q-1-15	Existing Market
Rogers, AR	Q-2-15	New Market
Waco, TX	Q-2-15	New Market
Ft. Lauderdale, FL	Q-3-15	Existing Market
Memphis, TN	(Q-4-15)	Closure

These changes combined with our store remodeling and expansion activity should increase net selling space in 2015 by approximately 3.0%. Total capital expenditures are estimated to be in the \$32 to \$33 million range in 2015 depending on the timing of spending for new projects.

Off-Balance Sheet Arrangements

As of September 30, 2015 we had no off-balance sheet arrangements or obligations.

Critical Accounting Estimates

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and we might obtain different estimates if we used different assumptions or conditions. Our critical accounting estimates are identified and described in our annual report on Form 10-K for the year ended December 31, 2014. We had no significant changes in those critical accounting estimates since our last annual report.

Forward-Looking Information

Certain of the statements in this Form 10-Q, particularly those anticipating future performance, business prospects, growth and operating strategies and similar matters, and those that include the words "believes," "anticipates," "estimates" or similar expressions constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. For those statements, Havertys claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. There can be no assurance that the forward-looking statements will be accurate because they are based on many assumptions, which involve risks and uncertainties. The following important factors could cause future results to differ: changes in the economic environment; changes in the housing market; changes in industry conditions; competition; merchandise costs; energy costs; timing and level of capital expenditures; introduction of new products; rationalization of operations; and other risks identified in Havertys' SEC reports and public announcements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes with respect to our financial instruments and their related market risks since the date of the Company's most recent annual report.

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate, to allow timely decisions regarding disclosure.

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The board of directors has authorized management, at its discretion, to purchase and retire limited amounts of our common stock and Class A common stock. A program was initially approved by the board on November 3, 1986 with subsequent authorizations made as to the number of shares to be purchased. On August 12, 2014, the board authorized management to purchase up to \$10.0 million of common and Class A common stock after the maximum number of shares previously authorized are acquired.

The following table presents information with respect to our repurchase of Havertys' common stock during the third quarter of 2015:

	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number or Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs
July 1 - July 31	—	—	—	149,431
August 1 - August 31	110,802	\$ 22.30	110,802	38,629
September 1 - September 4	38,629	22.86	38,629	—
September 4 - September 30	375,033	23.21	375,033	\$ 1,293,800

Item 6. Exhibits

(a) Exhibits

The exhibits listed below are filed with or incorporated by reference into this report (those filed with this report are denoted by an asterisk). Unless otherwise indicated, the exhibit number of documents incorporated by reference corresponds to the exhibit number in the referenced documents.

Exhibit Number	Description of Exhibit (Commission File No. 1-14445)
3.1	Articles of Amendment and Restatement of the Charter of Haverty Furniture Companies, Inc. effective May 26, 2006 (Exhibit 3.1 to our Second Quarter 2006 Form 10-Q).
3.2	By-laws of Haverty Furniture Companies, Inc. as amended effective May 12, 2010 (Exhibit 3.2 to our First Quarter 2010 Form 10-Q).
*31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer 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.
*101	The following financial information from Haverty Furniture Companies, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2015, and December 31, 2014, (ii) Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (iv) the Notes to Condensed Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

HAVERTY FURNITURE COMPANIES, INC.
(Registrant)

Date: November 2, 2015 By: /s/ Clarence H. Smith
Clarence H. Smith
Chairman of the Board, President
and Chief Executive Officer
(principal executive officer)

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