

HAVERTY FURNITURE COMPANIES INC

Form 10-K

March 04, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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:

1-1445

HAVERTY FURNITURE COMPANIES, INC.

Maryland

(State of Incorporation)

58-0281900

(IRS Employer Identification Number)

780 Johnson Ferry Road, Suite 800

Atlanta, Georgia

30342

(Address of principal executive offices) (Zip Code)

(404) 443-2900

(Registrant's telephone number, including area code)

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

Title of each Class

Name of each exchange on which registered

Common Stock (\$1.00 Par Value)

New York Stock Exchange, Inc.

Class A Common Stock (\$1.00 Par Value)

New York Stock Exchange, Inc.

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

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-K

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

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
(Do not check if a 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

As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$465,458,148 (based on the closing sale prices of the registrant's two classes of common stock as reported by the New York Stock Exchange).

There were 20,124,844 shares of common stock and 2,031,349 shares of Class A common stock, each with a par value of \$1.00 per share outstanding at February 29, 2016.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held May 9, 2016 are incorporated by reference in Part III.

HAVERTY FURNITURE COMPANIES, INC.

Annual Report on Form 10-K for the year ended December 31, 2015

Table of Contents

	Page
PART I	
Item 1. Business	2
Item 1A. Risk Factors	6
Item 1B. Unresolved Staff Comments	9
Item 2. Properties	10
Item 3. Legal Proceedings	10
Item 4. Mine Safety Disclosures	10
PART II	
Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6. Selected Financial Data	14
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	
Item 8. Financial Statements and Supplementary Data	26
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	26
Item 9A. Controls and Procedures	27
Item 9B. Other Information	29
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	29
Item 11. Executive Compensation	29
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	29
Item 13. Certain Relationships and Related Transactions, and Director Independence	29
Item 14. Principal Accounting Fees and Services	29
PART IV	
Item 15. Exhibits, Financial Statement Schedules	30

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

ITEM 1. BUSINESS

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

Overview

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

Havertys has grown to 121 stores in 16 states in the Southern and Midwest regions. All of our retail locations are operated using the Havertys name and we do not franchise our stores. Our customers are generally college educated women in middle to upper-middle income households. Our brand recognition is very high in the markets we serve and consumer surveys indicate Havertys is associated with a high level of quality, fashion, value and service.

Merchandise and Revenues

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

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

Our customers use varying methods to purchase or finance their sales. As an added convenience to our customers, we offer financing by a third-party finance company or through an internal revolving charge credit plan. Sales financed by the third-party provider are not Havertys' receivables; accordingly, we do not have any credit risk or servicing responsibility for these accounts, and there is no credit or collection recourse to Havertys. The most popular programs offered through the third-party provider for 2015 were no interest offers requiring monthly payments over periods of 18 to 36 months. The fees we pay to the third-party are included in SG&A expense. We also maintain a small in-house financing program for our customers with the offer most frequently chosen carrying no interest for 12 months and requiring equal monthly payments. This program generates very minor credit revenue and is for credit worthy customers who prefer financing with the retailer directly or who are not able to quickly establish sufficient credit with other providers on comparable terms.

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

	Year Ended December 31,					
	2015		2014		2013	
Cash or check	9.7	%	10.1	%	11.0	%
Credit or debit cards	56.3		56.1		54.7	
Third-party financed	32.6		32.1		32.1	
Havertys financed	1.4		1.7		2.2	
	100.0	%	100.0	%	100.0	%

Stores

As of December 31, 2015, we operated 121 stores serving 82 cities in 16 states with approximately 4.4 million retail square feet. Our stores range in size from 19,000 to 66,000 selling square feet with the average being approximately 35,000 square feet. We strive to have our stores reflect the distinctive style and comfort consumers expect to find when purchasing their home furnishings. The store's curb appeal is important to the type of middle to upper-middle income consumer that we target and our use of classical facades and attractive landscaping complements the quality and style of our merchandise. Interior details are also important for a pleasant and inviting shopping experience. We are very intentional in having open shopping spaces and our disciplined merchandise display ensures uniformity of presentations in-store, online and in our advertising.

We currently are looking within our distribution footprint for available "empty boxes" and new construction opportunities in existing or new markets where our target customers shop. We are also evaluating certain existing stores for expansion, relocation or closure. We expect a net increase of approximately 1.4% in our retail square footage in 2016.

Internet

We know that most consumers use the internet to pre-shop and we strive for havertys.com to be an extension of our stores and brand. Our website features a variety of helpful tools including suggested accessories, upholstery customizations and 3D room planners. We also provide information on which showroom has an item and delivery availability. A large number of product reviews written by our customers is also provided which some consumers find important in the decision making process. Our site allows consumers to develop "wish lists," and to place orders online and set delivery of their purchases. We limit online sales of our furniture to within our delivery network, and accessories to the continental United States. Sales placed through our website are approximately at the level of a single large store and sales increased 5.8% in 2015 compared to 2014.

Our sales associates also use havertys.com in the store as a tool to further engage the customer while she is in the store and extend her shopping experience when she returns home. Our site underwent changes in 2015 to have responsive sizing when accessed using mobile devices and provide more interactive opportunities with the customer. We believe that a direct-to-customer business complements our retail store operations by building brand awareness.

Suppliers

We buy our merchandise from numerous foreign and domestic manufacturers and importers, the largest ten of which accounted for approximately 56.4 % of our product purchases during 2015. Most of our wood products, or "case goods," are imported from Asia. Upholstered items are largely produced domestically, with the exception of our leather products which are primarily imported from Asia or Mexico.

We purchase our furniture merchandise produced in Asia through sourcing companies and also buy direct from manufacturers. We have developed a growing direct import program which works with industry designers and manufacturers in some of the best factories throughout Asia. We have dedicated quality control specialists on-site during production to ensure the items meet our specifications. Approximately 27.0% of our case goods sales in 2015 were generated by our direct imports.

Supply Chain and Distribution

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

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

Competition

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

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

Employees

As of December 31, 2015, we had 3,596 employees: 2,152 in individual retail store operations, 192 in our corporate and credit operations, 62 in our customer-service call centers, and 1,190 in our warehouse and delivery points. None of our employees is a party to any union contract.

Trademarks and Domain Names

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

Available Information

Filings with the SEC

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

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

ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

Based on product costs, approximately 60% of our total furniture purchases in 2015 were for goods not produced domestically. All of our purchases are denominated in U.S. dollars. As exchange rates between the U.S. dollar and certain other currencies become unfavorable, the likelihood of price increases from our vendors increases. Some of the products we purchase are also subject to tariffs. If tariffs are imposed on additional products or the tariff rates are increased our vendors may increase their prices. Such price increases, if they occur, could have one or more of the following impacts:

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

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

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

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

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

Our vendors might fail in meeting our quality control standards or reacting to changes to the legislative or regulatory framework regarding product safety.

All of our vendors must comply with applicable product safety laws and regulations, and we are dependent on them to ensure that the products we buy comply with all safety standards. Any actual, potential or perceived product safety concerns could expose us to government enforcement action or private litigation and result in recalls and other liabilities. These could harm our brand's image and negatively affect our business and operating results.

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

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

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

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

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

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

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

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

- power loss, computer systems failures and internet, telecommunications or data network failures;
- operator negligence or improper operation by, or supervision of, employees;
- physical and electronic loss of data or security breaches, misappropriation and similar events;
- computer viruses;
- intentional acts of vandalism and similar events; and
- tornadoes, fires, floods and other natural disasters.

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

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

We accept electronic payment cards in our stores and over the internet. Amounts tendered through payment card transactions represented approximately 56% of our business in 2015.

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

ITEM 1B.

UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Stores

Our retail store space at December 31, 2015 totaled approximately 4.4 million square feet for 121 stores. The following table sets forth the number of stores we operated at December 31, 2015 by state:

State	Number of Stores	State	Number of Stores
Florida	30	Louisiana	4
Texas	22	Maryland	4
Georgia	17	Arkansas	3
North Carolina	8	Kentucky	2
Virginia	7	Ohio	2
Alabama	7	Indiana	1
South Carolina	7	Kansas	1
Tennessee	5	Missouri	1

The 43 retail locations which we owned at December 31, 2015 had a net book value for land and buildings of \$86.5 million. Additionally, we had 17 leased locations open whose properties have a net book value of \$60.2 million which, due to financial accounting rules, are included on our balance sheets. The remaining 61 locations are leased by us with various termination dates through 2032 plus renewal options.

Distribution Facilities

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

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

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

Corporate Facilities

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

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

10

EXECUTIVE OFFICERS AND CERTAIN SIGNIFICANT EMPLOYEES OF THE REGISTRANT

The following are the names, ages and current positions of our executive officers and certain significant employees and, if they have not held those positions for the past five years, their former positions during that period with Havertys or other companies.

Name, age and office (at December 31, 2015) and year elected to office		Principal occupation during last five years other than office of the Company currently held
Clarence H. Smith	65	Chairman of the Board President and Chief Executive Officer 2012 2002 President and Chief Executive Officer
		Director 1989
Steven G. Burdette	54	Executive Vice President, Stores 2008 Has held this position for the last five years
J. Edward Clary	55	Executive Vice President, and Chief Information Officer 2015 Senior Vice President, Distribution and Chief Information Officer 2008-2015
Kathleen Daly-Jennings	53	Senior Vice President, Marketing since joining Havertys in June 2014 2014 Head of Industry, Retail Vertical with Google, 2007 - 2014
Allan J. DeNiro	62	Senior Vice President, Chief People Officer 2010 Has held this position for the last five years
Dennis L. Fink	64	Executive Vice President, Chief Financial Officer 2006 Has held this position for the last five years
Richard D. Gallagher	54	Executive Vice President, Merchandising 2014 Senior Vice President, Merchandising, 2009- 2014
John L. Gill	52	Vice President, Operations 2015 Western Regional Manager for the last five years.
Rawson Haverty, Jr.	59	Senior Vice President, Real Estate and Development 1988 Has held this position for the last five years
		Director 1992
Jenny Hill Parker	57	Senior Vice President, Finance, Secretary and Treasurer 2010 Has held this position for the last five years
Janet E. Taylor	54	Senior Vice President, General Counsel 2010 Has held this position for the last five years

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

Our executive officers are elected or appointed annually by the Board of Directors for terms of one year or until their successors are elected and qualified, subject to removal by the Board at any time.

PART II

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

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

2015						
Quarter Ended	Common Stock			Class A Common Stock		
	High	Low	Dividend Declared	High	Low	Dividend Declared
March 31	\$26.00	\$21.70	\$ 0.08	\$25.87	\$21.95	\$ 0.075
June 30	24.78	20.53	0.08	23.21	20.48	0.075
September 30	24.48	21.30	0.10	23.86	21.62	0.095
December 31	24.54	21.00	0.10	24.10	21.09	0.095

2014						
Quarter Ended	Common Stock			Class A Common Stock		
	High	Low	Dividend Declared	High	Low	Dividend Declared
March 31	\$31.57	\$25.21	\$ 0.08	\$31.25	\$25.67	\$ 0.075
June 30	30.48	23.49	0.08	30.00	23.87	0.075
September 30	26.84	20.68	1.08 ⁽¹⁾	26.54	20.82	1.025 ⁽¹⁾
December 31	23.00	19.54	0.08	23.25	19.61	0.075

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

Stockholders

Based on the number of individual participants represented by security position listings, there are approximately 3,248 holders of our common stock and 174 holders of our Class A common stock as of February 22, 2016.

Dividends

The payment of dividends and the amount are determined by the Board of Directors and depend upon, among other factors, our earnings, operations, financial condition, capital requirements and general business outlook at the time such dividend is considered. We have paid a cash dividend in each year since 1935. A special cash dividend was paid in the fourth quarter of 2012 and in the third quarter of 2014.

Equity Compensation Plans

Information concerning the Company's equity compensation plans is set forth under the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 9, 2016, to be filed with the Securities and Exchange Commission (the "Company's 2015 Proxy Statement") and is incorporated herein by reference.

Stock Repurchase Program

The board of directors has authorized management, at its discretion, to purchase limited amounts of our common stock and Class A common stock. On November 10, 2015, the board authorized the Company to purchase up to \$10.0 million of its common and Class A common stock. The Company has a remaining authorization to buy approximately \$1.3 million under a program approved in August 2014. In addition to utilizing cash flow for profitable growth and the payment of dividends, opportunistic repurchases during periods of favorable market conditions is another way to enhance stockholder value.

Stock Performance Graph

The following graph compares the performance of Havertys' common stock and Class A common stock against the cumulative return of the NYSE/AMEX/Nasdaq Home Furnishings & Equipment Stores Index (SIC Codes 5700 – 5799) and the S&P Smallcap 600 Index for the period of five years commencing December 31, 2010 and ended December 31, 2015. The graph assumes an initial investment of \$100 on January 1, 2010 and reinvestment of dividends.

	2010	2011	2012	2013	2014	2015
HVT	\$100.00	\$85.50	\$136.04	\$263.62	\$195.85	\$193.83
HVT-A	\$100.00	\$86.35	\$137.06	\$264.87	\$193.92	\$193.07
S&P Smallcap 600 Index	\$100.00	\$101.02	\$117.51	\$166.05	\$175.61	\$172.15
SIC Codes 5700-5799	\$100.00	\$92.02	\$81.26	\$141.35	\$129.56	\$101.39

ITEM 6. SELECTED FINANCIAL DATA

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

	Year ended December 31,									
(Dollars in thousands, except per share data)	2015		2014		2013		2012		2011	
Results of Operations										
Net sales	\$804,870		\$768,409		\$746,090		\$670,073		\$620,903	
Net sales change over prior year	4.7	%	3.0	%	11.3	%	7.9	%	0.1	%
Comp-store sales change over prior year	2.5	%	3.6	%	11.0	%	6.8	%	0.3	%
Gross profit	430,776		412,366		401,496		352,035		320,716	
Percent of net sales	53.5	%	53.7	%	53.8	%	52.5	%	51.7	%
Selling, general and administrative expenses	384,801		364,654		348,599		328,826		315,865	
Percent of net sales	47.8	%	47.5	%	46.7	%	49.1	%	50.9	%
Income before income taxes ⁽¹⁾	45,275		25,257		52,487		23,516		4,603	
Net income ⁽¹⁾⁽²⁾	27,789		8,589		32,265		14,911		15,463	
Share Data										
Diluted earnings per share										
Common Stock	\$1.22		\$0.37		\$1.41		\$0.67		\$0.70	
Class A Common Stock	1.17		0.33		1.35		0.59		0.67	
Adjusted diluted earnings per share: ⁽³⁾										
Common Stock	\$1.22		\$0.37		\$1.41		\$0.67		\$0.70	
Pension settlement expense ⁽¹⁾	—		0.90		—		—		—	
Out-of-period adjustment ⁽⁴⁾	—		—		(0.02)		0.02		—	
Adjusted diluted earnings per common share ⁽³⁾	\$1.22		\$1.28		\$1.39		\$0.69		\$0.70	
Cash dividends – amount per share:										
Common Stock ⁽⁵⁾	\$0.3600		\$1.3200		\$0.2400		\$1.1200		\$0.1200	
Class A Common Stock ⁽⁵⁾	\$0.3400		\$1.2500		\$0.2250		\$1.0625		\$0.1125	
Shares outstanding (in thousands):										
Common Stock	20,124		20,568		20,122		19,471		18,829	
Class A Common Stock	2,032		2,081		2,393		2,775		3,120	
Total shares	22,156		22,649		22,515		22,246		21,949	
Financial Position										
Inventories	\$108,896		\$107,139		\$91,483		\$96,902		\$93,713	
Capital expenditures	\$27,143		\$30,882		\$20,202		\$25,014		\$17,566	
Depreciation/amortization expense	25,756		22,613		21,450		19,415		18,242	
Total assets	\$471,251		\$460,987		\$417,855		\$402,096		\$385,100	
Total debt ⁽⁶⁾	53,125		49,065		17,155		19,354		13,046	
Stockholders' equity	301,739		292,083		298,264		259,428		262,669	
Debt to total capital	15.0	%	14.4	%	5.4	%	6.9	%	4.7	%
Net cash provided by operating activities	52,232		55,454		55,889		52,168		19,072	
Other Supplemental Data:										
Employees	3,596		3,388		3,266		3,250		3,050	
Retail sq. ft. (in thousands) at year end	4,380		4,283		4,259		4,353		4,246	
Annual retail net sales per weighted average sq. ft.	\$185		\$183		\$176		\$158		\$148	
Average sale per written ticket	\$2,002		\$1,912		\$1,860		\$1,725		\$1,601	
Due to rounding amounts may not add to totals.										

(1) Includes for 2014 the impact of the settlement of the pension plan of a \$21.6 million increase in expense and a tax benefit of \$0.9 million, for a total impact of \$20.7 million after tax or \$0.90 per share.

- (2) We reduced the valuation allowance and recorded a benefit to income taxes of \$14.1 million in 2011, \$1.2 million in 2012, and \$1.4 million in 2013.
- (3) Adjusted diluted earnings per share is a non-GAAP financial measure.
- (4) We recorded an out-of-period adjustment in 2013 related to certain vendors' pricing allowances. The non-cash adjustment increased gross profit by \$0.8 million or \$0.02 per diluted share.
- (5) Includes special dividends of \$1.00 for Common Stock and \$0.95 for Class A Common Stock paid both in the fourth quarter of 2012 and in the third quarter of 2014.
- (6) Debt is comprised completely of lease obligations.

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

Overview

Industry

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

Our Business

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

2015 Highlights

Sales for 2015 grew 4.7% or \$36.5 million over 2014. Gross profit as a percent of net sales decreased 20 basis points, and SG&A increased 30 basis points. Our pre-tax income was \$45.3 million, and excluding the \$21.6 million pre-tax pension termination charge in 2014, decreased 3.4% or \$1.6 million. Our fourth quarter results were pre-tax income of \$15.1 million down 9.3% from \$16.6 million over the prior year period excluding the pension charge. We made \$27.1 million in important capital expenditure investments in our business and \$14.0 million in purchases of treasury stock. Our debt is comprised completely of lease obligations. We did not use our credit facility during the year and our total debt to total capital was 15.0% at December 31, 2015.

Management Objectives

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

Key Performance Indicators

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

Operating Results

The following table provides selected data for the periods indicated and reconciles the non-GAAP financial measures to their comparable GAAP measures. See the additional discussion contained in this Item 7 (in thousands, except per share data):

	Year Ended December 31,		
	2015	2014	2013
Statement of Operations Data:			
Net sales	\$804,870	\$768,409	\$746,090
Gross profit	430,776	412,366	401,496
Selling, general and administrative expenses	384,801	364,654	348,599
Pension settlement expense	—	21,623	—
Income before interest and income taxes	47,564	26,308	53,594
Income before income taxes	45,275	25,257	52,487
Net income	\$27,789	\$8,589	\$32,265
Other Financial Data:			
EBIT	\$47,564	\$26,308	\$53,594
Pension settlement expenses	—	21,623	—
Q-1 2013 gross profit out-of-period adjustment	—	—	(835)
Adjusted EBIT	\$47,564	\$47,931	\$52,759
Adjusted EBIT as a percent of net sales	5.9 %	6.2 %	7.1 %
Adjusted EBIT	\$47,564	\$47,931	\$52,759
Interest expense, net	2,289	1,051	1,107
Adjusted income before income taxes	\$45,275	\$46,880	\$51,652
Net income	\$27,789	\$8,589	32,265
Pension settlement expense, net of tax	—	20,725	—
Out-of-period adjustment, net of tax	—	—	(518)
Adjusted net income	\$27,789	\$29,314	\$31,747
Earnings per diluted share	\$1.22	\$0.37	\$1.41
Non-cash pension settlement expense	—	0.90	—
Out-of-period adjustment	—	—	(0.02)
Adjusted earnings per diluted share	\$1.22	\$1.28	\$1.39

Due to rounding amounts may not add to the totals.

Net Sales

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

Total sales increased \$36.5 million or 4.7% in 2015 and \$22.3 million or 3.0% in 2014. Comparable store sales increased 2.5% or \$18.9 in 2015 and 3.6% or \$26.2 million in 2014. The remaining \$17.6 in 2015 and \$3.9 million in 2014 of the changes were from closed, new and otherwise non-comparable stores.

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

Period Ended	December 31, 2015			2014			2013								
	Net Sales			Comp-Store Sales	Net Sales			Comp-Store Sales	Net Sales			Comp-Store Sales			
	Dollars	%			Dollars	%		Dollars	%		Dollars	%			
	in millions	Increase (decrease) over prior period		Increase (decrease) over prior period	in millions	Increase (decrease) over prior period		Increase (decrease) over prior period	in millions	Increase (decrease) over prior period		Increase (decrease) over prior period			
Q1	\$191.3	5.3	%	3.8	%	\$181.7	(2.3	)%	(0.9	)%	\$186.1	13.8	%	11.5	%
Q2	187.7	7.2		4.8		175.1	2.4		3.2		171.1	12.9		11.2	
Q3	209.9	5.7		3.0		198.5	3.0		3.5		192.7	11.6		11.8	
Q4	215.9	1.4		(0.9	)	213.0	8.6		8.3		196.2	7.6		9.5	
Year	\$804.9	4.7		2.5	%	\$768.4	3.0	%	3.6	%	\$746.1	11.3	%	11.0	%

Sales in 2015 increased at a modest pace during the first nine months of the year. We did have some product availability issues during the first quarter resulting from the impact of the West Coast port slowdown. We experienced a softening in our business in the fourth quarter, more prevalent in Texas but also across many of our markets. Our average ticket increased 4.7% as our custom upholstery sales increased 11.8% over 2014 as more business involved a member of our in-home design team.

Sales in 2014 were challenged by weather in the first quarter and case goods vendor supply and import flow issues through much of the remainder of the year. The store displays in this important category were not as robust as our merchandise team had planned and began to recover in the fourth quarter. Our improved custom order configurator web based tool helped our specialty upholstery sales to continue to grow with a 10.8% increase over 2013 including a 19.3% growth rate in the fourth quarter. We also expanded our in-home-design service in 2014 which has yielded higher average tickets.

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

2016 Outlook

We believe as the general economy improves and consumer spending and the housing market strengthens, our business will benefit. Our comparable store sales will begin to anniversary the impact of new competition in the Dallas, Texas market in the second quarter. We have upgraded stores, offer appealing merchandise and expanded special order and service offerings which will be important drivers for our 2016 sales results. We expect to grow our

retail square footage by 1.4% in 2016 with weighted average square footage increasing by 0.6%.

17

Gross Profit

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

Year-to-Year Comparisons

Gross profit as a percentage of net sales was 53.5% in 2015 compared to 53.7% in 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, quality issues from certain new products and the related increased reserves contributed to slightly lower margins in 2015.

Gross profit as a percentage of net sales was 53.7% in 2014 compared to 53.8% in 2013. Our LIFO impact was \$0.5 million greater in 2014 than in 2013 and during 2014 we had slightly lower delivery fee revenue and higher than normal clearance sale activity resulting from store and local warehouse closings. We recorded a \$0.8 million positive out-of-period adjustment in the first quarter of 2013 for vendor pricing allowances. Excluding the impact of the out-of-period adjustment, gross profit was 53.7% in 2013.

2016 Outlook

Our merchandising strategy will be similar to 2015 using promotional pricing selectively and focusing on product fashion and customer service. We expect that annual gross profit margins for 2016 will be approximately 53.5%, reflecting the impact of new products with slightly higher gross margins, increased competition and increased sales of markdown merchandise.

Selling, General and Administrative Expenses

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

We classify our SG&A expenses as either variable or fixed and discretionary. Our variable expenses include the costs in the selling and delivery categories and certain warehouse expenses as these amounts will generally move in tandem with our level of sales. The remaining categories and expenses are classified as fixed and discretionary because these costs do not fluctuate with sales. The following table outlines our SG&A expenses by classification:

	2015		2014		2013	
		% of		% of		% of
		Net		Net		Net
	\$	Sales	\$	Sales	\$	Sales
Variable	\$ 143,861	17.9 %	\$ 134,168	17.5 %	\$ 124,770	16.7 %
Fixed and discretionary	240,940	29.9	230,486	30.0	223,829	30.0

\$384,801 47.8 % \$364,654 47.5 % \$348,599 46.7 %

Year-to-Year Comparisons

Our SG&A costs as a percent of sales increased 30 basis points to 47.8% for 2015 from 47.5% in 2014. The fixed and discretionary expenses increased \$10.5 million or 4.5% in 2015 to \$240.9 million from \$230.5 million in 2014. This increase was driven by \$4.7 million in additional administrative costs primarily from compensation expense, of which \$1.4 million related to new stores. Our new locations and improvements generated a \$4.2 million increase in depreciation and other occupancy costs in 2015 compared to 2014. Our variable expenses were higher as a percent of net sales in 2015 compared to 2014 primarily due to sales associates added in new locations and the expansion of our in-home design program.

Our SG&A costs as a percent of sales increased 80 basis points to 47.5% for 2014 from 46.7% in 2013. The fixed and discretionary expenses of \$230.5 million in 2014 were \$6.7 million or 3% above the 2013 level primarily due to increases in spending on advertising of \$2.6 million, depreciation and other occupancy costs of \$1.8 million and greater communication and data expense of \$2.2 million. Variable expense as a percent of sales for 2014 increased to 17.5% from 16.7% in 2013. Our selling costs as a percent of sales increased 47 basis points in 2014 over 2013 due in part to the expansion of our in-home design program.

2016 Outlook

Fixed and discretionary type expenses within SG&A are expected to be approximately \$251.0 million for 2016, up \$10.1 million or 4.2% over those same costs in 2015. The increase is largely due to depreciation on capital expenditures, occupancy costs from new and relocated stores, staffing increases and inflation. First quarter 2016 advertising costs are expected to be higher than last year's quarter but comparatively flat for the remainder of 2016. Fixed and discretionary type expenses in total should average approximately \$62.0 million per quarter in the first half of 2016 and \$63.5 million per quarter in the second half. For 2015 these expenses averaged \$58.2 million per quarter in the first half and \$62.3 million in the second half.

Variable costs within SG&A for 2016 are expected to remain at the 2015 rate of 17.9% as a percent of sales.

Pension Settlement

We terminated our qualified defined benefit pension plan (the "Plan") in 2014 as reported more fully in Note 10 to the Notes to Consolidated Financial Statements.

The settlement of the Plan's obligations required the recognition of pension settlement expenses in the fourth quarter of 2014. We recognized termination and settlement expense of \$21.6 million and a related tax benefit of \$0.9 million for a total impact on consolidated net income of \$20.7 million or \$0.90 per diluted earnings per share.

We had approximately \$6.8 million of unamortized costs net of \$4.2 million of tax related to the Plan included on our balance sheet in accumulated other comprehensive income (loss) ("AOCI") prior to settlement. Also included in AOCI was a debit of \$6.9 million resulting from the "backward-tracing" prohibition related to changes in a valuation allowance from previous periods. See additional discussion in "Provision for Income Taxes" which follows. The settlement of the Plan caused these amounts totaling \$13.6 million to be reclassified from AOCI to income.

The termination and settlement of the Plan did not impact cash flow and resulted in a net reduction of approximately \$7.1 million in our total stockholders equity.

Interest Expense

Our interest expense for the years 2013 to 2015 is primarily driven by amounts related to our lease obligations. For leases accounted for as capital and financing lease obligations, we record straight-line rent expense for the land portion in occupancy costs in SG&A along with amortization 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 has increased from eight in 2013, to 17 in 2015. We expect interest expense for lease obligations will be \$2.4 million in 2016.

Provision for Income Taxes

Our effective tax rate was 38.6%, 66.0% and 38.5% for 2015, 2014 and 2013, respectively. Refer to Note 7 of the Notes to the Consolidated Financial Statements for a reconciliation of our income tax expense to the federal income tax rate.

Our 2015 rate varies from the 35% U.S. federal statutory rate primarily due to state income taxes.

Our 2014 rate includes the reversal of \$6.9 million from AOCI to income tax expense. We established a valuation allowance in 2008 against virtually all of our deferred tax assets due to our operating loss in that year and projected loss in 2009. A portion of the allowance was charged to AOCI and was increased in 2009. Our profitability in 2011 was sufficient for us to release the valuation allowance. The "backward-tracing" prohibition in ASC 740, Income Taxes required us to record the total amount of the release as a tax benefit in net income including the portion originally charged to AOCI. This resulted in a debit of \$6.9 million remaining in AOCI which would remain until the settlement of the Plan's pension obligations when it was reversed and included in total tax expense. The 2014 rate, excluding this reversal, varies from the 35% U.S. federal statutory rate primarily due to state income taxes.

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

Liquidity and Capital Resources

Overview of Liquidity

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

At December 31, 2015, our cash and cash equivalents balance was \$70.7 million, an increase of \$5.2 million compared to December 31, 2014. This increase in cash primarily resulted from strong operating results offset by purchases of property and equipment, the acquisition of treasury stock and dividends paid to stockholders. Additional discussion of our cash flow results, including the comparison of 2015 activity to 2014, is set forth in the Analysis of Cash Flows section.

At December 31, 2015, our outstanding indebtedness was \$53.1 million in lease obligations required to be recorded on our balance sheet. We had no amounts outstanding and \$43.8 million available under our revolving credit facility.

Capital Expenditures

Our primary capital requirements have been focused on our stores and the development of both proprietary and purchased information systems. Our capital expenditures were \$27.1 million in 2015, \$3.7 million less than in 2014.

Our future capital requirements will depend in large part on the number of and timing for new stores we open within a given year, the investments we make to the improvement and maintenance of our existing stores, and our investment in distribution improvements and new information systems to support our key strategies. In 2016, we anticipate that our capital expenditures will be approximately \$33.0 million, refer to our Store Expansion and Capital Expenditures discussion below.

Analysis of Cash Flows

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

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by operating activities	\$52,232	\$55,454	\$55,889
Capital expenditures	(27,143)	(30,882)	(20,202)
Free cash flow	\$25,089	\$24,572	\$35,687
Net cash used in investing activities	\$(28,355)	\$(41,372)	\$(20,120)
Net cash used in financing activities	\$(18,699)	\$(31,786)	\$(6,134)

Cash flows from operating activities. During 2015, net cash provided by operating activities was \$52.2 million. Cash from net income, adjusted for depreciation and amortization and stock-based compensation expense was partially reduced by cash used for working capital.

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

- Increase in inventories of \$2.3 million, mainly due to the increase in showrooms, reduced \$0.5 million for the inventory in our Lubbock store that was destroyed.
- Decrease in other current assets of \$1.7 million, resulting from a \$3.3 million decrease in receivables for tenant incentives, partially offset by a casualty claim of \$1.3 million.
- Decrease in other assets of \$2.7 million mainly due to the maturities of certain certificates of deposit.
- Increase in accounts payable of \$3.7 million.
- Decrease in customer deposits of \$2.7 million as our business was down in the fourth quarter of 2015 versus the comparable period of 2014.

During 2014, net cash provided by operating activities was \$55.5 million. Cash from net income, adjusted for depreciation and amortization, pension settlement expense and stock-based compensation expense was partially reduced by cash used for working capital.

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

- Increase in inventories of \$15.7 million, mainly due to the desire for a better stocking position and replenishment efforts in advance of Chinese New Year.
- Increase in other current assets of \$3.7 million, primarily from \$3.3 million increase in receivables for tenant incentives.
- Decrease in other assets of \$5.8 million mainly due to the settlement of pension partly offset by the purchase of certain certificates of deposit.
- Increase in accounts payable of \$2.3 million.
- Increase in customer deposits of \$4.7 million.

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

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

Cash flows used in investing activities. Net cash used in investing activities was \$28.4 million, \$41.4 million and \$20.1 million for 2015, 2014 and 2013, respectively. In each of these years, the amounts of cash used in investing activities consisted principally of capital expenditures related to store construction and improvements and information technology projects, refer to our Store Expansion and Capital Expenditures discussion below. During 2015, in addition to the expenditures for new stores and major expansions and remodels of showrooms we purchased \$10.0 million of commercial paper and \$7.5 million of certificates of deposit matured. During 2014, in addition to the expenditures for new stores and one store's major expansion, we purchased \$10.0 million in certificates of deposit. During 2013, we invested in our distribution system for future expansion and added capacity to our internal cloud architecture to support our sales systems and video communications.

Cash flows used in financing activities. Net cash used in financing activities was \$18.7 million for 2015, \$31.8 million for 2014 and \$6.1 million for 2013. During 2015 we purchased \$14.0 million in treasury stock and paid \$8.1 million in dividends. We also received \$6.7 million in construction allowances. During 2014 we paid a special dividend of approximately \$22.6 million. During 2013 the number of restricted shares vesting increased as the acceleration goals of certain grants were met. This increased the withholding taxes for vested shares and contributed to the tax benefit from stock-based plans. During 2015, 2014 and 2013, we did not make any draws on our revolving credit facility.

Long-Term Debt

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

Off-Balance Sheet Arrangements

We do not generally enter into off-balance sheet arrangements. We did not have any relationships with unconsolidated entities or financial partnerships which would have been established for the purposes of facilitating off-balance sheet financial arrangements for any period during the three years ended December 31, 2015.

Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

The following summarizes our contractual obligations and commercial commitments as of December 31, 2015 (in thousands):

	Payments Due or Expected by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Lease obligations ⁽¹⁾	\$70,736	\$5,415	\$10,975	\$11,116	\$43,230
Operating leases	171,550	33,690	56,544	39,663	41,653
Purchase orders	78,953	78,953	—	—	—
Total contractual obligations ⁽²⁾	\$321,239	\$118,058	\$67,519	\$50,779	\$84,883

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

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

Store Expansion and Capital Expenditures

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

	2015		2014		2013	
	#	Square	#	Square	#	Square
Store Activity:	of	Footage	of	Footage	of	Footage
Opened	4	159	5	167	—	—
Closed	2	73	5	160	3	103
Year end balances	121	4,380	119	4,283	119	4,259

We also had major remodeling projects in a Tampa, Florida store in 2015 and in our Knoxville, Tennessee store in 2014 which increased selling square footage.

The following table summarizes our store activity in 2015 and plans for 2016. Our store in Lubbock, Texas sustained significant damage from a blizzard at the end of December 2015. We plan to operate in a temporary location during the rebuilding process.

Location	Opening Quarter Actual or Planned	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, TX	Q-4-15	Closure
Lubbock, TX	Q-4-15	Casualty
Lubbock, TX	Q-2-16	Temporary
College Station, TX	Q-3-16	New Market
Charlottesville, VA	Q-3-16	New Market
To be announced, Florida region	Q-3-16	Closure

These plans and other changes should increase net selling space in 2016 by approximately 1.4% assuming the new stores open and existing store close as planned.

Our investing activities in stores and operations in 2015, 2014 and 2013 and planned outlays for 2016 are categorized in the table below. Capital expenditures for stores in the years noted do not necessarily coincide with the years in which the stores open.

	Proposed			
(Approximate in thousands)	2016	2015	2014	2013
Stores:				
New or replacement stores	\$ 5,000	\$ 7,800	\$ 12,900	\$ 100
Remodels/expansions	7,200	8,900	6,900	11,200
Other improvements	5,000	3,700	4,200	3,900
Total stores	17,200	20,400	24,000	15,200
Distribution	9,000	2,800	3,500	2,300
Information technology	6,800	3,900	3,400	2,700
Total	\$ 33,000	\$ 27,100	\$ 30,900	\$ 20,200

Non-GAAP Financial Measures and Reconciliations - Adjusted Net Income and Adjusted Earnings

We have included financial measures that are not prepared in accordance with GAAP. Any analysis of non-GAAP financial measures should be used only in conjunction with results presented in accordance with GAAP. The non-GAAP measures are not intended to be substitutes for GAAP financial measures and should not be used as such. We use the non-GAAP measures "EBIT," "adjusted EBIT," "adjusted net income" and "adjusted earnings per diluted share." Management believes these non-GAAP financial measures provide our board of directors, investors, potential investors, analysts and others with useful information to evaluate the performance of the Company because it excludes the impact of the pension settlement expense and another specific item that management believes are not indicative of the ongoing operating results of the business. The Company and our board of directors use this information to evaluate the Company's performance relative to other periods. We believe that the most directly comparable GAAP measures to EBIT, adjusted net income and adjusted diluted earnings per share are "Income before interest and income taxes," "Net income" and "Diluted earnings per share." Set forth above in our discussion of Operating Results are reconciliations of adjusted net income to net income and adjusted diluted earnings per share to diluted earnings per share. EBIT is equal to income before interest and income taxes and adjusted EBIT is reconciled to EBIT.

Critical Accounting Estimates and Assumptions

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

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

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

Retirement benefits. Our supplemental executive retirement plan ("SERP") costs require the use of assumptions for discount rates, projected salary increases and mortality rates. Management is required to make certain critical

estimates related to actuarial assumptions used to determine our expense and related obligation. We believe the most critical assumptions are related to (1) the discount rate used to determine the present value of the liabilities and (2) mortality rates. All of our actuarial assumptions are reviewed annually. Changes in these assumptions could have a material impact on the measurement of our SERP expense and related obligation.

The SERP is not funded so we pay benefits directly to participants. The unfunded obligation increased by \$0.4 million between December 31, 2014 and December 31, 2015.

At each measurement date, we determine the discount rate by reference to rates of high quality, long-term corporate bonds that mature in a pattern similar to the future payments we anticipate making under the plan. The weighted-average discount rate used to compute our benefit obligation increased 49 basis points from 4.09% to 4.58% at December 31, 2014 and December 31, 2015, respectively. This reduced the SERP's benefit obligation by 6%. The SERP's mortality tables were updated to the white collar separate annuitant in 2015 which increased the benefit obligation by 4%. Census data changes, particularly those related to compensation, increased the benefit obligation by 6%.

Refer to Note 10 to the Notes to Consolidated Financial Statements for additional information about our defined benefit pension plan which was terminated and settled in 2014 and other actuarial assumptions.

Self-Insurance. We are self-insured for certain losses related to worker's compensation, general liability and vehicle claims for amounts up to a deductible per occurrence. Our reserve is developed based on historical claims data and contains an actuarially developed incurred but not reported component. The resulting estimate is discounted and recorded as a liability. Our actuarial assumptions and discount rates are reviewed periodically and compared with actual claims experience and external benchmarks to ensure appropriateness. A one-percentage-point change in the actuarial assumption for the discount rate would impact 2015 expense for insurance by approximately \$90,000, a 1.39% change.

We are primarily self-insured for employee group health care claims. We have purchased insurance coverage in order to establish certain limits to our exposure on both a per claim and aggregate basis. We record an accrual for the estimated amount of self-insured health care claims incurred by all participants but not yet reported (IBNR) using an actuarial method of applying a development factor to the reported monthly claims amounts. The Company's risk management and accounting management utilize a consistent methodology which involves various assumptions, judgment and other factors. The most significant factors which impact the determination of a required accrual are the historical pattern of the timeliness of claims processing, any changes in the nature or types of benefit plans, changes in the plan benefit designs, and medical trends and inflation. Historical experience is continually monitored, and accruals are adjusted when warranted by changes in facts and circumstances. The Company believes that the total health care cost accruals are reasonable and adequate to cover future payments on incurred claims.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of our independent registered public accounting firm, the Consolidated Financial Statements of Havertys and the Notes to Consolidated Financial Statements, and the supplementary financial information called for by this Item 8, are set forth on pages F-1 to F-23 of this report. Specific financial statements and supplementary data can be found at the pages listed in the following index:

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

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

Not Applicable.

ITEM 9A.

CONTROLS AND PROCEDURES

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

(b) Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2015.

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

(c) Changes in Internal Control over Financial Reporting. During the fourth quarter of 2015, there were no changes in our internal control over financial reporting that have affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

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

We have audited Haverty Furniture Companies, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Haverty Furniture Companies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Haverty Furniture Companies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of Haverty Furniture Companies, Inc. and our report dated March 4, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 4, 2016

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

We provide some information about our executive officers in Part I of this report under the heading "Executive Officers and Significant Employees of the Registrant." The remaining information called for by this item is incorporated by reference to "Election of Directors," "Corporate Governance," "Board and Committees" and "Other Information – Section 16(a) Beneficial Ownership Reporting Compliance" in our 2016 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in our 2016 Proxy Statement with respect to executive compensation and transactions under the heading "Compensation Discussion and Analysis" is incorporated herein by reference in response to this item.

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

The information contained in our 2016 Proxy Statement with respect to the ownership of common stock and Class A common stock by certain beneficial owners and management, and with respect to our compensation plans under which equity securities are authorized for issuance under the headings "Ownership of Company Stock by Directors and Management" and "Equity Compensation Plan Information," is incorporated herein by reference in response to this item.

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

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

The information contained in our 2016 Proxy Statement with respect to certain relationships, related party transactions and director independence under the headings "Certain Relationships and Related Transactions" and "Corporate Governance – Director Independence" is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the heading "Audit Fees and Related Matters" in our 2016 Proxy Statement is incorporated herein by reference to this item.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

Consolidated Balance Sheets – December 31, 2015 and 2014

Consolidated Statements of Comprehensive Income – Years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Stockholders' Equity – Years ended December 31, 2015, 2014 and 2013

Consolidated Statements of Cash Flows – Years ended December 31, 2015, 2014 and 2013

Notes to Consolidated Financial Statements

(2) Financial Statement Schedule.

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

Schedule II – Valuation and Qualifying Accounts

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

(3) Exhibits:

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

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

Exhibit No.	Exhibit
3.1	Articles of Amendment and Restatement of the Charter of Haverty Furniture Companies, Inc. effective May 2006 (Exhibit 3.1 to our 2006 Second Quarter Form 10-Q).
3.2	Amended and Restated By-Laws of Haverty Furniture Companies, Inc., as amended effective April 30, 2007 (Exhibit 3.2 to our 2007 First Quarter Form 10-Q).
10.1	Amended and Restated Credit Agreement by and among Haverty Furniture Companies, Inc. and Havertys Credit Services, Inc., as the Borrowers, SunTrust Bank, as the Issuing Bank and Administrative Agent and SunTrust Robinson Humphrey, Inc. as Lead Arranger, dated September 1, 2011 (Exhibit 10.1 to our 2011 Third Quarter Form 10-Q).
10.2	Haverty Furniture Companies, Inc., Class A Shareholders Agreement, made as of June 5, 2012, by and among, Haverty Furniture Companies, Inc., Villa Clare Partners, L.P., Clarence H. Smith, H5, L.P., Rawson Haverty, Jr., Ridge Partners, L.P. and Frank S. McGaughey (Exhibit 10.1 to our Form 8-K filed June 8, 2012); Parties added to the Agreement and Revised Annex I as of November 1, 2012 – Marital Trust FOB Margaret M. Haverty and Marital Trust B FOB Margaret M. Haverty; Parties added to the Agreement as of December 11, 2012 – Margaret Munnerlyn Haverty Revocable Trust (Exhibit 10.1 to our First Quarter 2013 Form 10-Q); Parties added to the Agreement as of July 5, 2013 – Richard McGaughey (Exhibit 10.1 to our Second Quarter 2013 Form 10-Q).

Exhibit No. Exhibit

- 2004 Long-Term Incentive Plan effective as of May 10, 2004 (Exhibit 10.1 to our Registration Statement on
- +10.3 Form S-8, File No. 333-120352); Amendment No. 1 to our 2004 Long-Term Incentive Plan effective as of May 9, 2011 (Exhibit 4.1 to our Registration Statement on Form S-8, File No. 333-176100)
- +10.4 2014 Long-Term Incentive Plan effective as of May 12, 2014 (Exhibit 10.1 to our Registration Statement on Form S-8, File No. 333-197969).
- +10.5 Amended and Restated Directors' Compensation Plan, effective as of February 18, 2014 (Exhibit 10.5 to our 2013 Form 10-K).
- +10.6 Amended and Restated Supplemental Executive Retirement Plan, effective January 1, 2009 (Exhibit 10.9 to our 2009 Form 10-K).
- *+10.7 Amendment Number One to the Amended and Restated Supplemental Executive Retirement Plan, effective as of January 1, 2009 and Amendment Number Two effective as of December 31, 2015.
- +10.8 Form of Agreement dated December 9, 2011 regarding Change in Control with the Named Executive Officers and a Management Director (Exhibit 10.6 to our 2011 Form 10-K).
- +10.9 Form of Agreement dated December 9, 2011, regarding Change in Control with Executive Officers who are not Named Executive Officers or Management Directors (Exhibit 10.7 to our 2011 Form 10-K).
- +10.10 Top Hat Mutual Fund Option Plan, effective as of January 15, 1999 (Exhibit 10.15 to our 1999 Form 10-K).
- 10.12 Lease Agreement dated July 26, 2001; Amendment No. 1 dated November, 2001 and Amendment No. 2 dated July 29, 2002 between Haverty Furniture Companies, Inc. as Tenant and John W. Rooker, LLC as Landlord (Exhibit 10.1 to our 2002 Third Quarter Form 10-Q). Amendment No. 3 dated July 29, 2005 and Amendment No. 4 dated January 22, 2006 between Haverty Furniture Companies, Inc. as Tenant and ELFP Jackson, LLC as predecessor in interest to John W. Rooker, LLC as Landlord (Exhibit 10.15.1 to our 2006 Form 10-K).
- 10.13 Contract of Sale dated August 6, 2002, between Haverty Furniture Companies, Inc. as Seller and HAVERTACQII LLC, as Landlord (Exhibit 10.2 to our 2002 Third Quarter Form 10-Q).
- 10.14 Lease Agreement dated August 6, 2002, between Haverty Furniture Companies, Inc. as Tenant and HAVERTACQII LLC, as Landlord (Exhibit 10.3 to our 2002 Third Quarter Form 10-Q).
- 10.15 Amended and Restated Retailer Program Agreement, dated November 5, 2013, between Haverty Furniture Companies, Inc. and Capital Retail Bank (formerly known as GE Money Bank). Portions of this document have been redacted pursuant to a request for confidential treatment filed pursuant to the Freedom of Information Act.
- +10.16 Form of Restricted Stock Units Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated January 30, 2012).

Exhibit No. Exhibit

- Form of Restricted Stock Units Award Notice and Form of Stock Settled Appreciation Rights Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibits 10.1 and 10.2 to our Current Report on Form 8-K dated January 30, 2013).
- +10.17
- Form of Restricted Stock Units Award Notice, Form of Performance Restricted Stock Units (EBITDA) Award Notice and Form of Performance Restricted Units (Sales) Award Notice in connection with the 2014 Long-Term Incentive Compensation Plan. (Exhibits 10.1, 10.2 and 10.3 to our Current Report on Form 8-K dated January 28, 2014).
- +10.18
- Form of Restricted Stock Units Award Notice, Form of Performance Restricted Stock Units (EBITDA) Award Notice and Form of Performance Restricted Units (Sales) Award Notice in connection with the 2014 Long-Term Incentive Compensation Plan. (Exhibits 10.1, 10.2 and 10.3 to our Current Report on Form 8-K dated January 28, 2015).
- +10.19
- *21 Subsidiaries of Haverty Furniture Companies, Inc.
- *23.1 Consent of Independent Registered Public Accounting Firm.
- *31.1 Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
- *31.2 Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
- *32.1 Certification pursuant to 18 U.S.C. Section 1350.
- The following financial information from Haverty Furniture Companies, Inc. Report on Form 10-K for the year ended December 31 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets for the years ended December 31, 2015 and 2014, (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013, (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013, (iv) Consolidated Statements of Cash Flow for the years ended December 31, 2015, 2014 and 2013, and (v) the Notes to Consolidated Financial Statements.
- *101

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 4, 2016.

HAVERTY FURNITURE COMPANIES,
INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on March 4, 2016.

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

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

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

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

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

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

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

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

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

/s/ AL TRUJILLO
Al Trujillo
Director

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Haverty Furniture Companies, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Haverty Furniture Companies, Inc. at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Haverty Furniture Companies, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 4, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 4, 2016

F-1

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-K

Haverty Furniture Companies, Inc.
Consolidated Balance Sheets

	December 31,	
(In thousands, except per share data)	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$70,659	\$65,481
Investments	12,725	7,250
Restricted cash and cash equivalents	8,005	8,017
Accounts receivable	5,948	7,146
Inventories	108,896	107,139
Prepaid expenses	6,137	6,418
Other current assets	6,341	8,010
Total current assets	218,711	209,461
Accounts receivable, long-term	655	731
Property and equipment	229,283	225,162
Deferred income taxes	17,245	17,610
Other assets	5,357	8,023
Total assets	\$471,251	\$460,987
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$27,815	\$24,152
Customer deposits	21,036	23,687
Accrued liabilities	42,060	39,960
Deferred income taxes	—	5,689
Current portion of lease obligations	3,051	2,387
Total current liabilities	93,962	95,875
Lease obligations, less current portion	50,074	46,678
Other liabilities	25,476	26,351
Commitments	—	—
Total liabilities	169,512	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 – 28,486; 2014 – 28,327	28,486	28,327
Convertible Class A Common Stock, Authorized – 15,000 shares; Issued: 2015 – 2,554; 2014 – 2,603	2,554	2,603
Additional paid-in capital	83,179	79,726
Retained earnings	279,760	260,031
Accumulated other comprehensive income (loss)	(1,938)	(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)	(90,302)	(76,436)
Total stockholders' equity	301,739	292,083
Total liabilities and stockholders' equity	\$471,251	\$460,987

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

F-2

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-K

Haverty Furniture Companies, Inc.
Consolidated Statements of Comprehensive Income

(In thousands, except per share data)	Year Ended December 31,		
	2015	2014	2013
Net sales	\$804,870	\$768,409	\$746,090
Cost of goods sold	374,094	356,043	344,594
Gross profit	430,776	412,366	401,496
Credit service charges	286	298	320
Gross profit and other revenue	431,062	412,664	401,816
Expenses:			
Selling, general and administrative	384,801	364,654	348,599
Pension settlement expense	—	21,623	—
Provision for doubtful accounts	314	257	120
Other income, net	(1,617)	(178)	(497)
Total expenses	383,498	386,356	348,222
Income before interest and income taxes	47,564	26,308	53,594
Interest expense, net	2,289	1,051	1,107
Income before income taxes	45,275	25,257	52,487
Income tax expense	17,486	16,668	20,222
Net income	\$27,789	\$8,589	\$32,265
Other comprehensive income, net of tax:			
Defined benefit pension plans adjustments; net of tax expense (benefit) of \$141, (\$2,954) and \$4,822	\$230	\$13,244	\$7,966
Comprehensive income	\$28,019	\$21,833	\$40,231
Basic earnings per share:			
Common Stock	\$1.24	\$0.38	\$1.45
Class A Common Stock	\$1.18	\$0.33	\$1.37
Diluted earnings per share:			
Common Stock	\$1.22	\$0.37	\$1.41
Class A Common Stock	\$1.17	\$0.33	\$1.35

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

F-3

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

(In thousands, except share and per share data)	Year Ended December 31,					
	2015		2014		2013	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
COMMON STOCK:						
Beginning balance	28,326,770	\$28,327	27,853,412	\$27,853	27,212,184	\$27,212
Conversion of Class A Common Stock	48,951	49	311,824	312	382,199	382
Stock compensation transactions, net	110,037	110	161,534	162	259,029	259
Ending balance	28,485,758	28,486	28,326,770	28,327	27,853,412	27,853
CLASS A COMMON STOCK:						
Beginning balance	2,603,410	2,603	2,915,234	2,915	3,297,433	3,297
Conversion to Common Stock	(48,951)	(49)	(311,824)	(312)	(382,199)	(382)
Ending balance	2,554,459	2,554	2,603,410	2,603	2,915,234	2,915
TREASURY STOCK:						
Beginning balance (includes 522,410 shares Class A Stock for each of the years presented; remainder are Common Stock)	(8,281,277)	(76,436)	(8,253,414)	(75,720)	(8,263,557)	(75,816)
Directors' Compensation Plan	14,274	136	9,213	88	10,143	96
Purchases	(617,021)	(14,002)	(37,076)	(804)	—	—
Ending balance	(8,884,024)	(90,302)	(8,281,277)	(76,436)	(8,253,414)	(75,720)
ADDITIONAL PAID-IN CAPITAL:						
Beginning balance		79,726		77,406		73,803
Stock option and restricted stock issuances		(1,312)		(2,232)		(1,928)
Tax benefit related to stock-based plans		253		896		1,754
Directors' Compensation Plan		479		337		454
Amortization of restricted stock		4,033		3,319		3,323
Ending balance		83,179		79,726		77,406
RETAINED EARNINGS:						
Beginning balance		260,031		281,222		254,310
Net income		27,789		8,589		32,265
Cash dividends (Common Stock: 2015 - \$0.36; 2014 - \$1.32 and 2013 - \$0.24 per share Class A Common Stock: 2015 - \$0.34; 2014 - \$1.25 and 2013 - \$0.225 per share)		(8,060)		(29,780)		(5,353)
Ending balance		279,760		260,031		281,222
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):						
Beginning balance		(2,168)		(15,412)		(23,378)
Pension liabilities adjustment, net of taxes		230		13,244		7,966
Ending balance		(1,938)		(2,168)		(15,412)
		\$301,739		\$292,083		\$298,264

TOTAL STOCKHOLDERS' EQUITY

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

F-4

Haverty Furniture Companies, Inc.
Consolidated Statements of Cash flows

(In thousands)	Year ended December 31,		
	2015	2014	2013
Cash Flows from Operating Activities			
Net income	\$27,789	\$8,589	\$32,265
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25,756	22,613	21,450
Stock-based compensation expense	4,033	3,319	3,323
Excess tax benefit from stock-based plans	(397)	(896)	(1,754)
Deferred income taxes	(3,019)	4,800	(652)
Provision for doubtful accounts	314	257	120
Pension settlement expense	—	21,623	—
Other	(160)	641	459
Changes in operating assets and liabilities:			
Accounts receivable	960	870	1,400
Inventories	(2,305)	(15,656)	5,419
Customer deposits	(2,650)	4,679	(1,955)
Other assets and liabilities	(590)	(2,023)	(2,638)
Accounts payable and accrued liabilities	2,501	6,638	(1,548)
Net Cash Provided by Operating Activities	52,232	55,454	55,889
Cash Flows from Investing Activities			
Capital expenditures	(27,143)	(30,882)	(20,202)
Maturities of certificates of deposit	7,250	—	—
Purchase of commercial paper and certificates of deposit	(9,975)	(10,000)	—
Restricted cash and cash equivalents	12	(1,001)	(3)
Other investing activities	1,501	511	85
Net Cash Used in Investing Activities	(28,355)	(41,372)	(20,120)
Cash Flows from Financing Activities			
Proceeds from borrowings under revolving credit facilities	—	—	—
Payments of borrowings under revolving credit facilities	—	—	—
Net change in borrowings under revolving credit facilities	—	—	—
Construction allowance receipts	6,701	1,050	—
Payments on lease obligations	(2,534)	(1,088)	(867)
Proceeds from exercise of stock options	—	—	872
Excess tax benefit from stock-based plans	397	896	1,754
Dividends paid	(8,060)	(29,780)	(5,353)
Common stock repurchased	(14,002)	(804)	—
Taxes on vested restricted shares	(1,201)	(2,060)	(2,540)
Net Cash Used In Financing Activities	(18,699)	(31,786)	(6,134)
Increase (Decrease) in cash and Cash Equivalents	5,178	(17,704)	29,635
Cash and Cash Equivalents at Beginning of Year	65,481	83,185	53,550
Cash and Cash Equivalents at End of Year	\$70,659	\$65,481	\$83,185

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

F-5

Notes To Consolidated Financial Statements

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

Business:

Haverty Furniture Companies, Inc. ("Havertys," "we," "our," or "us") is a retailer of a broad line of residential furniture in the middle to upper-middle price ranges. We have 121 showrooms in 16 states at December 31, 2015. All of our stores are operated using the Havertys name and we do not franchise our stores. We offer financing through an internal revolving charge credit plan as well as a third-party finance company.

Basis of Presentation:

The consolidated financial statements include the accounts of Havertys and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to prior period financial statements to conform to the current year presentation.

Use of Estimates:

The preparation of financial statements in conformity with United States of America generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents:

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

Investments:

Investments consist of commercial paper and certificates of deposit. The commercial paper totaled approximately \$9,975,000 at December 31, 2015 with maturities of more than three months but less than six months. Certificates of deposit had original maturities of greater than three months. The certificates of deposit with remaining maturities of less than one year was \$2,750,000 and \$7,250,000 at December 31, 2015 and 2014, respectively. Those with remaining maturities greater than one year was \$2,750,000 at December 31, 2014 and are included in other assets. The fair values of the investments approximate their carrying amounts.

Restricted Cash and Cash Equivalents:

Our insurance carrier requires us to collateralize a portion of our workers' compensation obligations. These funds are investments in money market funds held by an agent. The agreement with our carrier governing these funds is on an annual basis expiring on December 31.

Inventories:

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

Property and Equipment:

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

Estimated useful lives for financial reporting purposes are as follows:

Buildings	25 – 33 years
Improvements	5 – 15 years
Furniture and Fixtures	3 – 15 years
Equipment	3 – 15 years
Buildings under lease	15 years

Customer Deposits:

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

Revenue Recognition:

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

We typically offer our customers an opportunity for us to deliver their purchases and most choose this service. Delivery fees of approximately \$27,650,000, \$27,293,000 and \$27,588,000 were charged to customers in 2015, 2014 and 2013, respectively, and are included in net sales. The costs associated with deliveries are included in selling, general and administrative expenses and were approximately \$37,730,000, \$36,395,000 and \$32,736,000 in 2015, 2014 and 2013, respectively.

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

Cost of Goods Sold:

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

Selling, General and Administrative Expenses:

Our selling, general and administrative ("SG&A") expenses are comprised of advertising, selling, occupancy, delivery and administrative costs as well as certain warehouse expenses. The costs associated with our purchasing, warehousing, delivery and other distribution costs included in SG&A expense were approximately \$73,803,000, \$70,420,000 and \$64,302,000 in 2015, 2014 and 2013, respectively.

Leases:

In the case of certain leased stores, we may be extensively involved in the construction or major structural modifications of the leased properties. As a result of this involvement, we are deemed the "owner" for accounting purposes during the construction period, and are required to capitalize the total fair market value of the portion of the leased property, excluding land, we use on our consolidated balance sheet. Following construction completion, we perform an analysis under ASC 840, "Leases," to determine if we can apply sale-leaseback accounting. We have determined that each of the leases remaining on our consolidated balance sheet did not qualify for such accounting treatment. In conjunction with these leases, we also record financing obligations equal to the landlord reimbursements and fair market value of the assets. We do not report rent expense for the properties which are owned for accounting purposes. Rather, rental payments under the lease are recognized as a reduction of the financing obligation and interest expense. Depreciation expense is also recognized on the leased asset.

Deferred Escalating Minimum Rent and Lease Incentives:

Certain of our operating leases contain predetermined fixed escalations of the minimum rentals during the term of the lease. For these leases, we recognize the related rental expense on a straight-line basis over the life of the lease,

beginning with the point at which we obtain control and possession of the leased properties, and record the difference between the amounts charged to operations and amounts paid as "Accrued liabilities." The liability for deferred escalating minimum rent approximated \$9,980,000 and \$10,850,000 at December 31, 2015 and 2014, respectively. Any operating lease incentives we receive are deferred and subsequently amortized on a straight-line basis over the life of the lease as a reduction of rent expense. The liability for lease incentives approximated \$981,000 and \$1,373,000 at December 31, 2015 and 2014, respectively.

F-7

Advertising Expense:

Advertising costs, which include television, radio, newspaper and other media advertising, are expensed upon first showing. The total amount of prepaid advertising costs included in other current assets was approximately \$1,086,000 and \$718,000 at December 31, 2015 and 2014, respectively. We incurred approximately \$45,784,000, \$45,067,000 and \$43,030,000 in advertising expense during 2015, 2014 and 2013, respectively.

Interest Expense, net:

Interest expense is comprised of amounts incurred related to our debt and lease obligations recorded on our balance sheet, net of interest income. The total amount of interest expense was approximately \$2,615,000, \$1,423,000 and \$1,218,000 during 2015, 2014 and 2013, respectively.

Other Income, net:

Other income, net includes any gains or losses on sales of property and equipment and miscellaneous income or expense items outside of core operations. Other income, net for the year ended December 31, 2015 includes proceeds received of \$800,000 for the settlement related to credit card litigation.

Self-Insurance:

We are self-insured, for amounts up to a deductible per occurrence, for losses related to general liability, workers' compensation and vehicle claims. Beginning in 2012 we became primarily self-insured for employee group health care claims. We maintain an accrual for these costs based on claims filed and an estimate of claims incurred but not reported or paid, based on historical data and actuarial estimates. The current portion of these self-insurance reserves is included in accrued liabilities and the non-current portion is included in other liabilities. These reserves totaled \$9,092,000 and \$8,863,000 at December 31, 2015 and 2014, respectively.

Fair Values of Financial Instruments:

The fair values of our cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and customer deposits approximate their carrying amounts due to their short-term nature. The assets that are related to our self-directed, non-qualified deferred compensation plans for certain executives and employees are valued using quoted market prices, a Level 1 valuation technique. The assets totaled approximately \$3,335,000 and \$2,728,000 at December 31, 2015 and 2014, respectively, and are included in other assets. The related liability of the same amount is included in other liabilities.

Impairment of Long-Lived Assets:

We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If an indicator of impairment is identified, we evaluate the long-lived assets at the individual property or store level, which is the lowest level at which individual cash flows can be identified. When evaluating these assets for potential impairment, we first compare the carrying amount of the asset to the store's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the store's assets' estimated fair value, which is determined on the basis of fair value for similar assets or future cash flows (discounted and with interest charges). If required, an impairment loss is recorded in SG&A expense for the difference in the asset's carrying value and the asset's estimated fair value. No such losses were recorded in 2015, 2014 and 2013.

Earnings Per Share:

We report our earnings per share using the two class method. The income per share for each class of common stock is calculated assuming 100% of our earnings are distributed as dividends to each class of common stock based on their contractual rights. See Note 13 for the computational components of basic and diluted earnings per share.

Accumulated Other Comprehensive Income (Loss):

Accumulated other comprehensive income (loss) ("AOCI"), net of income taxes, was comprised of unrecognized pension and retirement liabilities totaling approximately \$1,938,000 and \$2,168,000 at December 31, 2015 and 2014, respectively. The amounts reclassified out of AOCI to SG&A related to our defined benefit pension plans.

Recently Issued and Adopted Accounting Pronouncement:

Changes to 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 (ASC).

We considered the applicability and impact of all ASU's. ASU's not listed below 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.

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This ASU supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance included in the ASC. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The original effective date was revised in August 2015 and is effective for the Company for interim and annual periods beginning on January 1, 2018. Entities have the option of using either a full retrospective or modified retrospective approach for adoption but early adoption is not permitted. We are currently evaluating this ASU to determine our adoption method and the impact it will have on our consolidated financial position, results of operations and related disclosures.

Deferred Taxes. In November 2015, the FASB issued ASU 2015-17 regarding ASC Topic 740, "Income Taxes: Balance Sheet Classification of Deferred Taxes." This amendment changes how deferred taxes are recognized by eliminating the requirement of presenting deferred tax liabilities and assets as current and noncurrent on the balance sheet. Instead, the requirement is to classify all deferred tax liabilities and assets as noncurrent. We adopted ASU 2015-17 for the quarter ended December 31, 2015 and have applied the new guidance prospectively and accordingly the prior balance sheets were not retrospectively adjusted.

Leases. In February 2016, the FASB issued ASU 2016-02 regarding ASC Topic 842, "Leases," which amends various aspects of existing guidance for leases. ASU 2016-02 requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases, along with additional qualitative and quantitative disclosures. The main difference between previous GAAP and the amended standard is the recognition of lease assets and lease liabilities by lessees on the balance sheet for those leases classified as operating leases under previous GAAP. As a result, the Company will have to recognize a liability representing its lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect this standard will have on our consolidated financial position or results of operations.

F-9

Segment Information

We operate within a single reportable segment. The following table presents the net sales of each major product category and service for each of the last three years:

(In thousands)	Year Ended December 31,					
	2015		2014		2013	
		% of		% of		% of
	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales	Net Sales
Merchandise:						
Case Goods						
Bedroom Furniture	\$135,855	16.9 %	\$130,277	17.0 %	\$136,101	18.3 %
Dining Room Furniture	92,966	11.6	85,671	11.1	83,164	11.1
Occasional	79,219	9.8	81,326	10.6	82,288	11.0
	308,040	38.3	297,274	38.7	301,553	40.4
Upholstery	321,484	39.9	307,041	39.9	289,837	38.9
Mattresses	84,897	10.6	83,706	10.9	80,588	10.8
Accessories and Other ⁽¹⁾	90,449	11.2	80,388	10.5	74,112	9.9
	\$804,870	100.0 %	\$768,409	100.0 %	\$746,090	100.0 %

(1) Includes delivery charges and product protection.

Note 2. Accounts Receivable:

Amounts financed under our in-house credit programs, as a percent of net sales including sales tax, were approximately 1.4% in 2015, 1.7% in 2014 and 2.2% in 2013. The credit programs selected most often by our customers is "12 months no interest with equal monthly payments." The terms of the other programs vary as to payment terms (30 days to three years) and interest rates (0% to 21%). The receivables are collateralized by the merchandise sold.

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. These receivable balances have been historically collected earlier than the scheduled dates. The amounts due per the scheduled payment dates approximate as follows: \$6,243,000 in 2016, \$606,000 in 2017, \$125,000 in 2018 and \$24,000 in 2019 for receivables outstanding at December 31, 2015.

Accounts receivable are shown net of the allowance for doubtful accounts of approximately \$395,000 and \$350,000 at December 31, 2015 and 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. We assess the adequacy of the allowance account at the end of each quarter. Interest assessments are continued on past-due accounts but no "interest on interest" is recorded. Delinquent accounts are generally written off automatically after the passage of nine months without receiving a full scheduled monthly payment. Accounts are written off sooner in the event of a discharged bankruptcy or other circumstances that make further collections unlikely.

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

Note 3. Inventories:

Inventories are measured using the last-in, first-out (LIFO) method of valuation because it results in a better matching of current costs and revenues. The excess of current costs over our carrying value of inventories was approximately \$19,394,000 and \$18,956,000 at December 31, 2015 and 2014, respectively. The use of the LIFO valuation method as compared to the FIFO method had a negative impact on our cost of goods sold of approximately \$438,000 in 2015 and \$219,000 in 2014 and a positive impact of \$259,000 in 2013. During 2015 and 2013, inventory quantities declined resulting in liquidations of LIFO inventory layers. The effect of the liquidations (included in the preceding LIFO impact amounts) decreased cost of goods sold by an immaterial amount in each of the years. We believe this information is meaningful to the users of these consolidated financial statements for analyzing the effects of price changes, for better understanding our financial position and for comparing such effects with other companies.

Note 4. Property and Equipment:

Property and equipment are summarized as follows:

(In thousands)	2015	2014
Land and improvements	\$48,264	\$48,410
Buildings and improvements	258,668	245,188
Furniture and fixtures	106,797	96,715
Equipment	45,450	43,236
Buildings under lease	51,994	36,756
Construction in progress	917	16,146
	512,090	486,451
Less accumulated depreciation	(271,372)	(253,009)
Less accumulated lease amortization	(11,435)	(8,280)
Property and equipment, net	\$229,283	\$225,162

Note 5. Credit Arrangement:

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

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

Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was \$57.7 million and there were no outstanding letters of credit at December 31, 2015. Amounts available are based on the lesser of the borrowing base or the \$50.0 million line amount and reduced by \$6.2 million since a fixed charge coverage ratio test was not met for the immediately preceding twelve months, resulting in a net availability of \$43.8 million. There were no borrowed amounts outstanding under the Credit Agreement at December 31, 2015.

Note 6, Accrued Liabilities and Other Liabilities:

Accrued liabilities and other liabilities consist of the following:

(In thousands)	2015	2014
Accrued liabilities:		
Employee compensation, related taxes and benefits	\$ 13,399	\$ 15,145
Taxes other than income and withholding	7,968	9,322
Self-insurance reserves	5,919	5,942
Other	14,774	9,551
	\$42,060	\$39,960
Other liabilities:		
Straight-line lease liability	\$9,980	\$10,850
Self-insurance reserves	3,173	2,921
Other	12,323	12,580
	\$25,476	\$26,351

Note 7, Income Taxes:

Income tax expense (benefit) consists of the following:

(In thousands)	2015	2014	2013
Current			
Federal	\$ 17,598	\$ 10,257	\$ 18,253
State	2,907	1,611	2,621
	20,505	11,868	20,874
Deferred			
Federal	(2,476)	4,323	(706)
State	(543)	477	54
	(3,019)	4,800	(652)
	\$ 17,486	\$ 16,668	\$ 20,222

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-K

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

(In thousands)	2015	2014	2013
Statutory rates applied to income before income taxes	\$15,846	\$8,840	\$18,370
State income taxes, net of Federal tax benefit	1,487	788	1,610
Net permanent differences	(11)	42	316
Release of debit balance in accumulated other comprehensive income related to settled pension obligations	—	6,866	—
Change in deferred tax asset valuation allowance	—	—	(1,363)
Change in state credits	—	110	1,466
Other	164	22	(177)
	\$17,486	\$16,668	\$20,222

The change in state credits in 2014 and 2013 is the unused amounts which expired as of the end of each of the tax years.

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

(In thousands)	2015	2014
Deferred tax assets:		
Accounts receivable	\$772	\$743
Property and equipment	9,250	5,787
Leases	5,880	5,055
Accrued liabilities	10,916	9,523
Retirement benefits	579	720
Other	31	31
Total deferred tax assets	27,428	21,859
Deferred tax liabilities:		
Inventory	9,285	9,198
Other	898	740
Total deferred tax liabilities	10,183	9,938
Net deferred tax assets	\$17,245	\$11,921

As discussed in Note 1, we adopted ASU 2015-17 as of December 31, 2015, and we applied the new guidance prospectively and the 2014 balance sheet was not adjusted. For 2015, deferred tax assets and liabilities are classified as noncurrent. For 2014, deferred tax assets and deferred tax liabilities which are current are netted against each other as are non-current deferred tax assets and non-current deferred tax liabilities as they relate to each tax-paying component for presentation in the consolidated balance sheets. These groupings are detailed in the following table:

(In thousands)	2015	2014
Current assets (liabilities):		
Current deferred assets	\$—	\$5,801
Current deferred liabilities	—	(11,490)
	—	(5,689)
Non-current assets (liabilities):		
Non-current deferred assets	27,428	38,978
Non-current deferred liabilities	(10,183)	(21,368)
	17,245	17,610
Net deferred tax assets	\$17,245	\$11,921

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

We established a valuation allowance in 2008 against virtually all of our deferred tax assets due to our operating loss in that year and projected loss in 2009. A portion of the allowance was charged to AOCI and was increased in 2009. Our profitability in 2011 was sufficient for us to release the valuation allowance. The "backward-tracing" prohibition in ASC 740, Income Taxes required us to record the total amount of the release as a tax benefit in net income including the portion originally charged to AOCI. This resulted in a debit of \$6,866,000 remaining in AOCI until the settlement of the Plan's pension obligations in 2014 when this amount was reversed and included in total tax expense.

We file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With respect to U.S. federal, state and local jurisdictions, with limited exceptions, we are no longer subject to income tax audits for years before 2010.

Uncertain Tax Positions

No uncertain tax positions were identified for the years currently open under statute of limitations, including 2013, 2014 and 2015. Interest and penalties associated with uncertain tax positions, if any, are recognized as components of income tax expense.

Note 8, Long-Term Debt and Lease Obligations:

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

(In thousands)	2015	2014
Revolving credit notes ^(a)	\$—	\$—
Lease obligations ^(b)	53,125	49,065
	53,125	49,065
Less portion classified as current	(3,051)	(2,387)
	\$50,074	\$46,678

(a) We have a revolving credit agreement as described in Note 5.

(b) These obligations are related to properties under lease with aggregate net book values of approximately \$40,559,000 and \$40,538,000 at December 31, 2015 and 2014, respectively.

The approximate aggregate maturities of these lease obligations during the five years subsequent to December 31, 2015 and thereafter are as follows: 2016 - \$3,051,000; 2017 - \$3,250,000, 2018 - \$3,466,000; 2019 - \$3,685,000; 2020 - \$3,878,000 and \$35,795,000 thereafter. These maturities are net of imputed interest of approximately \$17,611,000 at December 31, 2015.

Note 9. Stockholders' Equity:

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

A special cash dividend of \$1.00 for Common Stock and \$0.95 for Class A Common Stock was paid in the third quarter of 2014. Aggregate dividends paid on Common Stock was \$7,358,000, \$27,077,000 and \$4,787,000 in 2015, 2014 and 2013, respectively. Aggregate dividends paid on Class A Common Stock was \$702,000, \$2,703,000 and \$566,000 in 2015, 2014 and 2013, respectively.

Note 10. Benefit Plans:

During the fourth quarter of 2014, we settled the obligations associated with our defined benefit pension plan (the "Pension Plan"). The Pension Plan covered substantially all employees hired on or before December 31, 2005 and was closed to any employees hired after that date. The benefits are based on years of service and the employee's final average compensation. No new benefits were earned under the Pension Plan for additional years of service after December 31, 2006.

Pension Plan participants not yet retired received vested benefits from the plan assets by electing either a lump sum distribution, roll-over contribution to a 401(k) or individual retirement plans, or an annuity contract with a third-party insurance company. Retired participants automatically received annuities. Pension settlement charges of \$21,623,000, before tax, were recorded during the fourth quarter of 2014 as payments were made from the Plan in accordance with the participants' elections.

The remaining \$813,000 in plan assets at December 31, 2014 will fund additional plan termination professional fees, administration expenses and any required adjustments identified to amounts settled, with the remainder distributed equally to current plan participants after final IRS approval is obtained and other governmental review is completed. Accordingly, at December 31, 2015 and 2014, we had no future obligations related to the terminated Pension Plan.

We also have a non-qualified, non-contributory supplemental executive retirement plan (the "SERP") for employees whose retirement benefits are reduced due to their annual compensation levels. The SERP provides annual benefits amounting to 55% of final average earnings less benefits payable from our pension plan and Social Security benefits. The SERP limits the total amount of annual retirement benefits that may be paid to a participant from all sources (Retirement Plan, Social Security and the SERP) to \$125,000. The SERP is not funded so we pay benefits directly to participants. The SERP was frozen as of December 31, 2015 and no additional benefits will be accrued after that date.

The following table summarizes information about our Pension Plan and SERP.

	Pension Plan		SERP	
(In thousands)	2015	2014	2015	2014
Change in benefit obligation:				
Benefit obligation at beginning of the year	N/A	\$73,456	\$7,270	\$5,974
Service cost		—	129	117
Interest cost		3,232	314	289
Plan settlements		(83,453)	—	—
Plan curtailments		—	(87)	—
Special termination benefits		813	—	—
Actuarial losses (gains)		10,700	317	1,095
Benefits paid		(3,935)	(224)	(205)
Benefit obligation at end of year		813	7,719	7,270
Change in plan assets:				
Fair value of plan assets at beginning of year		82,904	—	—
Employer contribution		—	224	205
Actual return on plan assets		5,297	—	—
Plan settlements		(83,453)	—	—
Benefits paid		(3,935)	(224)	(205)
Fair value of plan assets at end of year		813	—	—
Funded status of the plan – (underfunded)		\$—	\$(7,719)	\$(7,270)
Accumulated benefit obligations		\$—	\$7,719	\$7,270

Amounts recognized in the consolidated balance sheets consist of:

	SERP	
(In thousands)	2015	2014
Noncurrent assets	\$—	\$—
Current liabilities	(287)	(228)
Noncurrent liabilities	(7,432)	(7,042)
	\$(7,719)	\$(7,270)

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

	SERP	
(In thousands)	2015	2014
Prior service cost	\$—	\$(432)
Net actuarial loss	(1,724)	(1,663)
	\$(1,724)	\$(2,095)

Net pension cost included the following components:

(In thousands)	Pension Plan			SERP		
	2015	2014	2013	2015	2014	2013
Service cost-benefits earned during the period	N/A	\$—	\$—	\$129	\$117	\$134
Interest cost on projected benefit obligation		3,232	3,278	314	289	259
Expected return on plan assets		(4,475)	(4,948)	—	—	—
Amortization of prior service cost		—	—	210	210	210
Amortization of actuarial loss		244	1,627	169	—	68
Settlement loss recognized		20,810	—	—	—	—
Curtailment loss recognized		—	—	222	—	—
Special termination benefit recognized		813	—	—	—	—
Net pension costs		\$20,624	\$(43)	\$1,044	\$616	\$671

The net periodic benefit cost for the SERP for the year ending December 31, 2015, includes the impact of freezing the plan as of December 31, 2015, which resulted in fully recognizing the outstanding prior service cost basis at that date. The estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost in 2016 is approximately \$120,000 for the SERP.

Assumptions

We use a measurement date of December 31 for our pension and SERP plan. Assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	Pension Plan		SERP	
	2014	2013	2015	2014
Discount rate	4.93 %	4.13 %	4.09 %	4.96 %
Expected long-term return on plan assets	6.00 %	6.65 %	n/ a	n/ a
Rate of compensation increase	n/ a	n/ a	3.50 %	3.50 %

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

Assumptions used to determine benefit obligations at December 31 are as follows:

	SERP	
	2015	2014
Discount rate	4.58 %	4.09 %
Rate of compensation increase	3.50 %	3.50 %

Cash Flows

The following schedule outlines the expected benefit payments related to the SERP in future years. These expected benefits were estimated based on the same actuarial assumptions used to determine benefit obligations at December 31, 2015.

(In thousands)	SERP
2016	\$287
2017	367
2018	371
2019	384
2020	412
2021-2025	2,262

Other Plans

We have an employee savings/retirement (401(k)) plan to which substantially all our employees may contribute. We match employee contributions 100% of the first 1% of eligible pay and 50% of the next 5% contributed by participants. We expensed matching employer contributions of approximately \$3,661,000, \$3,449,000 and \$3,104,000 in 2015, 2014 and 2013, respectively.

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

Note 11, Accumulated Other Comprehensive Income (loss):

The following summarizes the changes in the balance and the reclassifications out of accumulated other comprehensive income (loss) on our Consolidated Balance Sheet to the Consolidated Statement of Comprehensive Income (amounts in thousands):

	Year Ended December 31,		
	2015	2014	2013
Beginning balance	\$(2,168)	\$(15,412)	\$(23,378)
Other comprehensive income (loss)			
Defined benefit pension plans:			
Net gain (loss) during year	(230)	(10,974)	10,943
Amortization of prior service cost ⁽¹⁾	432	210	210
Amortization of net loss ⁽¹⁾	169	244	1,695
Settlement loss recognized ⁽²⁾	—	20,810	—
	371	10,290	12,848
Tax expense (benefit)	141	(2,954)	4,882
Total other comprehensive income	230	13,244	7,966
Ending balance	\$(1,938)	\$(2,168)	\$(15,412)

(1) These amounts are included in the computation of net periodic pension costs and were reclassified to selling, general and administrative costs. For 2015, this includes \$222,000 in curtailment loss on the SERP.

(2) This amount was reclassified and is part of the line item "pension settlement expense."

Note 12, Stock-Based Compensation Plans:

We have issued options and awards for Common Stock under three stock-based employee compensation plans, the 2014 Long Term Incentive Plan (the "2014 LTIP Plan"), the 2004 Long Term Incentive Plan (the "2004 LTIP Plan") and the 1998 Stock Option Plan (the "1998 Plan"). No new awards may be granted under the 1998 Plan and as of December 31, 2015 all previously granted awards have been exercised, forfeited, or expired. No new awards may be granted under the 2004 LTIP Plan. As of December 31, 2015, 1,083,834 shares were available for awards and options under the 2014 LTIP Plan.

Edgar Filing: HAVERTY FURNITURE COMPANIES INC - Form 10-K

The following table summarizes our equity award activity during the years ended December 31, 2015, 2014 and 2013:

	Restricted Stock Award		Stock-Settled Appreciation Rights		Options	
	Shares or Units	Weighted-Average Award Price	Rights	Weighted-Average Award Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2012	555,925	\$ 12.28	121,749	\$ 8.85	50,000	\$ 20.56
Granted	162,150	18.15	112,000	18.14	—	—
Exercised or restrictions lapsed ⁽¹⁾	(277,975)	12.24	(84,049)	8.90	(48,000)	20.75
Forfeited or expired	(3,100)	15.00	—	—	(2,000)	15.90
Outstanding at December 31, 2013	437,000	14.46	149,700	15.78	—	—
Granted	146,748	28.72	—	—	—	—
Exercised or restrictions lapsed ⁽¹⁾	(235,925)	14.01	(13,725)	12.30	—	—
Forfeited or expired	(26,501)	24.28	(6,000)	18.14	—	—
Outstanding at December 31, 2014	321,322	\$ 20.49	129,975	\$ 16.04	—	—
Granted	176,135	23.97	—	—	—	—
Exercised or restrictions lapsed ⁽¹⁾	(147,595)	18.94	(29,100)	8.74	—	—
Forfeited or expired	(5,372)	24.84	—	—	—	—
Outstanding at December 31, 2015	344,490	\$ 22.87	100,875	\$ 18.14	—	—
Exercisable at December 31, 2015			48,875	\$ 18.14	—	—
Restricted units expected to vest	344,490	\$ 22.87			—	—
Exercisable at December 31, 2014			51,975	\$ 12.88	—	—
Exercisable at December 31, 2013			37,700	\$ 8.76	—	—

(1) The total intrinsic value of options and stock-settled appreciation rights exercised was approximately \$457,000, \$184,000 and \$1,312,000 in 2015, 2014 and 2013, respectively.

The fair value for stock-settled appreciation rights are estimated at the date of grant using a Black Scholes pricing model. The aggregate intrinsic value of vested and outstanding stock-settled appreciation rights at December 31, 2015 was approximately \$161,000 and \$333,000, respectively.

The total fair value of restricted common stock shares that vested in 2015, 2014 and 2013 was approximately \$3,097,000, \$5,985,000 and \$6,308,000, respectively. The aggregate intrinsic value of outstanding restricted stock awards was \$7,386,000 at December 31, 2015.

Grants of restricted common stock, restricted units, performance units and stock-settled appreciation rights have been made to certain officers and key employees under the 2004 and the 2014 LTIP Plan. The restrictions on the restricted units generally lapse or vest annually, primarily over four year periods. The performance units are based on one-year performance periods but cliff vest in three years from grant date. The compensation for all awards is being charged to selling, general and administrative expense over the respective grants' vesting periods, primarily on a straight-line basis, and was approximately \$4,033,000, \$3,319,000 and \$3,323,000 in 2015, 2014 and 2013, respectively. The tax

benefit recognized related to all awards was approximately \$1,533,000, \$1,261,000 and \$1,263,000 in 2015, 2014 and 2013, respectively. As of December 31, 2015, the total compensation cost related to unvested equity awards was approximately \$4,509,000 and is expected to be recognized over a weighted-average period of 2.2 years.

F-19

Note 13. Earnings Per Share:

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

Numerator:	2015	2014	2013
Common:			
Distributed earnings	\$7,358	\$27,077	\$4,787
Undistributed earnings	17,995	(19,220)	23,972
Basic	25,353	7,857	28,759
Class A Common earnings	2,436	732	3,506
Diluted	\$27,789	\$8,589	\$32,265
Class A Common:			
Distributed earnings	\$702	\$2,703	\$566
Undistributed earnings	1,734	(1,971)	2,940
	\$2,436	\$732	\$3,506
Denominator:	2015	2014	2013
Common:			
Weighted average shares outstanding - basic	20,430	20,426	19,865
Assumed conversion of Class A Common Stock	2,067	2,199	2,558
Dilutive options, awards and common stock equivalents	301	315	392
Total weighted average diluted Common Stock	22,798	22,940	22,815
Class A Common:			
Weighted average shares outstanding	2,067	2,199	2,558
Basic net earnings per share			
Common Stock	\$1.24	\$0.38	\$1.45
Class A Common Stock	\$1.18	\$0.33	\$1.37
Diluted net earnings per share			
Common Stock	\$1.22	\$0.37	\$1.41
Class A Common Stock	\$1.17	\$0.33	\$1.35

Note 14. Commitments:

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

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

(In thousands)	Operating Leases
2016	\$33,691
2017	29,575
2018	26,970
2019	21,670
2020	17,993
Subsequent to 2021	41,651
Total minimum lease payments	\$ 171,550

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

	2015	2014	2013
Property			
Minimum	\$27,211	\$27,264	\$27,370
Additional rentals based on sales	27	79	—
Sublease income	(206)	(144)	(146)
	27,032	27,199	27,224
Equipment	2,943	2,568	2,444
	\$29,975	\$29,767	\$29,668

Note 15. Supplemental Cash Flow Information:

(In thousands)	2015	2014	2013
Cash paid for income taxes	\$13,509	\$11,420	\$20,432
Income tax refunds received	5	191	3,003
Cash paid for interest	2,583	1,400	1,185
Noncash financing and investing activity:			
Fixed assets acquired (adjusted) related to capital lease and financing obligations	3,176	28,536	(2,600)
Increase in financing obligations	6,594	32,999	(2,600)
F-21			

Note 16. Selected Quarterly Financial Data (Unaudited):

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2015 and 2014 (in thousands, except per share data):

	2015 Quarter Ended			
	March 31	June 30	September 30	December 31
Net sales	\$191,331	\$187,732	\$209,921	\$215,886
Gross profit	102,647	100,182	111,742	116,205
Credit service charges	72	69	71	73
Income before taxes	9,928	7,839	12,414	15,093
Net income	6,119	4,833	7,655	9,181
Basic net earnings per share:				
Common	0.27	0.21	0.34	0.42
Class A Common	0.26	0.20	0.32	0.40
Diluted net earnings per share:				
Common	0.27	0.21	0.34	0.41
Class A Common	0.25	0.20	0.32	0.39

	2014 Quarter Ended			
	March 31	June 30	September 30	December 31
Net sales	\$181,737	\$175,132	\$198,541	\$212,999
Gross profit	97,862	94,144	106,203	114,156
Credit service charges	81	71	72	75
Income (loss) before taxes	9,956	7,812	12,468	(4,978)
Net income	6,129	4,829	7,824	(10,192)
Basic net earnings (loss) per share:				
Common	0.27	0.21	0.35	(0.45)
Class A Common	0.26	0.20	0.33	(0.43)
Diluted net earnings (loss) per share:				
Common	0.27	0.21	0.34	(0.45)
Class A Common	0.26	0.20	0.33	(0.43)

The fourth quarter of 2014 includes expense of \$21.6 million, a \$0.90 per share impact, for the settlement of the defined benefit pension plan.

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

Schedule II – Valuation and Qualifying Accounts

Haverty Furniture Companies, Inc. and subsidiaries:

Column A	Column B Balance at beginning of period	Column C Additions charged to costs and expenses	Column D Deductions Describe (1)(2)	Column E Balance at end of period
(In thousands)				
Year ended December 31, 2015:				
Allowance for doubtful accounts	\$ 350	269	224	395
Reserve for cancelled sales and allowances	\$ 1,627	11,466	11,434	1,659
Year ended December 31, 2014:				
Allowance for doubtful accounts	\$ 350	\$ 257	\$ 257	\$ 350
Reserve for cancelled sales and allowances	\$ 1,277	\$ 11,126	\$ 10,776	\$ 1,627
Year ended December 31, 2013:				
Allowance for doubtful accounts	\$ 395	\$ 120	\$ 165	\$ 350
Reserve for cancelled sales and allowances	\$ 1,152	\$ 10,402	\$ 10,277	\$ 1,277

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

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