

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2017
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission file number: 1-14445



**HAVERTY FURNITURE COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State of incorporation)  
**780 Johnson Ferry Road, Suite 800**  
**Atlanta, Georgia**  
(Address of principal executive office)

**58-0281900**  
(I.R.S. Employer Identification No.)

**30342**  
(Zip Code)

**(404) 443-2900**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Smaller reporting company  Emerging Growth Company

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

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

The numbers of shares outstanding of the registrant's two classes of \$1 par value common stock as of October 31, 2017, were: Common Stock – 19,423,144; Class A Common Stock – 1,796,296.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**HAVERTY FURNITURE COMPANIES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except per share data)

	<u>September 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
	<u>(Unaudited)</u>	
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 86,903	\$ 63,481
Restricted cash and cash equivalents	8,089	8,034
Accounts receivable	2,706	4,244
Inventories	99,664	102,020
Prepaid expenses	8,910	8,836
Other current assets	6,973	7,500
Total current assets	<u>213,245</u>	<u>194,115</u>
Accounts receivable, long-term	311	462
Property and equipment	226,693	233,667
Deferred income taxes	21,339	18,376
Other assets	8,611	7,885
Total assets	<u>\$ 470,199</u>	<u>\$ 454,505</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 26,550	\$ 25,662
Customer deposits	29,454	24,923
Accrued liabilities	38,418	41,904
Current portion of lease obligations	3,733	3,461
Total current liabilities	<u>98,155</u>	<u>95,950</u>
Lease obligations, less current portion	51,523	52,013
Other liabilities	26,549	24,671
Total liabilities	<u>176,227</u>	<u>172,634</u>
<b>Stockholders' equity</b>		
Capital Stock, par value \$1 per share		
Preferred Stock, Authorized – 1,000 shares; Issued: None		
Common Stock, Authorized – 50,000 shares; Issued: 2017 – 28,920; 2016 – 28,793	28,920	28,793
Convertible Class A Common Stock, Authorized – 15,000 shares; Issued: 2017 – 2,320; 2016 – 2,340	2,320	2,340
Additional paid-in capital	88,206	86,273
Retained earnings	287,638	277,707
Accumulated other comprehensive loss	(1,790)	(1,830)
Less treasury stock at cost – Common Stock (2017 – 9,498 and 2016 – 9,506) and Convertible Class A Common Stock (2017 and 2016 – 522)	(111,322)	(111,412)
Total stockholders' equity	<u>293,972</u>	<u>281,871</u>
Total liabilities and stockholders' equity	<u>\$ 470,199</u>	<u>\$ 454,505</u>

See notes to these condensed consolidated financial statements.

**HAVERTY FURNITURE COMPANIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(In thousands, except per share data – Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net sales	\$ 207,647	\$ 211,690	\$ 604,904	\$ 600,976
Cost of goods sold	95,632	97,953	276,175	278,660
Gross profit	112,015	113,737	328,729	322,316
Credit service charges	38	54	126	173
Gross profit and other revenue	112,053	113,791	328,855	322,489
<b>Expenses:</b>				
Selling, general and administrative	102,099	101,745	299,310	294,809
Provision for doubtful accounts	18	70	181	286
Other expense (income), net	(276)	(705)	(1,430)	(2,799)
Total expenses	101,841	101,110	298,061	292,296
Income before interest and income taxes	10,212	12,681	30,794	30,193
Interest expense, net	493	556	1,641	1,719
Income before income taxes	9,719	12,125	29,153	28,474
Income tax expense	3,736	4,759	10,999	11,065
Net income	\$ 5,983	\$ 7,366	\$ 18,154	\$ 17,409
<b>Other comprehensive income</b>				
Adjustments related to retirement plan; net of tax expense of \$9 and \$27 in 2017 and \$12 and \$34 in 2016	\$ 13	\$ 18	\$ 40	\$ 56
Comprehensive income	\$ 5,996	\$ 7,384	\$ 18,194	\$ 17,465
<b>Basic earnings per share:</b>				
Common Stock	\$ 0.28	\$ 0.35	\$ 0.86	\$ 0.81
Class A Common Stock	\$ 0.27	\$ 0.33	\$ 0.82	\$ 0.77
<b>Diluted earnings per share:</b>				
Common Stock	\$ 0.28	\$ 0.34	\$ 0.84	\$ 0.79
Class A Common Stock	\$ 0.27	\$ 0.33	\$ 0.81	\$ 0.76
<b>Cash dividends per share:</b>				
Common Stock	\$ 0.1500	\$ 0.1200	\$ 0.3900	\$ 0.3200
Class A Common Stock	\$ 0.1425	\$ 0.1125	\$ 0.3675	\$ 0.3025

See notes to these condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 18,154	\$ 17,409
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	22,819	21,472
Stock-based compensation expense	3,045	2,992
Deferred income taxes	(2,990)	(3,030)
Gain on insurance recovery	(1,531)	(2,460)
Proceeds from insurance recovery	916	2,327
Provision for doubtful accounts	181	286
Other	626	450
Changes in operating assets and liabilities:		
Accounts receivable	1,508	1,330
Inventories	2,356	9,821
Customer deposits	4,531	9,418
Other assets and liabilities	1,977	(5,176)
Accounts payable and accrued liabilities	(2,844)	(7,603)
Net cash provided by operating activities	<u>48,748</u>	<u>47,236</u>
Cash Flows from Investing Activities:		
Capital expenditures	(15,394)	(25,292)
Maturities of investments	—	12,000
Proceeds from insurance recovery for destroyed property and equipment	1,045	2,312
Other	28	(3)
Net cash used in investing activities	<u>(14,321)</u>	<u>(10,983)</u>
Cash Flows from Financing Activities:		
Payments on lease obligations	(2,577)	(2,295)
Taxes on vested restricted shares	(1,555)	(883)
Dividends paid	(8,223)	(6,885)
Common stock purchased	—	(21,282)
Construction allowance receipts	1,350	—
Net cash used in financing activities	<u>(11,005)</u>	<u>(31,345)</u>
Increase in cash and cash equivalents during the period	23,422	4,908
Cash and cash equivalents at beginning of period	63,481	70,659
Cash and cash equivalents at end of period	<u>\$ 86,903</u>	<u>\$ 75,567</u>

See notes to these condensed consolidated financial statements.

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

**NOTE A – Business and Reporting Policies**

Haverty Furniture Companies, Inc. ("Havertys," "the Company," "we," "our," or "us") is a retailer of a broad line of residential furniture in the middle to upper-middle price ranges. We operate all of our stores using the Havertys brand and do not franchise our concept. We operate within a single reportable segment. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes required by United States of America generally accepted accounting principles ("U.S. GAAP") for complete financial statements. The Company believes that the disclosures made are adequate to make the information not misleading. The financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. We believe all adjustments, normal and recurring in nature, considered necessary for a fair presentation have been included. We suggest that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and accompanying footnotes included in our latest Annual Report on Form 10-K.

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

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

**NOTE B - Recently Issued and Adopted Accounting Pronouncements**

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

*Share-based payments.* In March 2016, the FASB issued ASU 2016-09 which changes how companies account for certain aspects of share-based payments to employees. Entities are now required to record all excess tax deficiencies and tax benefits as income tax expense or benefit in the income statement when the awards vest or are settled. The change in treatment of excess tax benefits and tax deficiencies also impacts the computation of diluted earnings per share and the standard also requires excess tax benefits to be classified as an operating activity in the statement of cash flows rather than as a financing activity. The standard allows for the repurchase of a greater number of an employee's shares for tax withholding purposes without triggering liability accounting and for entities to make a policy election to account for forfeitures as they occur. This ASU became effective for the Company beginning January 1, 2017, and its adoption had no material impact on our consolidated financial statements. We have elected to recognize forfeitures as they occur.

*Leases.* In February 2016, the FASB issued ASU 2016-02 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 U.S. 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 U.S. GAAP. As a result, we will have to recognize a liability representing our lease payments and a right-of-use asset representing our right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for Havertys beginning with the first quarter 2019 and we expect to adopt using the modified retrospective method. We are assessing the

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

changes to processes and internal controls to meet the standard's reporting and disclosure requirements. For example, software has been evaluated that will assist in recognition of additional assets and liabilities to be included on the balance sheet related to operating leases with durations greater than twelve months, with certain allowable exceptions. We continue to evaluate the expected financial impact of this standard on our consolidated financial position and results of operations.

*Revenue Recognition.* In May 2014, the FASB issued ASU 2014-09, which supersedes previous revenue recognition guidance. The new standard requires that a company recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. Additional disclosures will be required to help users of financial statements understand the nature, amount and timing of revenue and cash flows arising from contracts.

The FASB has issued several amendments to the revenue standard, including clarification on accounting for principal versus agent considerations (i.e., reporting gross versus net). These amendments do not change the core principle of the standard, but provide clarity and implementation guidance.

This standard is effective for Havertys beginning January 1, 2018 and will not have a material effect on Havertys' financial condition, results of operations or liquidity. We sell home furnishings and recognize revenue at delivery and this will not change under the new standard. We have substantially completed our comprehensive implementation plan, including the implementation of new controls and processes designed to comply with ASU 2014-09. We will use the modified retrospective (or cumulative-effect) adoption method and estimate the impact to retained earnings will be a reduction of less than \$100,000.

**NOTE C – Restricted Cash and Cash Equivalents**

Our insurance carrier requires us to collateralize a portion of our workers' compensation obligations. These escrowed funds are shown as restricted cash and cash equivalents on our consolidated balance sheets and are investments in money market funds held by an agent. The changes in the balance are shown in investing activities on our consolidated statements of cash flows. The annual agreement with our carrier governing these funds expires on December 31, 2017.

**NOTE D – Interim LIFO Calculations**

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

**NOTE E – Fair Value of Financial Instruments**

The fair values of our cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and customer deposits approximate their carrying values due to their short-term nature. The assets related to our self-directed, non-qualified deferred compensation plans for certain executives and employees are valued using quoted market prices multiplied by the number of shares held, a Level 1 valuation technique. The assets related to our deferred compensation plans totaled approximately \$5.7 million at September 30, 2017 and \$4.4 million at December 31, 2016 and are included in other assets. The related liabilities of the same amounts are included in other liabilities.

**NOTE F – Credit Arrangement**

We have a \$60.0 million revolving credit facility secured by our inventory, accounts receivable, cash, and certain other personal property. Availability fluctuates based on a borrowing base calculation reduced by outstanding letters of credit. Amounts available to borrow are based on the lesser of the borrowing base or the \$60.0 million line amount, reduced by \$6.0 million if a fixed charge coverage ratio test for the immediately preceding 12 months are not met. The credit facility contains covenants that, among other things, limit our ability to incur certain types of debt or liens, pay dividends, enter into mergers and consolidations or use proceeds of borrowing for other than permitted uses.

The borrowing base was \$48.4 million at September 30, 2017, there were no outstanding letters of credit, and the net availability was \$42.4 million. We have not had any borrowings under the facility, which matures March 31, 2021, since its origination in 2008.

**NOTE G – Insurance Recovery and Gains**

Our store in Lubbock, Texas sustained significant damage on December 27, 2015 from a blizzard. We reduced the value of the property and its contents at December 31, 2015 to zero and recorded an insurance recovery receivable. In the second quarter of 2016 we opened a temporary location and began reconstruction of a new store. We received \$4.6 million in insurance proceeds during the first nine months of 2016 for the building and inventory destroyed and recorded a gain on insurance recovery of \$2.5 million. During 2017, we recorded an additional \$1.4 million in gains for the insurance recovery on the building, business interruption and other expenses.

Our store in Wichita, Kansas was closed in mid-July 2017 due to a rupture of a water pipe below the foundation and is expected to reopen in late November 2017. We have received \$0.4 million in insurance proceeds for the inventory destroyed and other expenses and we anticipate receiving additional amounts.

**NOTE H – Income Taxes**

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

Our effective tax rate for the nine months ended September 30, 2017 and 2016 was 37.7% and 38.9%, respectively. The primary difference in the effective rate and the statutory rate is due to state income taxes and excess tax benefits of \$0.2 million in 2017 from vested stock awards.



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

**NOTE I – Stock Based Compensation Plan**

As more fully discussed in Note 12 of the notes to the consolidated financial statements in our 2016 Annual Report on Form 10-K, we have awards outstanding for Common Stock under stock-based employee compensation plans.

The following table summarizes our award activity during the nine months ended September 30, 2017:

	Restricted Stock Awards		Stock-Settled Appreciation Rights	
	Shares or Units	Weighted- Average Award Price	Rights	Weighted- Average Award Price
Outstanding at December 31, 2016	397,320	\$ 21.64	100,875	\$ 18.14
Granted	199,382	22.00	—	—
Restrictions lapsed or exercised	(157,406)	22.02	(43,875)	18.14
Forfeited	(4,507)	19.79	—	—
Outstanding at September 30, 2017	434,789	\$ 21.69	57,000	\$ 18.14
Exercisable at September 30, 2017	—	—	57,000	\$ 18.14
Awards expected to vest	420,491	\$ 21.70	—	—

Grants of equity awards are made to certain officers and key employees under stockholder approved long-term incentive plans. The restrictions on most of the awards generally lapse annually, primarily over four year periods. During 2017, the Company granted approximately 63,000 awards for which the shares ultimately issued will be based upon the achievement of various performance measures. The restricted units earned under most of these awards vest after three years. The remaining grants have time-based vesting of one or four years. The compensation is being charged to selling, general and administrative expense over the respective grants' vesting periods, primarily on a straight-line basis. Stock based compensation expense was approximately \$3.0 million for the nine months ended September 30, 2017 and September 30, 2016. The aggregate intrinsic value of outstanding restricted common stock grants was \$11.4 million at September 30, 2017. The aggregate intrinsic value of vested and outstanding stock-settled appreciation rights at September 30, 2017 was approximately \$0.5 million.

As of September 30, 2017, the remaining unamortized compensation cost related to unvested equity awards was approximately \$5.3 million and is expected to be recognized over a weighted-average period of 2.4 years.

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

**NOTE J – Earnings Per Share**

We report our earnings per share using the two-class method. The income per share for each class of common stock is calculated assuming 100% of our earnings are distributed as dividends to each class of common stock based on their contractual rights.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Numerator:</b>				
<b>Common:</b>				
Distributed earnings	\$ 2,913	\$ 2,290	\$ 7,560	\$ 6,273
Undistributed earnings	2,586	4,405	9,122	9,581
Basic	<u>5,499</u>	<u>6,695</u>	<u>16,682</u>	<u>15,854</u>
Class A Common earnings	484	671	1,472	1,555
Diluted	<u>\$ 5,983</u>	<u>\$ 7,366</u>	<u>\$ 18,154</u>	<u>\$ 17,409</u>
<b>Class A Common:</b>				
Distributed earnings	\$ 256	\$ 227	\$ 663	\$ 612
Undistributed earnings	228	444	809	943
	<u>\$ 484</u>	<u>\$ 671</u>	<u>\$ 1,472</u>	<u>\$ 1,555</u>
<b>Denominator:</b>				
<b>Common:</b>				
Weighted average shares outstanding - basic	19,421	19,083	19,365	19,615
Assumed conversion of Class A Common Stock	1,798	2,021	1,804	2,026
Dilutive options, awards and common stock equivalents	<u>391</u>	<u>332</u>	<u>413</u>	<u>331</u>
Total weighted-average diluted Common Stock	<u>21,610</u>	<u>21,436</u>	<u>21,582</u>	<u>21,972</u>
<b>Class A Common:</b>				
Weighted average shares outstanding	<u>1,798</u>	<u>2,021</u>	<u>1,804</u>	<u>2,026</u>
<b>Basic earnings per share:</b>				
Common Stock	\$ 0.28	\$ 0.35	\$ 0.86	\$ 0.81
Class A Common Stock	\$ 0.27	\$ 0.33	\$ 0.82	\$ 0.77
<b>Diluted earnings per share:</b>				
Common Stock	\$ 0.28	\$ 0.34	\$ 0.84	\$ 0.79
Class A Common Stock	\$ 0.27	\$ 0.33	\$ 0.81	\$ 0.76

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

### Net Sales

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

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

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

Period	2017					2016				
	Net Sales			Comp-Store Sales		Net Sales			Comp-Store Sales	
	Total Dollars	% Change	\$ Change	% Change	\$ Change	Total Dollars	% Change	\$ Change	% Change	\$ Change
Q1	\$ 200.4	3.0%	\$ 5.9	1.6%	\$ 3.0	\$ 194.5	1.7%	\$ 3.2	0.9%	\$ 1.6
Q2	196.8	1.1	2.1	(0.2)	(0.4)	194.8	3.8	7.1	3.8	6.9
Q3	207.6	(1.9)	(4.0)	(2.9)	(6.0)	211.7	0.8	1.8	1.2	2.5
9 Months ended September 30	\$ 604.9	0.7%	\$ 3.9	(0.6)%	\$ (3.3)	\$ 601.0	2.0%	\$ 12.0	1.9%	\$ 11.0

Total written sales for the third quarter of 2017 were down 3.5% and written comparable store sales decreased 4.2% over the same period last year. During September, 55 of Havertys stores were closed for one or more days due to Hurricane Irma. The negative impact on third quarter total written sales and written comparable store sales because of these closures is estimated at 1.2%.

Our average written ticket was up 0.5% and custom order upholstery sales grew 2.6% for the third quarter compared to the 2016 period. For the nine months ended September 30, our average written ticket was up 2.0% and custom upholstery written business was up 4.0%.

### Gross Profit

Gross profit for the third quarter of 2017 was 53.9%, up 20 basis points compared to the prior year period. Our execution on pricing and product mix and reduced product markdowns offset the higher inbound freight on imported products and negative LIFO impact. There was a \$0.5 million increase in the LIFO reserve during the third quarter of 2017 versus a \$0.7 million decrease in 2016, a change of \$1.2 million or 59 basis points.

Gross profit for the first nine months of 2017 was 54.3% compared to 53.6% for the same period of 2016. The LIFO year-over-year change was \$1.3 million or 21 basis points.

Our expectation for annual gross profit margins for the full year of 2017 is approximately 54.2%. Last year there was a change in the LIFO reserve that generated a positive impact in the second half of 2016. Gross margins are expected to be approximately 15 to 25 basis points lower than the full year average due to inbound ocean freight increases and a related negative LIFO impact. We expect a negative year-over-year LIFO impact in the fourth quarter of 2017 of \$1.3 to \$1.5 million.

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

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

### Selling, General and Administrative Expenses

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

Our SG&A costs as a percent of sales was 49.2% for the third quarter of 2017 and 48.1% for the same period in 2016. Total SG&A dollars for the third quarter of 2017 were relatively flat compared to the prior year period. Occupancy expense rose \$1.0 million primarily due to increases in repairs and other costs associated with new stores and renovations. Advertising and marketing expenses were up \$2.1 million in the third quarter of 2017 compared to the prior year period as our advertising plan shifted more spending into the third quarter. Administrative costs were down \$1.4 million primarily due to lower group medical expenses and incentive compensation costs. Warehouse and delivery were down \$1.1 million as sales decreased for the period.

Our SG&A costs as a percent of sales for the first nine months of the year were 49.5% for 2017 and 49.1% for 2016. Total SG&A dollars increased \$4.5 million for the nine months ended September 30, 2017 compared to the prior year period. Our selling costs increased \$0.8 million in 2017 over 2016 in step with higher sales and also for, additional staffing in our new stores, and increased bank card usage costs. Occupancy expenses rose \$2.9 million primarily due to increases in depreciation and repairs. Our warehouse and delivery expense decreased \$0.2 million in the first nine months of 2017 compared to the prior year period due partly to lower temporary personnel costs offset by delivery truck operating expenses. Advertising and marketing costs as planned in the first nine months of 2017 were up \$2.0 million compared to the prior year period. Administrative costs declined \$1.0 million for the first nine months of 2017 over the 2016 period due to lower group medical costs partly offset by higher compensation costs and technology expenses.

Our normal fixed and discretionary type expenses within SG&A costs for the third quarter of 2017 were \$64.7 million and \$63.3 million in 2016 and were \$189.6 million and \$185.7 million for the nine months ended September 30, 2017 and 2016, respectively. These costs are expected to be approximately \$257.0 million for the full year 2017 versus the \$249.9 million, for the same costs in 2016. The increase is largely due to depreciation and occupancy costs for new and relocated stores, overall compensation including staffing increases and inflation. The variable type costs within SG&A for the first nine months of 2017 were 18.1% of sales, compared to 18.2% for the same period in 2016, and for the full year of 2017 are anticipated to be 18.2%, the same rate in 2016.

### Liquidity and Capital Resources

Our primary cash requirements include working capital needs, contractual obligations, income tax obligations and capital expenditures. We have funded these requirements primarily through cash generated from operations. We have no funded debt and our lease obligations are primarily due to arrangements that are not considered capital leases but must be recorded on our balance sheets. We believe funds generated from our expected results of operations and available cash and cash equivalents will be sufficient for the next 12 months to fund our primary obligations, dividends, stock repurchases and complete capital projects that we have underway or currently contemplate.

We also have a \$60.0 million revolving credit facility. Refer to Note F to the Notes to the Condensed Consolidated Financial Statements for additional information on our credit facility. The availability at September 30, 2017 was \$42.4 million and there were no borrowed amounts outstanding.

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

### Summary of Cash Activities

Our cash flows provided by operating activities totaled \$48.7 million in the first nine months of 2017 compared to \$47.2 million for the same period of 2016. This increase was primarily due to increased net income and smaller increases in inventories and customer deposits, smaller decreases in accounts payable and accrued liabilities and decreases versus increases in other assets and liabilities. For additional information about the changes in our assets and liabilities refer to our Balance Sheet Changes discussion.

Our cash flows used in investing activities totaled \$14.3 million in the first nine months of 2017 versus \$11.0 million for the same period of 2016. This difference is primarily due to the maturities of commercial paper investments in 2016 partly offset by higher capital expenditures in 2016.

Financing activities used cash of \$11.0 million in the first nine months of 2017 compared to \$31.3 million for the same period of 2016. This difference is primarily due to the acquisition of \$21.3 million of the Company's common stock in 2016.

### Balance Sheet Changes for the Nine Months Ended September 30, 2017

Our balance sheet as of September 30, 2017, as compared to our balance sheet as of December 31, 2016, changed as follows:

- decrease in accounts receivable of \$1.7 million as fewer customers use Havertys' internal financing;
- decrease in inventories of \$2.4 million as stocking levels are higher at year end;
- decrease in property and equipment of \$7.0 million due primarily from a \$5.2 million increase in accumulated depreciation; and
- increase in customer deposits of \$4.5 million as undelivered sales increased as is generally the case compared to year end.

### Store Plans and Capital Expenditures

Location	Opening (Closing) Quarter Actual or Planned	Category
Lubbock, TX	Q-1-17	Replacement
Columbia, SC	(Q-1-17)	Replacement
Greensboro, NC	Q-2-17	New Market
Columbia, SC	Q-4-17	Replacement
Birmingham, AL	(Q-4-17)	Closure

These plans combined with other changes should increase net selling space in 2017 by approximately 0.3%. Our current plans for 2018 include opening two new stores and the completion of the expansion of our Western Distribution Center. These planned openings combined with expected store closures should keep net selling space in 2018 flat compared to 2017. Total capital expenditures are estimated to be \$28.0 million in 2017 and \$18.0 million in 2018 depending on the timing of spending for new projects.

In addition to the above, the Company's Wichita, Kansas store was closed July 14, 2017 due to a rupture of a water pipe below the foundation. The repairs are ongoing and this leased location is estimated to reopen in late November.

### Off-Balance Sheet Arrangements

As of September 30, 2017 we had no off-balance sheet arrangements or obligations.

## Critical Accounting Estimates

Critical accounting estimates are those that we believe are both significant and that require us to make difficult, subjective or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates, and we might obtain different estimates if we used different assumptions or conditions. Our critical accounting estimates are identified and described in our annual report on Form 10-K for the year ended December 31, 2016. We had no significant changes in those critical accounting estimates since our last annual report.

## Forward-Looking Information

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

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

## Item 4. Controls and Procedures

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

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

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

The board of directors has authorized management, at its discretion, to purchase and retire limited amounts of our common stock and Class A common stock. A program was initially approved by the board on November 3, 1986 with subsequent authorizations made as to the number of shares to be purchased. On August 9, 2016, the board authorized management to purchase up to \$10.0 million of common and Class A common stock after the balance of an immaterial amount from a previous authorization is utilized. No shares of common stock or Class A common stock were repurchased during the nine months ended September 30, 2017.

### Item 6. Exhibits

#### (a) Exhibits

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

Exhibit Number	Description of Exhibit (Commission File No. 1-14445)
3.1	<a href="#">Articles of Amendment and Restatement of the Charter of Haverty Furniture Companies, Inc. effective May 26, 2006 (Exhibit 3.1 to our Second Quarter 2006 Form 10-Q).</a>
3.2	<a href="#">By-laws of Haverty Furniture Companies, Inc. as amended effective May 12, 2010 (Exhibit 3.2 to our Second Quarter 2010 Form 10-Q).</a>
*31.1	<a href="#">Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.</a>
*31.2	<a href="#">Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.</a>
*32.1	<a href="#">Certification pursuant to 18 U.S.C. Section 1350.</a>
*101	The following financial information from Haverty Furniture Companies, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2017, and December 31, 2016, (ii) Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2017 and 2016, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (iv) the Notes to Condensed Consolidated Financial Statements.

**SIGNATURES**

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

**HAVERTY FURNITURE COMPANIES, INC.**  
(Registrant)

Date: November 2, 2017

By: \_\_\_\_\_  
/s/ Clarence H. Smith  
Clarence H. Smith  
Chairman of the Board, President  
and Chief Executive Officer  
(principal executive officer)

By: \_\_\_\_\_  
/s/ Richard B. Hare  
Richard B. Hare  
Executive Vice President and  
Chief Financial Officer  
(principal financial and accounting officer)



I, Clarence H. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2017 of Haverty Furniture Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ Clarence H. Smith

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Clarence H. Smith  
Chairman of the Board, President  
and Chief Executive Officer

I, Richard B. Hare, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2017 of Haverty Furniture Companies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 2, 2017

/s/ Richard B. Hare

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Richard B. Hare  
Executive Vice President and  
Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Haverty Furniture Companies, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2017 (the "Report"), I, Clarence H. Smith, Chairman of the Board, President and Chief Executive Officer of the Company, and I, Richard B. Hare, Executive Vice President and Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2017

/s/ Clarence H. Smith

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Clarence H. Smith  
Chairman of the Board, President  
and Chief Executive Officer

/s/ Richard B. Hare

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Richard B. Hare  
Executive Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Haverty Furniture Companies, Inc. and will be retained by Haverty Furniture Companies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.