SARATOGA RESOURCES INC /TX
Form 424B3
February 12, 2013

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Registration No. 333-185966

PROSPECTUS

Saratoga Resources, Inc.

Offer to Exchange

$25,000,000 of 12.5% Senior Secured Notes due 2016

that have been registered under the Securities Act of 1933

for

$25,000,000 of 12.5% Senior Secured Notes due 2016

that have not been registered under the Securities Act of 1933

Saratoga Resources, Inc. is offering to exchange registered 12.5% Senior Secured Notes due 2016, or the exchange notes, for any and all of its unregistered 12.5% Senior Secured Notes due 2016, or the outstanding notes, that were issued pursuant to a private placement on December 4, 2012. We previously issued $127.5 million aggregate principal amount of notes on July 12, 2011, referred to herein, together with the registered 12.5% Senior Secured Notes due 2016 for which they were exchanged, as the original issuance notes . We refer to the outstanding notes, the exchange notes and the original issuance notes together in this prospectus as the notes. We refer to this exchange as the exchange offer. The exchange notes are substantially identical to the outstanding notes, except the exchange notes are registered under the Securities Act of 1933, as amended (the Securities Act), and the transfer restrictions and registration rights, and related additional interest provisions, applicable to the outstanding notes will not apply to the exchange notes. The exchange notes will represent the same debt as the outstanding notes and we will issue the exchange notes under the same indenture used in issuing the outstanding notes.

Terms of the exchange offer:

The exchange offer expires at 5:00 p.m., New York City time, on March 15, 2013, unless we extend it.

The exchange offer is subject to customary conditions, which we may waive.

We will exchange all outstanding notes that are validly tendered and not withdrawn prior to the expiration of the exchange offer for an equal principal amount of exchange notes. All interest due and payable on the outstanding notes will become due and payable on the same terms under the exchange notes.

You may withdraw your tender of outstanding notes at any time prior to the expiration of the exchange offer.

If you fail to tender your outstanding notes, you will continue to hold unregistered, restricted securities, and your ability to transfer them could be adversely affected.

We believe that the exchange of exchange notes for outstanding notes will not be a taxable transaction for U.S. federal income tax purposes, but you should see the discussion under the caption Material U.S. Federal Income and Estate Tax Considerations for more information.

We will not receive any proceeds from the exchange offer.

Please read Risk Factors beginning on page 8 for a discussion of factors you should consider before deciding whether to participate in the exchange offer.

Each broker-dealer that receives the exchange notes for its own account pursuant to this exchange offer must acknowledge by way of the letter of transmittal that it will deliver a prospectus in connection with any resale of the exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, such broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of the exchange notes received in exchange for outstanding notes where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. Until March 25, 2013 all dealers that effect transactions in the exchange notes, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters with respect to their unsold allotments or subscriptions. We have agreed that, until August 11, 2013, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

YOU SHOULD READ THIS ENTIRE DOCUMENT AND THE ACCOMPANYING LETTER OF TRANSMITTAL AND RELATED DOCUMENTS AND ANY AMENDMENTS OR SUPPLEMENTS CAREFULLY BEFORE MAKING YOUR DECISION TO PARTICIPATE IN THE EXCHANGE OFFER.

The date of this prospectus is February 6, 2013.

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This prospectus is part of a registration statement we filed with the SEC. In making your decision whether to participate in this exchange offer, you should rely only on the information contained in or incorporated by reference into this prospectus and in the letter of transmittal accompanying this prospectus. We have not authorized any other person to provide you with additional or different information. If you receive any unauthorized information, you must not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus or in the documents incorporated by reference into this prospectus is accurate as of any date other than the date on the front cover of this prospectus or the date of such incorporated documents, as the case may be.

This prospectus incorporates by reference business and financial information about us that is not included in or delivered with this prospectus. This information is available without charge upon written or oral request directed to: Saratoga Resources, Inc., Attention: Investor Relations, 7500 San Felipe, Suite 675, Houston, Texas 77063; telephone number: (713) 458-1560.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements give our current expectations or forecasts of future events. These statements can be identified by the use of forward-looking words, including may, expect, anticipate, plan, project, believe, estimate, intend, will similar words. Forward-looking statements may include statements that relate to, among other things, our:

- forward-looking reserve estimates;
- financial position;
- business strategy and budgets;
- anticipated capital expenditures;
- drilling of wells;
- oil and natural gas reserves;
- timing and amount of future production of oil and natural gas;
- operating costs and other expenses;
- cash flow and anticipated liquidity;
- prospect development; and
- property acquisitions and sales.

Although we believe the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will occur. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from future results expressed or implied by the forward-looking statements. These factors include among others:

- general economic conditions;
- our inability to prevent significant net losses;
- recovery of proved undeveloped reserves;
- our ability to generate sufficient cash flow to service our debt obligations;
- our ability to finance capital expenditures;
- price volatility and low and/or declining prices for oil and natural gas;
- regulation of derivatives and our ability to successfully hedge our commodity risk;
- changes in favorable tax legislation;
- operating hazards attendant to the oil and natural gas business, such as natural conditions affecting the geographic region and mechanical failures;
- uncertainties in the estimation of proved reserves and in the projection of future rates of production;
- ability to find, acquire, market, develop and produce new oil and natural gas properties;
- strength and financial resources of competitors;
- availability and cost of material and equipment;
- our ability to achieve and manage our growth;

actions or inactions of third-party operators of our properties;

down hole drilling and completion risks that are generally not recoverable from third parties or insurance;

federal and state regulatory developments and approvals;

environmental risks;

ability to find and retain skilled personnel;

work stoppages and other personnel-related issues;

risks associated with decommissioning wells; and

our ability to acquire or renew permits and approvals for operations.

Other factors described herein or incorporated by reference, or factors that are unknown or unpredictable, could also have a material adverse effect on future results. Please read Risk Factors beginning on page 8 of this prospectus.

For these and other reasons, actual results may differ materially from those projected or implied. We believe it is important to communicate our expectations of future performance to our investors. However, events may occur in the future that we are unable to accurately predict, or over which we have no control. We caution you against putting undue reliance on forward-looking statements or projecting any future results based on such statements.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section and any other cautionary statements that may accompany such forward-looking statements. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events, unless the securities laws require us to do so.

SUMMARY

This summary highlights selected information about us, but does not contain all the information that may be important to you. This prospectus includes specific information about the exchange offer and incorporates by reference information about our business and financial data. You should read this prospectus carefully, including the matters set forth under the caption Risk Factors and the information incorporated by reference in this prospectus before making a decision whether to participate in the exchange offer.

In this prospectus, except under the caption Description of the Exchange Notes and unless the context indicates otherwise, references to Saratoga, the Company, we , our and us refer to Saratoga Resources, Inc. and its subsidiaries. For more information about the industry terms used in this prospectus, please read Glossary of Oil and Natural Gas Terms in our Current Report on Form 8-K filed September 23, 2011.

Our Company

We are an independent oil and natural gas company engaged in the production, development, acquisition and exploitation of crude oil and natural gas properties. Our properties are located exclusively in the transitional coastline in protected in-bay environments on parish and state leases in south Louisiana. The properties span 12 fields which are characterized by over 30 years of development drilling and production history, including Grand Bay field which has over 70 years of production history and over 258 MMBoe produced to date, yet remains virtually unexplored at depths greater than 15,000 feet. We believe the quality and location of our properties reduce our development risk and promote operating efficiencies which help to reduce our lifting costs. Our properties, the majority of which were acquired in July 2008, cover an estimated 32,185 gross/net acres and substantially all are held by production (HBP) without near-term lease expirations. We do not hold, nor do we conduct operations in, any properties in the Gulf of Mexico that are subject to the oversight of the U.S. Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). Instead, our properties are subject to regulation by the Louisiana Department of Natural Resources and other state and parish governmental bodies.

Corporate Information

Our principal executive offices are located at 7500 San Felipe, Suite 675, Houston, Texas 77063. We can be reached at (713) 458-1560, and our website address is *www.saratogaresources.com*. Information on our website is not part of this prospectus.

The Exchange Offer

On December 4, 2012, we completed a private offering of $25.0 million aggregate principal amount of the outstanding notes. As part of this private offering, we entered into a registration rights agreement with the initial purchaser of the outstanding notes in which we agreed, among other things, to use our commercially reasonable efforts to complete the exchange offer no later than 150 days after December 4, 2012. The following is a summary of the exchange offer.

Outstanding Notes	On December 4, 2012, we issued $25.0 million aggregate principal amount of 12.5% Senior Secured Notes due 2016. We previously issued $127.5 million aggregate principal amount of notes on July 12, 2011, referred to herein as the original issuance notes . The original issuance notes and the notes issued in December 2012 will be treated as a single class for all purposes under the indenture governing the same, including without limitation, waivers, amendments, redemptions and offers to purchase. Following the December 2012 offering, the aggregate principal amount of our 12½% Senior Secured Notes due 2016 was $152.5 million.
Exchange Notes	12.5% Senior Secured Notes due 2016. The terms of the exchange notes are identical to the terms of the outstanding notes, except that the transfer restrictions, registration rights and provisions for additional interest relating to the outstanding notes will not apply to the exchange notes.
Exchange Offer	We are offering to exchange up to $25.0 million principal amount of our 12.5% Senior Secured Notes due 2016 that have been registered under the Securities Act of 1933, or the Securities Act, for an equal amount of our outstanding 12.5% Senior Secured Notes due 2016 issued on December 4, 2012 to satisfy our obligations under the registration rights agreement that we entered into when we issued the outstanding notes in a transaction exempt from registration under the Securities Act.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on March 15, 2013, unless we extend it.
Conditions to the Exchange Offer	The registration rights agreement does not require us to accept outstanding notes for exchange if the exchange offer or the making of any exchange by a holder of the outstanding notes would violate any applicable law or SEC policy. There is no condition to the exchange offer that a minimum aggregate principal amount of outstanding notes be tendered. Please read The Exchange Offer Conditions to the Exchange Offer for more information about the conditions to the exchange offer.

Procedures for Tendering Outstanding Notes	All of the outstanding notes are held in book-entry form through the facilities of The Depository Trust Company, or DTC. To participate in the exchange offer, you must follow the automatic tender offer program, or ATOP, procedures established by DTC for tendering notes held in book-entry form. The ATOP procedures require that the exchange agent receive, prior to the expiration date of the exchange offer, a computer-generated message known as an agent s message that is transmitted through ATOP and that DTC confirm that: DTC has received instructions to exchange your notes; and you agree to be bound by the terms of the letter of transmittal in Annex A hereto. For more details, please read The Exchange Offer Terms of the Exchange Offer and The Exchange Offer Procedures for Tendering.
Guaranteed Delivery Procedures	None.

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Withdrawal of Tenders	You may withdraw your tender of outstanding notes at any time prior to the expiration date. To withdraw, you must submit a notice of withdrawal to the exchange agent using ATOP procedures before 5:00 p.m., New York City time, on the expiration date of the exchange offer. Please read The Exchange Offer Withdrawal of Tenders.
Acceptance of Outstanding Notes and Delivery of Exchange Notes	If you fulfill all conditions required for proper acceptance of outstanding notes, we will accept any and all outstanding notes that you properly tender in the exchange offer before 5:00 p.m., New York City time, on the expiration date. We will return to you any outstanding note that we do not accept for exchange without expense promptly after the expiration date. We will deliver the exchange notes promptly after the expiration date. Please read The Exchange Offer Terms of the Exchange Offer.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes. We are making the exchange offer solely to satisfy our obligations under the registration rights agreement.
Consequences of Failure to Exchange Outstanding Notes	If you do not exchange your outstanding notes in the exchange offer, you will no longer be able to require us to register the outstanding notes under the Securities Act, except in the limited circumstances provided under our registration rights agreement. In addition, you will not be able to resell, offer to resell or otherwise transfer the outstanding notes unless we have registered the outstanding notes under the Securities Act, or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act.
Material U.S. Federal Income Tax Considerations	We believe that the exchange of exchange notes for outstanding notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes. Please read Material U.S. Federal Income and Estate Tax Considerations.
Exchange Agent	We have appointed The Bank of New York Mellon Trust Company, N.A. as the exchange agent for the exchange offer. You should direct questions and requests for assistance and requests for additional copies of this prospectus (including the letter of transmittal) to the exchange agent addressed as follows:

The Bank of New York Mellon Trust Company, N.A. as Exchange Agent
c/o The Bank of New York Mellon Corporation
Corporate Trust Operations   Reorganization Unit
111 Sanders Creek Parkway
East Syracuse, NY 13057
Attention: Dacia Brown-Jones
Telephone: (315) 414-3349
Facsimile: (732) 667-9408

Terms of the Exchange Notes

The exchange notes will be identical to the outstanding notes, except that the exchange notes will be registered under the Securities Act and will not have restrictions on transfer, registration rights or provisions for additional interest. The exchange notes will evidence the same debt as the outstanding notes, and the same indenture will govern the exchange notes and the outstanding notes. We refer to both the exchange notes, the outstanding notes, and the original issuance notes together as the notes.

The following summary contains basic information about the exchange notes and is not intended to be complete. It does not contain all the information that may be important to you. For a more complete understanding of the exchange notes, please read Description of the Exchange Notes.

Issuer	Saratoga Resources, Inc.
Notes Offered	\$25,000,000 aggregate principal amount of 12.5% senior secured notes due 2016.
Maturity Date	July 1, 2016.
Interest Rate	The exchange notes will bear interest at a rate of 12.5% per year.
Interest Payment Dates	January 1 and July 1 of each year to holders of record as of the preceding December 15 and June 15, respectively. The initial interest payment on the exchange notes will include all accrued and unpaid interest on the outstanding notes exchanged therefor. See Description of the Exchange Notes Principal, Maturity and Interest.
Guarantees	The exchange notes will be fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by each of our existing and future domestic subsidiaries, which we refer to in this prospectus as the guarantors.
Security Interest	The notes and the guarantees will be secured by liens on substantially all of our and the guarantors assets, subject to certain exceptions and permitted liens. Pursuant to the terms of an intercreditor agreement that we anticipate entering into should we establish a revolving credit facility in the future, we expect the liens on the collateral securing the notes and the guarantees will be contractually subordinated to the liens on the collateral securing any such revolving credit facility and certain

other permitted indebtedness. Under the terms of such intercreditor agreement, in the event of a foreclosure on the collateral or of insolvency proceedings, we expect that the holders of the notes will receive proceeds from the collateral only after obligations under any such revolving credit facility and certain other permitted indebtedness have been paid in full. See Description of the Exchange Notes Security.

Intercreditor Agreement	Pursuant to the indenture, we have the ability to incur indebtedness under a revolving credit facility. In the event we enter into a revolving credit facility in the future, we expect the administrative agent and the collateral agent under such revolving credit facility, on behalf of the secured parties thereunder and our hedging counterparty, and the collateral agent for the notes offered hereby, on behalf of the secured parties under the indenture governing the notes offered hereby, to enter into an intercreditor agreement, which will, among other things, define the relative priorities of their respective security interests in the assets securing the notes and certain other matters relating to the administration of security interests, exercise of remedies, certain bankruptcy-related provisions and other intercreditor matters. We expect any such intercreditor agreement to also provide that in the event of a foreclosure on the collateral or of insolvency proceedings, the holders of the notes and any other pari passu indebtedness will receive proceeds from the collateral only after obligations under such revolving credit facility and certain other permitted indebtedness have been paid in full.See Description of the Exchange Notes Intercreditor Agreement.
Ranking	The exchange notes will be our and the guarantors senior secured obligations. The exchange notes will:

- rank equal in right of payment with all of our and the guarantors existing and future senior indebtedness;
- rank senior in right of payment to all of our and the guarantors existing and future subordinated indebtedness;
- be effectively senior to all of our and the guarantors existing and future unsecured indebtedness to the extent of the value of the collateral securing such indebtedness;
- be effectively subordinated to our and the guarantors obligations under any revolving credit facility and any other future pari passu lien obligations to the extent of the value of the collateral securing such indebtedness; and
- be structurally junior to all existing and future indebtedness and other liabilities of each of our non-guarantor subsidiaries, if any.

Redemption of the Notes at Our Option	On or after January 1, 2014, we may redeem some or all of the notes at a premium that will decrease over time as set forth in Description of Notes Optional Redemption, plus accrued and unpaid interest, if any, to the date of redemption.
	Prior to January 1, 2014, we may, at our option, redeem up to 35% of the aggregate principal amount of the notes using the net proceeds of certain equity offerings at a price equal to 112.500% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption; provided that, following any and all such redemptions, at least 65% of the aggregate principal amount of the notes originally issued under the indenture remains outstanding and the redemption occurs within 60 days of the closing of such equity offering.
	In addition, at any time prior to January 1, 2014, we may, at our option, redeem all or a part of the notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the notes redeemed plus a specified make-whole premium, plus accrued and unpaid interest, if any, to the applicable date of redemption.
	In addition, during each twelve-month period commencing on July 12, 2011 and ending on or prior to January 1, 2014, we may redeem up to 10% of the aggregate principal amount of the notes at a redemption price equal to 106.250% of the principal amount thereof, plus accrued and unpaid interest to the redemption date. See Description of the Exchange Notes Optional Redemption.
Change of Control	If we experience certain kinds of changes of control (as defined in the indenture governing the notes), the holders of the notes will have the right to require us to purchase all or a portion of their notes at an offer price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. See Description of the Exchange Notes Repurchase at the Option of Holders Change of Control.
Asset Sale	Upon certain asset sales, we may be required to offer to use the net proceeds of an asset sale to purchase the notes at 100% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase. See Description of the Exchange Notes Repurchase at the Option of Holders Asset Sale.

Certain Covenants	The indenture governing the exchange notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to:

- transfer or sell assets or use asset sale proceeds;
- pay dividends or make distributions, redeem subordinated debt or make other restricted payments;
- make certain investments;
- incur or guarantee additional debt or issue preferred equity securities;
- issue or sell capital stock of certain subsidiaries;
- create or incur certain liens on our assets;
- incur dividend or other payment restrictions affecting our restricted subsidiaries;
- merge, consolidate or transfer all or substantially all of our assets;

	enter into certain transactions with affiliates;
	engage in a business other than a business that is the same or similar to our current business and reasonably related businesses; and
	take or omit to take any actions that would adversely affect or impair in any material respect the collateral securing the notes.
	These covenants are subject to a number of important exceptions and limitations and are described in more detail under Description of the Exchange Notes Certain Covenants.
Absence of a Public Market for the Notes	The exchange notes generally will be freely transferable, but will also be new securities for which there is currently no established market. We do not intend to make a trading market in the exchange notes after the exchange offer. Accordingly, a market for the exchange notes may not develop, or if one does develop, it may not provide adequate liquidity.
Global Notes	The exchange notes will be evidenced by one or more global notes deposited with the trustee as custodian for DTC. These global notes will be registered in the name of Cede & Co., as DTC s nominee.
Risk Factors	You should consider carefully all of the information set forth in this prospectus and incorporated by reference and, in particular, you should evaluate the risks described under Risk Factors in this prospectus and in our filings with the SEC before making a decision whether to participate in the exchange offer.
No Listing of the Notes	We do not intend to apply to list the notes on any securities exchange.
Trustee and Exchange Agent	The Bank of New York Mellon Trust Company, N.A.

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RISK FACTORS

You should consider carefully the risks discussed below as well as those described in our Annual Report on Form 10-K for the year ended December 31, 2011 and in our other filings with the SEC before making a decision whether to participate in the exchange offer. Additional risks and uncertainties described elsewhere in this prospectus or in the documents incorporated by reference in this prospectus may also adversely affect our business, operating results, financial condition and prospects, as well as the value of the exchange notes.

If any of the following risks actually were to occur, our business, financial condition, results of operations or cash flow could be affected materially and adversely. In that case, you could lose all or part of your investment in or fail to achieve the expected return on the notes.

Risks Related to the Exchange Offer

If you fail to exchange outstanding notes, existing transfer restrictions will remain in effect and the market value of outstanding notes may be adversely affected because they may be more difficult to sell.

If you fail to exchange outstanding notes for exchange notes under the exchange offer, you will continue to be subject to the existing transfer restrictions on your outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except in connection with this exchange offer or as required by the registration rights agreement, we do not intend to register resales of the outstanding notes.

Any tenders of outstanding notes under the exchange offer will reduce the principal amount of the currently outstanding notes. Due to the corresponding reduction in liquidity, this may have an adverse effect upon, and increase the volatility of, the market price of any currently outstanding notes that you continue to hold following completion of the exchange offer.

Risks Related to the Notes

The forward-looking production estimates presented in this prospectus will differ from our actual results.

The forward-looking production estimates we have included in this prospectus are based upon a number of assumptions and on information that we believe are reliable as of today. However, these forward-looking production estimates and assumptions are inherently subject to significant business and economic uncertainties, many of which are beyond our control. These forward-looking production estimates are necessarily speculative in nature, and you should expect that some or all of the assumptions will not materialize. Actual results will vary from the forward-looking production estimates and the variations will likely be material and are likely to increase over time. Consequently, the inclusion of these forward-looking production estimates in this prospectus should not be regarded as a representation by us or any other person that the forward-looking production estimates will actually be achieved. Moreover, we do not intend to update or otherwise revise these forward-looking production estimates to reflect events or circumstances after the date of this prospectus to reflect the occurrence of unanticipated events. You are cautioned not to place undue reliance on the forward-looking production estimates.

Our forward-looking production estimates were not prepared with a view toward compliance with published guidelines of the SEC, the American Institute of Certified Public Accountants, the Society of Petroleum Engineers, the World Petroleum Congress or any other regulatory or professional body or generally accepted accounting principles. No independent accountants or independent petroleum engineers compiled or examined the forward-looking production estimates, and accordingly no independent accountant or independent petroleum engineer has expressed an opinion or any other form of assurances with respect thereto or has assumed any responsibility for the forward-looking production estimates. Further, our independent petroleum engineers made different assumptions when calculating our respective proved reserve estimates. As a result, our forward-looking production estimates may not accurately portray our proved reserves in the future.

Our leverage and debt service obligations may adversely affect our cash flow and our ability to make payments on the notes.

We have a substantial amount of debt currently outstanding. As of September 30, 2012, on an as adjusted basis after giving effect to the issuance of the outstanding notes, we would have had approximately $152.5 million of debt outstanding.

Our substantial level of indebtedness could have important consequences to you, including the following:

- it may make it difficult for us to satisfy our obligations under the notes, our other indebtedness and contractual and commercial commitments;
- we must use a substantial portion of our cash flow from operations to pay interest on the notes and our other indebtedness, which will reduce the funds available to us for other purposes;
- our ability to obtain additional debt financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be limited;
- our flexibility in reacting to changes in the industry may be limited and we could be more vulnerable to adverse changes in our business or economic conditions in general; and
- we may be at a competitive disadvantage to those of our competitors who operate on a less leveraged basis.

Furthermore, we expect all of our borrowings under any new revolving credit facility we enter into in the future to bear interest at variable rates. If these rates were to increase significantly, our ability to borrow additional funds may be reduced, our interest expense would significantly increase and the risks related to our substantial indebtedness would intensify.

While we expect to enter into a new revolving credit facility in the future, we do not currently have any financing commitment from any lender to provide a revolving credit facility. The lack of a revolving credit facility or other working capital facility may substantially limit our liquidity. We may not have sufficient revenue or cash on hand to maintain current operations or respond to changing business conditions. There can be no assurance that we will be successful in negotiating a new revolving credit facility or that the terms will be commercially reasonable or customary.

Despite current indebtedness levels, we may still be able to incur substantially more debt, which would increase the risks associated with our substantial leverage.

Even with our existing debt levels, we and our subsidiaries may be able to incur substantial additional indebtedness in the future. Although the indenture governing the notes contains, and the documentation governing any new revolving credit facility is expected to contain, restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If we incur additional indebtedness, the related risks that we now face would intensify and could further exacerbate the risks associated with our substantial leverage.

We may not be able to generate sufficient cash flow to meet our debt service and other obligations, including the notes, due to events beyond our control.

Our ability to generate cash flows from operations and to make scheduled payments on or refinance our indebtedness, including the notes, and to fund working capital needs and planned capital expenditures will depend on our future financial performance and our ability to generate cash in the future. Our future financial performance will be affected by a range of economic, financial, competitive, business and other factors that we cannot control, such as general economic and financial conditions in the oil and gas industry, the economy generally or other risks summarized here. A significant reduction in operating cash flows resulting from adverse changes in the oil and gas industry or general economic conditions, increased competition or other events beyond our control could increase the need for additional or alternative sources of liquidity and could have a material adverse effect on our business, financial condition, results of operations, prospects and our ability to service our debt and other obligations, including the notes. If we are unable to service our indebtedness or to fund our other liquidity needs, we may be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing our indebtedness, seeking additional capital, or any combination of the foregoing. If we raise additional debt, it would increase our interest expense, leverage and our operating and financial costs. We cannot assure you that any of these alternative strategies could be effected on satisfactory terms, if at all, or that they would yield sufficient funds to make required payments on the notes and any other indebtedness or to fund our other liquidity needs. Reducing or delaying capital expenditures or selling assets could delay future cash flows. In addition, the terms of the indenture governing the notes restricts, and the terms of any future debt agreements including the agreement governing any new revolving credit facility, may restrict us from adopting any of these alternatives. We cannot assure you that our business will generate sufficient cash flows from operations or that future borrowings will be available in an amount sufficient to enable us to pay our indebtedness, including these notes, or to fund our other liquidity needs.

The failure to generate sufficient cash flows or to effect any of these alternatives could significantly adversely affect the value of the notes and our ability to pay amounts due under the notes. If for any reason we are unable to meet our debt service and repayment obligations, including under the notes and under any new revolving credit facility, we would be in default under the terms of the agreements governing our indebtedness, which would allow our creditors at that time to declare all outstanding indebtedness to be due and payable. This would likely in turn trigger cross-acceleration or cross-default rights between our applicable debt agreements. Under these circumstances, our lenders could compel us to apply all of our available cash to repay our borrowings or they could prevent us from making payments on the notes. In addition, these lenders could then seek to foreclose on our assets that are their collateral. If the amounts outstanding under our indebtedness, including under the notes or under any new revolving credit facility, were to be accelerated, or were the subject of foreclosure actions, we cannot assure you that our assets would be sufficient to repay in full the money owed to our debt holders, including you as a noteholder.

In particular, we note that our production was shut in for approximately seventeen days during the 2012 third quarter due to Hurricane Isaac resulting in our loss of revenue during such period and our determination to defer certain planned drilling operations and, in turn, a delay in commencement of anticipated revenues from the delayed projects. There is no assurance that future disruptions in production will not occur resulting in lost cash flow and possible inability to service our debt.

We have a holding company structure in which our subsidiaries conduct our operations and own our operating assets.

We are a holding company and our subsidiaries conduct all of our operations and own all of our operating assets. We have no significant assets other than the limited liability company interests and other equity interests in our subsidiaries. As a result, our ability to make required payments on the notes will depend on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, applicable state laws and other laws and regulations. If we are unable to obtain the funds necessary to pay the principal amount of the notes, or to repurchase the notes upon the occurrence of a change of control, or if our subsidiaries are unable to satisfy their obligations as guarantors of the notes, we may be required to adopt one or more alternatives, such as a refinancing of the notes. We cannot assure you that we would be able to refinance the notes.

The indenture governing the notes imposes, and we expect that the agreement governing any new revolving credit facility will impose, significant operating and financial restrictions, which may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.

The indenture governing the notes contains, and we expect that the documentation governing any new revolving credit facility will contain, customary restrictions on our activities, including covenants that limit our and our restricted subsidiaries ability to:

- transfer or sell assets or use asset sale proceeds;
- incur or guarantee additional indebtedness or issue preferred equity securities;
- pay dividends, redeem subordinated indebtedness or make other restricted payments;
- make certain investments;

create or incur certain liens on our assets;

incur dividend or other payment restrictions affecting our restricted subsidiaries;

enter into certain transactions with affiliates;

merge, consolidate or transfer all or substantially all of our assets;

engage in a business other than a business that is the same or similar to our current business and reasonably related businesses; and

take or omit to take any actions that would adversely affect or impair in any material respect the collateral securing the notes.

In addition, we expect that any new revolving credit facility will require us to meet certain financial ratios, which may include fixed charge coverage, total leverage or other similar such ratios.

The restrictions in the indenture governing the notes prevents us, and the restrictions in the agreement governing any new revolving credit facility may prevent us, from taking actions that we believe would be in the best interest of our business, and may make it difficult for us to successfully execute our business strategy or effectively compete with companies that are not similarly restricted. We also may incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility. We cannot assure you that we will be granted waivers or amendments to these agreements if for any reason we are unable to comply with these agreements, or that we will be able to refinance our debt on terms acceptable to us, or at all. The breach of any of these covenants and restrictions could result in a default under the indenture governing the notes or under the agreement governing any new revolving credit facility. An event of default under any new revolving credit facility could permit some of our lenders to declare all amounts borrowed from them to be due and payable.

Our ability to repurchase the notes with cash upon a change of control or upon an offer to repurchase the notes in the case of an asset sale, as required by the indenture, may be limited.

Upon the occurrence of a change of control, as defined in the indenture governing the notes, we will be required to offer to repurchase all of the outstanding notes at 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest to the date of repurchase. See Description of the Exchange Notes Repurchase at the Option of Holders Change of Control. In addition, upon the occurrence of certain asset sales, as defined in the indenture governing the notes, we will be required to offer to repurchase all of the outstanding notes at 100% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest to the date of repurchase. See Description of the Exchange Notes Repurchase at the Option of Holders Asset Sales.

However, it is possible that we will not have sufficient funds at the time of the change of control or upon an asset sale to make the required repurchase of notes, or that restrictions in the agreement governing any new revolving credit facility will not allow such repurchases. Our failure to purchase tendered notes would constitute an event of default under the indenture governing the notes, which, in turn, would likely constitute a default under the agreement governing any new revolving credit facility. In that event, we would need to cure or refinance any new revolving credit facility before making an offer to purchase.

Moreover, the agreement governing any new revolving credit facility and the agreements governing any future indebtedness we incur may restrict our ability to repurchase the notes, including following a change of control event or upon an asset sale, as required by the indenture. As a result, following such an event, we would not be able to repurchase notes unless we first repay all such indebtedness or obtain a waiver from the holders of such indebtedness to permit us to repurchase the notes. We may be unable to repay all of that indebtedness or obtain a waiver of that type. Any requirement to offer to repurchase outstanding notes may therefore require us to refinance any other outstanding debt, which we may not be able to do on commercially reasonable terms, if at all. These repurchase requirements may also delay or make it more difficult for others to obtain control of us.

In addition, certain important corporate events, such as takeovers, recapitalizations, restructurings, mergers or similar transactions, may not constitute a change of control under the indenture governing the notes and, therefore, would not permit the holders of the notes to require us to repurchase the notes. See Description of the Exchange Notes Repurchase at the Option of Holders Change of Control.

In addition, the definition of change of control includes a phrase relating to the sale or other transfer of all or substantially all of the properties or assets of the company and its subsidiaries, taken as a whole. There is no precise definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of all or substantially all of the assets of the company, and, therefore, it may be unclear as to whether a change of control has occurred and whether the holders of the notes have the right to require us to repurchase such notes.

The notes are secured only to the extent of the value of the assets that have been granted as security for the notes and in the event that the security is enforced against the collateral, the holders of the notes will receive proceeds from the collateral only after obligations under any new revolving credit facility and certain other permitted indebtedness have been paid in full.

If we default on the notes, the holders of the notes will be secured only to the extent of the value of the assets underlying their security interest. Furthermore, upon enforcement against any collateral or insolvency, under the terms of the intercreditor agreement that we anticipate entering into, proceeds of such enforcement will first be used to pay obligations outstanding under any new revolving credit facility in full (including post-petition interest, whether or not allowable in any bankruptcy case) and certain other permitted indebtedness prior to paying the notes. See *The rights of holders of notes in the collateral may be adversely affected by the intercreditor agreement*.

The value of the noteholders security interest in the collateral may not be sufficient to satisfy all our obligations under the notes.

The notes and the guarantees of the notes are secured on a senior secured basis by a lien on the assets that secure our obligations under any new revolving credit facility, including accounts, chattel paper, instruments, letter of credit rights, documents, equipment, general intangibles, inventory, cash and deposit accounts, investment property, owned real property and proceeds of the foregoing, in each case, subject to certain permitted liens and certain excluded assets. See Description of the Exchange Notes Security.

If we default on the notes, the holders of the notes will be secured only to the extent of the value of the assets underlying their security interest. Furthermore, upon enforcement against any collateral or insolvency, under the terms of the intercreditor agreement that we anticipate entering into, proceeds of such enforcement will be used first to pay obligations outstanding under any new revolving credit facility in full (including post-petition interest, whether or not allowable in any bankruptcy case) and certain other permitted indebtedness and then to pay the notes. To prevent foreclosure, we may be motivated to commence voluntary bankruptcy proceedings, or the holders of the notes and/or various other interested persons may be motivated to institute bankruptcy proceedings against us. The commencement of such bankruptcy proceedings would expose the holders of the notes to additional risks, including additional restrictions on exercising rights against collateral. See *Rights of holders of notes in the collateral may be adversely affected by bankruptcy proceedings*.

Any new revolving credit facility will allow, and the indenture governing the notes allows, us to incur additional obligations secured by liens in amounts that may be significant. Any additional indebtedness or obligations secured by a lien on the collateral securing the notes could adversely affect the relative position of the holders of the notes with respect to the collateral securing the notes.

The collateral may be subject to exceptions, defects, encumbrances, liens and other imperfections. Further, the value of the collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers for the collateral. By its nature, some or all of the collateral may be illiquid and may have no readily ascertainable market value. The value of the assets pledged as collateral for the notes could be impaired in the future as a result of changing trends in the energy markets, economic conditions, our failure to implement our business strategy, competition or other future trends. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, no assurance can be given that the proceeds from any sale or liquidation of the collateral securing our obligations under any new revolving credit facility will be sufficient to pay our obligations under the notes, in full or at all, after first satisfying our obligations in full under any new revolving credit facility and certain other permitted indebtedness. There also can be no assurance that the collateral will be saleable, and, even if saleable, the timing of its liquidation would be uncertain.

In addition, we may not have liens perfected on all of the collateral securing the notes or, in some cases, such liens may not be perfected at all. To the extent certain security interests have not been previously granted, filed and/or perfected, a covenant in the indenture governing the notes requires us to do or cause to be done all things that may be required under applicable law, or that the trustee under the indenture governing the notes from time to time may reasonably request, to grant, preserve, protect and perfect the validity and priority of the security interest in the collateral. We cannot assure you that we will be able to perfect the security interests on a timely basis, and our failure to do so may result in a default under the indenture, any new revolving credit facility and the security documents.

Accordingly, there may not be sufficient collateral to pay all or any of the amounts due on the notes. Any claim for the difference between the amount, if any, realized by holders of the notes from the sale of the collateral securing the notes and the obligations under the notes will rank equally in right of payment with all of our other unsecured unsubordinated indebtedness and other obligations, including trade payables.

With respect to some of the collateral, the trustee s security interest and ability to foreclose is also limited by the need to meet certain requirements, such as obtaining third-party consents and making additional filings. If we are unable to obtain these consents or make these filings, the security interests may be invalid and the holders will not be entitled to the collateral or any recovery with respect thereto. We cannot assure you that any suc

Income tax expense

4,759

4,644

11,574

11,454

Net income

$
7,655

$
7,824

$
18,607

$
18,781

Other comprehensive income

Adjustments related to retirement plans; net of tax expense of $36 and $109 in 2015 and $50 and $150 in 2014.

$
59

$
82

$
175

$
244

Comprehensive income

$
7,714

$

7,906

$
18,782

$
19,025

Basic earnings per share:

Common Stock

$
0.34

$
0.35

$
0.83

$
0.84

Class A Common Stock

$
0.32

$
0.33

$
0.78

$
0.75

Diluted earnings per share:

Common Stock

$
0.34

$
0.34

$
0.81

$
0.82

Class A Common Stock

$
0.32

$
0.33

$
0.78

$
0.76

Cash dividends per share:

Common Stock

$
0.100

$
1.080

$
0.260

$
1.240

Class A Common Stock

$
0.095

$
1.025

$
0.245

$
1.175

See notes to these condensed consolidated financial statements.
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HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands – Unaudited)

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

See notes to these condensed consolidated financial statements.
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HAVERTY FURNITURE COMPANIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A – Business and Reporting Policies

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

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

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

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

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

NOTE B – Restricted Cash and Cash Equivalents

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

NOTE C – Investments

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

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

NOTE D – Accounts Receivable

Amounts financed under our in-house credit programs are less than 3.5% as a percent of net sales and are not significant. The in-house credit program selected most often by our customers is "12 months no interest with equal monthly payments." The terms of the other programs vary as to payment terms (30 days to three years) and interest rates (0% to 21%). The receivables are collateralized by the merchandise sold.

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. These receivable balances have been historically collected earlier than the scheduled dates. The amounts due per the scheduled payment dates approximate as follows: $6.4 million in one year, $0.6 million in two years, and $0.2 million beyond two years for receivables outstanding at September 30, 2015.

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

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

NOTE E – Interim LIFO Calculations

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

NOTE F – Fair Value of Financial Instruments

The fair values of our cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and customer deposits approximate their carrying values due to their short-term nature. The assets related to our self-directed, non-qualified deferred compensation plans for certain executives and employees are valued using quoted market prices multiplied by the number of shares held, a Level 1 valuation technique. The assets related to our deferred compensation plans totaled approximately $3.1 million at September 30, 2015 and $2.7 million at December 31, 2014 and are included in other assets. The related liability of the same amount is included in other liabilities.

NOTE G - Other income, net:

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

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NOTE H – Income Taxes

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

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

NOTE I – Pension Plans

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

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

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

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

	SERP Nine Months Ended September 30,		Pension Plan Nine Months Ended September 30,	
	2015	2014	2015	2014

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

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

NOTE J – Stock Based Compensation Plan

As more fully discussed in Note 12 of the notes to the consolidated financial statements in our 2014 Annual Report on Form 10-K, we have awards outstanding for Common Stock under stock-based employee compensation plans.
The following table summarizes our award activity during the nine months ended September 30, 2015:

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

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

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

NOTE K – Earnings Per Share

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

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

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

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

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

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

Net Sales

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

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

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

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

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

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

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

Gross Profit

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

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

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

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

Selling, General and Administrative Expenses

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

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

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

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

Interest Expense

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

Liquidity and Capital Resources

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

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We also have a $50.0 million revolving credit facility. Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was $48.7 million and there were no outstanding letters of credit at September 30, 2015. Amounts available are based on the lesser of the borrowing base of $48.7 million or the $50.0 million line amount and reduced by $6.2 million since a fixed charge coverage ratio test was not met for the immediately preceding twelve months, resulting in a net availability of $42.5 million. There were no borrowed amounts outstanding under the facility at September 30, 2015.

Summary of Cash Activities

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

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

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

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

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

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

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

Store Plans and Capital Expenditures

The following table summarizes our store activity in 2015.

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

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

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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

Forward-Looking Information

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

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

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

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

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

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

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Item 6. Exhibits

(a) Exhibits

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

Exhibit Number	Description of Exhibit (Commission File No. 1-14445)
3.1	Articles of Amendment and Restatement of the Charter of Haverty Furniture Companies, Inc. effective May 26, 2006 (Exhibit 3.1 to our Second Quarter 2006 Form 10-Q).
3.2	By-laws of Haverty Furniture Companies, Inc. as amended effective May 12, 2010 (Exhibit 3.2 to our First Quarter 2010 Form 10-Q).
*31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*32.1	Certification pursuant to 18 U.S.C. Section 1350.
*101	The following financial information from Haverty Furniture Companies, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at September 30, 2015, and December 31, 2014, (ii) Condensed Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014, and (iv) the Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

HAVERTY FURNITURE COMPANIES, INC.
(Registrant)

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

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

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