Advaxis, Inc.
Form S-1
August 31, 2012

File No. 333-[___]

As filed with the Securities and Exchange Commission on August 31, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ADVAXIS, INC.

(Exact name of registrant as specified in its charter)

Delaware	2836	02-0563870
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

305 College Road East

Princeton, New Jersey 08540

(609) 452-9813

(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

Mr. Thomas A. Moore

Chief Executive Officer

305 College Road East

Princeton, New Jersey 08540

(609) 452-9813

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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New York, New York 10166

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Approximate date of commencement of proposed sale to the public. From time to time after this Registration Statement becomes effective, as determined by the selling stockholder named in the prospectus contained herein.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box: x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering: ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering: ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company x

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	**Proposed maximum offering price per share**	Proposed maximum aggregate offering price	**Amount of registration fee**	
Common Stock, par value $0.001 per share	8,076,923 shares (2)	$ .061	(3) $492,692.30	$ 56.46	(3)
Common Stock, par value $0.001 per share, issuable upon conversion of convertible notes.	3,250,000 shares (4)	$ .061	(3) $ 198,250.00	$ 22.72	(3)
Total	11,326,923 shares	-	-	$ 79.18	

(1) Pursuant to Rule 416 under the Securities Act of 1933, as amended, this Registration Statement shall be deemed to cover the additional securities (i) to be offered or issued in connection with any provision of any securities purported to be registered hereby to be offered pursuant to terms which provide for a change in the amount of securities being offered or issued to prevent dilution resulting from stock splits, stock dividends or similar transactions and (ii) of the same class as the securities covered by this Registration Statement issued or issuable prior to completion of the distribution of the securities covered by this Registration Statement as a result of a split of, or a stock dividend on, the registered securities.

(2) Represents shares of the registrant's issued and outstanding common stock being registered for resale.

(3) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(c) of the Securities Act of 1933, as amended, based on the average of the high and low prices of the common stock of the registrant as reported on the OTC Bulletin Board on August 30, 2012.

(4) This Registration Statement covers the resale by our selling stockholder of up to 3,250,000 shares of common stock issuable upon conversion of the principal amount of a convertible promissory note (the "August 2012 Note").

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this

Registration Statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the commission, acting pursuant to section 8(a) may determine.

The information in this prospectus is not complete and may be changed. The selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting offers to buy these securities, in any state where the offer or sale of these securities is not permitted.

PROSPECTUS, SUBJECT TO COMPLETION, DATED AUGUST 31, 2012

ADVAXIS, INC.

11,326,923 Shares

Common Stock

This prospectus relates to the resale by the selling stockholder of up to 11,326,923 shares of our common stock, which were issued to JMJ Financial, including: (A) 4,000,000 shares of our common stock for the cancellation of (i) the outstanding notes issued by JMJ Financial to our company in April 2011, (ii) the outstanding notes issued by our company to JMJ Financial in April 2011, other than the portion of such notes for which JMJ Financial has paid cash to our company, and (iii) a mutual release of any claims held by our company or JMJ Financial relating to an outstanding dispute; (B) 4,076,923 shares of our common stock for the mutual release of any claims held by our company or JMJ Financial relating to our failure to file the registration statement related to the May 2012 issuance of 4,000,000 shares of our common stock to JMJ Financial and have the registration statement declared effective by certain prescribed deadlines, which, together with the transactions described in (A), we refer to as the JMJ transaction; and (C) 3,250,000 shares of common stock issuable upon conversion of the August 2012 Note issued to JMJ Financial on August 27, 2012, which we refer to as the August 2012 offering. The shares covered by this prospectus may be sold by the selling stockholder from time to time in the over-the-counter market or other national securities exchange or automated interdealer quotation system on which our common stock is then listed or quoted, through negotiated transactions at negotiated prices or otherwise at market prices prevailing at the time of sale.

The distribution of the shares by the selling stockholder is not subject to any underwriting agreement. We will receive none of the proceeds from the sale of shares by the selling stockholder. The selling stockholder identified in this prospectus will receive the proceeds from the sale of the shares. We will bear all expenses of registration incurred in connection with this offering, but all selling and other expenses incurred by the selling stockholder will be borne by the selling stockholder.

Our common stock is quoted on the Over-The-Counter Bulletin Board, or OTC Bulletin Board, under the symbol ADXS.OB. On August 30, 2012, the last reported sale price per share for our common stock as reported by the OTC Bulletin Board was $0.06.

Investing in our common stock involves a high degree of risk. We urge you to carefully consider the ''Risk Factors'' beginning on page 2.

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

The date of this prospectus is _____, 2012.

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ABOUT THIS PROSPECTUS

You should only rely on the information contained in this prospectus. We have not authorized anyone to give any information or make any representation about this offering that differs from, or adds to, the information in this prospectus or in its documents that are publicly filed with the SEC. Therefore, if anyone does give you different or additional information, you should not rely on it. The delivery of this prospectus does not mean that there have not been any changes in our condition since the date of this prospectus. If you are in a jurisdiction where it is unlawful to offer the securities offered by this prospectus, or if you are a person to whom it is unlawful to direct such activities, then the offer presented by this prospectus does not extend to you. This prospectus speaks only as of its date except where it indicates that another date applies.

Market data and certain industry forecasts used in this prospectus were obtained from market research, publicly available information and industry publications. We believe that these sources are generally reliable, but the accuracy and completeness of such information is not guaranteed. We have not independently verified this information, and we do not make any representation as to the accuracy of such information.

In this prospectus, the terms “we”, “us”, “our” and “our company” refer to Advaxis, Inc., a Delaware corporation, resulting from the reincorporation of our company from Colorado to Delaware described elsewhere in this prospectus (unless the context references such entity prior to the June 20, 2006 reincorporation from Colorado to Delaware, in which case it refers to the Colorado entity).

The name Advaxis is our trademark. Other trademarks and product names appearing in this prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

This summary highlights some important information from this prospectus, and it may not contain all of the information that is important to you. You should read the following summary together with the more detailed information regarding us and our common stock being sold in this offering, including "Risk Factors" and our financial statements and related notes, included elsewhere in this prospectus.

Our Company

We are a development stage biotechnology company with the intent to develop safe and effective immunotherapies for cancer and infectious diseases. These immunotherapies are based on a platform technology under exclusive license from the University of Pennsylvania, which we refer to as Penn, that utilizes live attenuated *Listeria monocytogenes*, which we refer to as *Listeria* or *Lm*, bioengineered to secrete antigen/adjuvant fusion proteins. These *Lm*-LLO strains use a fragment of the protein listeriolysin (LLO), fused to a tumor associated antigen (TAA) or other antigen of interest. We believe these *Lm*-LLO agents redirect the potent immune response to *Lm* which is inherent in humans, to the TAA or antigen of interest. The immune response to a live, metabolically competent pathogen is much more complex than the response to a synthetic or organic molecule and may enable a more comprehensive therapeutic outcome than current treatment modalities. We believe this to be a broadly enabling platform technology that can be applied to the treatment of many types of cancers and infectious diseases.

The discoveries that underlie this innovative technology are based upon the work of Yvonne Paterson, Ph.D., Professor of Microbiology at Penn. *Lm*-LLO based immunotherapies stimulate the immune system to induce antigen-specific anti-tumor immune responses involving both innate and adaptive arms of the immune system. In addition, this technology facilitates the immune response by altering the microenvironment of tumors to make them more susceptible to immune attack.

We have focused our initial development efforts on therapeutic immunotherapies targeting HPV-associated diseases: cervical intraepithelial neoplasia, which we refer to as CIN 2/3, recurrent or refractory cervical cancer, and head and neck cancer. In addition we have developed immunotherapies for prostate cancer, and HER2 expressing cancers (such as breast, gastric, bladder, brain, pancreatic and ovarian cancer) . Our lead drug candidates in clinical development are as follows:

Immunotherapy	Indication	Stage
ADXS-HPV	Cervical Cancer	**Phase 1** Company sponsored & completed in 2007 with 15 patients.

	Cervical Intraepithelial Neoplasia	**Phase 2** Company sponsored study, initiated in March 2010 in the US. The Company completed enrollment of the low-dose cohort in September 2011 (41 patients) and as of May 31, 2012 has enrolled 37/40 patients in the mid-dose cohort.
	Cervical Cancer	**Phase 2** Company sponsored study initiated in November 2010 in India in 110 Patients with recurrent or refractory cervical cancer. As of May 31, 2012, 109/110 patients have been dosed
	Cervical Cancer	**Phase 2** The Gynecologic Oncology Group (GOG) of the National Cancer Institute is conducting a study in 67 patients with recurrent or refractory cervical cancer which is currently open to enrollment. As of May 31, 2012, 6/67 patients have been dosed.
	Head & Neck Cancer	**Phase 1** The Cancer Research UK (CRUK) is funding a study of 45 patients with head & neck cancer at 3 UK sites. As of May 31, 2012, 2 patients have been enrolled.
ADXS-PSA	Prostate Cancer	**Phase 1** Company sponsored (timing to be determined).
ADXS-HER2	HER2 Expressing Cancer	**Phase 1** Company sponsored (timing to be determined).
ADXS-HER2	Canine Osteosarcoma	**Phase 1** Company sponsored study, initiated in July 2011 in the US.

We have sustained losses from operations in each fiscal year since our inception, and we expect these losses to continue for the indefinite future, due to the substantial investment in research and development. As of October 31, 2011 and April 30, 2012, we had an accumulated deficit of $35,531,740 and $41,687,622, respectively and shareholders' deficiency of $12,279,713 and $11,796,020, respectively.

To date, we have outsourced many functions of drug development including manufacturing and clinical trials management. Accordingly, the expenses of these outsourced services account for a significant amount of our accumulated loss. We cannot predict when, if ever, any of our immunotherapies will become commercially viable or approved by the United States Food and Drug Administration, which we refer to as the FDA. We expect to spend substantial additional sums on the continued administration and research and development of proprietary products and technologies, including conducting clinical trials for our immunotherapies, with no certainty that our immunotherapies will become commercially viable or profitable as a result of these expenditures.

We intend to continue devoting a substantial portion of our resources to the continued pre-clinical development and optimization of our platform technology so as to develop it to its full potential and to further identify appropriate new drug candidates. Specifically, we intend to conduct research relating to developing the next generations of our *Lm*-LLO based immunotherapies using new antigens of interest; improving the *Lm*-LLO based platform technology by developing new strains of *Listeria* which may be more suitable as live vaccine vectors; and continuing to develop the use of the LLO as a component of a fusion protein based immunotherapy. These activities may require significant financial resources, as well as areas of expertise beyond those readily available. In order to provide additional resources and capital, we may enter into research, collaborative or commercial partnerships, joint ventures, or other arrangements with competitive or complementary companies, including major international pharmaceutical companies or universities.

Recent Developments

August 2012 Note

On August 27, 2012, we issued a convertible promissory note in the aggregate principal amount of $100,000 to JMJ Financial, which we refer to as the August 2012 Note, for an aggregate purchase price of $100,000. There are no periodic payments of interest on the August 2012 Note. The August 2012 Note is initially convertible at a per share conversion price equal to $0.15. In addition, if the August 2012 Note is converted after November 30, 2012 and the market price of our common stock is less than $0.16 per share on the date of conversion, then the conversion price shall equal 95% of the average of the three lowest closing prices in the 15 trading days prior to the date of the conversion. The August 2012 Note matures on August 29, 2013. To the extent JMJ Financial does not elect to convert the August 2012 Note as described above, the principal amount of the August 2012 Note not so converted on or prior to the maturity date shall be payable in cash on the maturity date.

The August 2012 Note may be converted by JMJ Financial, at its option, in whole or in part. The August 2012 Note includes a limitation on conversion, which provides that at no time will JMJ Financial be entitled to convert any portion of the August 2012 Note, to the extent that after such conversion, JMJ Financial (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of our common stock as of such date.

Pursuant to the terms of the August 2012 Note, we agreed to include up to 3,250,000 shares of our common stock which may be issuable upon conversion of the August 2012 Note on the next registration statement that we filed with the Securities and Exchange Commission after the issuance date of the August 2012 Note.

JMJ August 2012 Settlement Agreement

On August 27, 2012, we entered into a settlement agreement with JMJ Financial pursuant to which we issued to JMJ Financial 4,076,923 shares of our common stock for the mutual release of any claims held by our company or JMJ Financial relating to our failure to file the registration statement related to the May 2012 issuance of 4,000,000 shares of our common stock to JMJ Financial and have the registration statement declared effective by certain prescribed deadlines.

Amendment to Certificate of Incorporation

On August 16, 2012, we filed a certificate of amendment to our amended and restated certificate of incorporation with the Delaware Secretary of State to increase the total number of authorized shares of capital stock available for issuance from 505,000,000, consisting of 500,000,000 shares of our common stock and 5,000,000 shares of "blank check" preferred stock, to 1,005,000,000, consisting of 1,000,000,000 shares of our common stock and 5,000,000 shares of "blank check" preferred stock. The certificate of amendment became effective upon filing.

Socius Stock Issuance

On July 24, 2012, the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida entered an Order Approving Stipulation for Settlement of Claim, which we refer to as the Order, in the matter titled Socius CG II, Ltd. v. Advaxis, Inc. The Order, together with the Stipulation for Settlement Claim, which we refer to as the Stipulation, provide for the full and final settlement of Socius's $2,888,860 claim against us in connection with past due invoices relating to clinical trial services, which we refer to as the Claim. Socius purchased the Claim against us from Numoda Corporation.

Pursuant to the terms of the Order and the Stipulation, we issued and delivered to Socius an aggregate of 12,029,148 shares of our common stock for one-half of the Claim and (ii) we issued and delivered to Socius 12,029,148 shares of our common stock for the remaining half of the Claim, which are subject to adjustment as described in the Stipulation.

July 2012 Note

On July 21, 2012, we received $250,000 from JLSI, LLC in return for issuing to JLSI, LLC a promissory note in the principal amount of $250,000, which we refer to as the JLSI Note. The JLSI Note bears interest at 33% per annum, compounded annually and matures on December 31, 2012. We may not redeem the JLSI Note without the written consent of JLSI.

July Warrant Exchange

On June 8, 2012, Thomas A. Moore, our Chief Executive Officer, waived our obligation to keep reserved from our authorized and available shares of common stock, such number of shares of our common stock necessary to effect the exercise or conversion, as applicable, in full, of (i) warrants to purchase an aggregate of 11,064,611 shares of our common stock and (ii) promissory notes convertible into 800,000 shares of our common stock. This waiver expired on August 16, 2012, the date that we filed an amendment to our certificate of incorporation with the Secretary of State of the State of Delaware to effect an increase to our authorized shares of common stock.

On July 5, 2012, in consideration for the waiver described above, we entered into an exchange agreement with Mr. Moore, with an effective date of June 8, 2012, pursuant to which Mr. Moore surrendered warrants to purchase an aggregate of approximately 11,064,611 shares of our common stock to us in exchange for receiving warrants to purchase an aggregate of approximately 11,064,611 shares of our common stock that were not exercisable and for which no shares of our common stock were reserved until we filed an amendment to our certificate of incorporation with the Secretary of State of the State of Delaware to effect an increase to our authorized shares of common stock. Mr. Moore also agreed pursuant to the exchange agreement not to convert the promissory notes convertible into 800,000 shares of our common stock until the Company filed on amendment to its certificate of incorporation with the Secretary of State of the State of Delaware to effect an increase to its authorized shares of common stock. In addition, certain of the warrants received in the exchange have an extended expiration date which is two years following the date we obtained stockholder approval to increase our authorized shares of common stock and filed an amendment to our certificate of incorporation. Also in July 2012, we entered into exchange agreements with certain additional holders of warrants to purchase shares of our common stock. After giving effect to these exchanges and the August 16, 2012 amendment to our amended and restated certificate of incorporation, there were warrants to purchase 89,178,770 shares of our common stock outstanding.

Stock Purchase Agreement

On June 13, 2012, we entered into a stock purchase agreement with Numoda Corporation, which we refer to as Numoda, pursuant to which we issued to Numoda 15 million shares of our common stock, which we refer to as the AR Cancellation Shares, at a purchase price per share of $0.15, in exchange for the immediate cancellation of $2,250,000 of accounts receivables owed by us to Numoda pursuant to the Master Agreement, dated June 19, 2009, between Numoda and us. Numoda has agreed not to sell the AR Cancellation Shares until July 3, 2012, twenty

calendar days from the closing of the transaction on June 13, 2012, which we refer to as the Lock-Up Period. During the Lock-Up Period, we have the option, in our sole discretion, to redeem up to 100% of the AR Cancellation Shares at a purchase price per share of $0.15. In connection with such issuance, we have also agreed to register the resale by Numoda of the AR Cancellation Shares with the SEC within thirty business days from the closing of the transaction on June 13, 2012.

May 2012 Note Financing

Effective May 14, 2012, we entered into a Note Purchase Agreement, which we refer to as the May 2012 purchase agreement, with certain accredited investors, whereby the investors acquired approximately $953,333 of our convertible promissory notes, which we refer to as the May 2012 Notes, for an aggregate purchase price of approximately $715,000 in a private placement, which we refer to as the May 2012 offering. The May 2012 Notes were issued with an original issue discount of 25%. Each investor paid $0.75 for each $1.00 of principal amount of May 2012 Notes purchased at the closing of the May 2012 offering, which took place on May 18, 2012. The May 2012 Notes are convertible into shares of our common stock, at a per share conversion price equal to $0.15. Additionally, each investor received a warrant, which we refer to as the May 2012 Warrants, to purchase such number of shares of our common stock equal to 50% of such number of shares of our common stock issuable upon conversion of the May 2012 Notes at an exercise price of $0.15 per share.

The May 2012 Notes mature on May 18, 2013. We may redeem the May 2012 Notes under certain circumstances. The May 2012 Warrants are exercisable at any time on or before May 18, 2017. The May 2012 Warrants may be exercised on a cashless basis under certain circumstances.

To the extent an investor does not elect to convert its May 2012 Notes as described above, the principal amount of the May 2012 Notes not so converted on or prior to the maturity date shall be payable in cash on the maturity date.

The May 2012 Notes may be converted by the investors, at the option of such investor, in whole or in part. However, except as otherwise provided in the May 2012 Notes, only 75% of the initial principal amount of each May 2012 Note is convertible prior to maturity. The May 2012 Notes and May 2012 Warrants include a limitation on conversion or exercise, which provides that at no time will an investor be entitled to convert any portion of the May 2012 Notes or exercise any of the May 2012 Warrants, to the extent that after such conversion or exercise, such investor (together with its affiliates) would beneficially own more than 4.99% of the outstanding shares of our common stock as of such date.

In connection with the May 2012 offering, we entered into a Registration Rights Agreement, dated as of May 18, 2012 with the investors. Pursuant to such agreement, we agreed with the investors to provide certain rights to register under the Securities Act of 1933, as amended, the shares of our common stock issuable upon any conversion of the May 2012 Notes and the exercise of the May 2012 Warrants, and agreed to file a registration statement within thirty business days of the closing of the May 2012 offering to register the offering of the shares of our common stock issuable upon conversion of the May 2012 Notes and the exercise of the May 2012 Warrants.

Rodman & Renshaw, LLC, which we refer to as Rodman, a subsidiary of Rodman & Renshaw Capital Group, Inc. (NASDAQ:RODM) acted as the exclusive placement agent in connection with the May 2012 offering and received compensation of a cash placement fee equal to $28,000 and May 2012 Warrants to purchase 355,556 shares of our common stock, which warrants are exercisable at $0.15 per share and shall expire on May 18, 2017.

May Note and Warrant Exchange

Effective May 14, 2012, we entered into exchange agreements with certain holders of an aggregate of approximately $4.5 million of outstanding principal amount of convertible promissory notes, which we refer to as the existing notes, originally issued either on May 12, 2011, October 31, 2011 or January 9, 2012, pursuant to which such holders received (i) an aggregate of approximately 52.2 million shares of our common stock, and (ii) warrants to purchase an aggregate of approximately 5.8 million shares of our common stock in exchange for (i) surrendering or converting the existing notes and surrendering warrants to purchase an aggregate of approximately 31.3 million shares of the our common stock originally issued in the prior offerings, and (ii) amending the note purchase agreements between the Company and the holders of the existing notes, dated as of May 9, 2011, October 28, 2011 or December 29, 2011, respectively, to terminate (x) the holders' right to liquidated damages if we fail for any reason to satisfy the current public information requirement under Rule 144(c) promulgated under the Securities Act of 1933, as amended, (y) the holders' right to participate in any proposed or intended issuance or sale or exchange of the our securities, and (z) the prohibition on our ability to effect, or enter into an agreement to effect, any issuance of our securities for cash consideration involving a variable rate transaction. The exchange agreements also provide that, for three months from

the date of the exchange agreements, if we offer, issue, or agree to issue any of our securities, other than Exempt Issuances (as defined in the exchange agreements), at an effective price per share less than the Base Share Price (as defined in the exchange agreements), then we shall issue additional shares of our common stock to each holder in accordance with the formula set forth in the exchange agreements.

The warrants to purchase an aggregate of approximately 5.8 million shares of our common stock are substantially identical to the surrendered warrants to purchase an aggregate of approximately 31.3 million shares of the our common stock originally issued in the prior offerings, except that the expiration date of the warrants to purchase an aggregate of approximately 5.8 million shares of our common stock has been extended for one additional year.

Effective May 14, 2012, holders of an aggregate of approximately $247,000 of existing notes issued on October 31, 2011 and/or January 9, 2012 entered into Amendment, Consent and Waiver Agreements with our company, pursuant to which such holders agreed to amend the note purchase agreements between our company and such holders, dated as of October 28, 2011 and/or December 29, 2011, to terminate (i) such holders' right to participate in any proposed or intended issuance or sale or exchange of our securities, and (ii) the prohibition on our ability to effect, or enter into an agreement to effect, any issuance of our securities for cash consideration involving a variable rate transaction.

Our History

We were originally incorporated in the State of Colorado on June 5, 1987 under the name Great Expectations, Inc. We were administratively dissolved on January 1, 1997 and reinstated on June 18, 1998 under the name Great Expectations and Associates, Inc. In 1999, we became a reporting company under the Securities Exchange Act of 1934, as amended. We were a publicly-traded "shell" company without any business until November 12, 2004 when we acquired Advaxis, Inc., a Delaware corporation, through a Share Exchange and Reorganization Agreement, dated as of August 25, 2004, which we refer to as the Share Exchange, by and among Advaxis, the stockholders of Advaxis and us. As a result of the Share Exchange, Advaxis became our wholly-owned subsidiary and our sole operating company. On December 23, 2004, we amended and restated our articles of incorporation and changed our name to Advaxis, Inc. On June 6, 2006, our shareholders approved the reincorporation of our company from Colorado to Delaware by merging the Colorado entity into our wholly-owned Delaware subsidiary. Our date of inception, for financial statement purposes, is March 1, 2002. Our statements of income and cash flows disclose our accumulated losses and net cash increases (decreases), respectively since inception.

Principal Executive Offices

Our principal executive offices are located at 305 College Road East, Princeton, New Jersey 08540 and our telephone number is (609) 452-9813. We maintain a website at www.advaxis.com which contains descriptions of our technology, our drugs and the trial status of each drug. The information on our website is not incorporated into this prospectus.

THE OFFERING

Shares of common stock offered by us	None
Shares of common stock which may be sold by the selling stockholder	A total of 11,326,923 shares of our common stock[(1)], including (i) 8,076,923 shares of our common stock issued in connection with the JMJ transaction and (ii) 3,250,000 shares of common stock issuable upon conversion of the principal amount of the August 2012 note.
Use of proceeds	We will not receive any proceeds from the resale of the shares of common stock offered by the selling stockholder as all of such proceeds will be paid to the selling stockholder.
Risk factors	The purchase of our

	common stock involves a high degree of risk. You should carefully review and consider the "Risk Factors" section of this prospectus for a discussion of factors to consider before deciding to invest in shares of our common stock.
OTC Bulletin Board market symbol	ADXS.OB

(1) These shares represent approximately 3.0% of our currently outstanding shares of common stock (based on 388,205,123 shares of common stock outstanding as of August 29, 2012). These shares also represent approximately 2.1% of our currently outstanding shares of common stock (based on 542,358,818 shares of common stock outstanding as of August 29, 2012) on a fully diluted basis (excluding Optimus warrants in the amount of 25,560,000).

RISK FACTORS

An investment in our common stock is highly speculative, involves a high degree of risk and should be made only by investors who can afford a complete loss of their investment. You should carefully consider, together with the other matters referred to in this prospectus, the following risk factors before you decide whether to buy our common stock.

Risks Related to our Business

We are a development stage company.

We are an early development stage biotechnology company with a history of losses and can provide no assurance as to future operating results. As a result of losses which will continue throughout our development stage, we may exhaust our financial resources and be unable to complete the development of our production. Our deficit will continue to grow during our drug development period.

We have sustained losses from operations in each fiscal year since our inception, and we expect losses to continue for the indefinite future, due to the substantial investment in research and development. As of October 31, 2011 and April 30, 2012, we had an accumulated deficit of $35,531,740 and $41,687,622, respectively and shareholders' deficiency of $12,279,713 and $11,796,020, respectively. We expect to spend substantial additional sums on the continued administration and research and development of proprietary products and technologies with no certainty that our immunotherapies will become commercially viable or profitable as a result of these expenditures.

As a result of our current lack of financial liquidity and negative stockholders equity, our auditors have expressed substantial concern about our ability to continue as a "going concern".

Our limited capital resources and operations to date have been funded primarily with the proceeds from public and private equity and debt financings, NOL and Research tax credits and income earned on investments and grants. Based on our currently available cash, we do not have adequate cash on hand to cover our anticipated expenses for the next 12 months. If we fail to raise a significant amount of capital, we may need to significantly curtail operations, cease operations or seek federal bankruptcy protection in the near future. These conditions have caused our auditors to raise substantial doubt about our ability to continue as a going concern. Consequently, the audit report prepared by our independent public accounting firm relating to our financial statements for the year ended October 31, 2011 included a going concern explanatory paragraph.

There can be no assurance that we will receive funding from Optimus in connection with the Series B preferred equity financing and if the average closing sale price of our common stock on each tranche notice date is less than $0.15 per share, we may not be able to require Optimus to purchase the entire $7.5 million of Series B preferred stock issuable under the Series B purchase agreement, as amended.

On July 19, 2010, we entered into a Series B preferred stock purchase agreement, which we refer to as the Series B purchase agreement, with Optimus Capital Partners, LLC, which we refer to as Optimus, which was subsequently amended on April 4, 2011. Pursuant to the Series B purchase agreement, Optimus remains obligated to purchase $2.84 million of our non-convertible, redeemable Series B preferred stock, which we refer to as our Series B preferred stock, at a price of $10,000 per share from time to time, subject to our ability to effect and maintain an effective registration statement for the remaining 25,610,038 shares underlying the warrants issued to an affiliate of Optimus in connection with the transaction. As of August 29, 2012, Optimus had purchased an aggregate of 466 shares of Series B preferred stock and remains obligated, from time to time until July 19, 2013, to purchase up to an additional 284 shares of Series B preferred stock, for an aggregate purchase price of $2,840,000, upon notice from us to Optimus, if certain conditions set forth in the Series B purchase agreement, as amended, are satisfied, including among other things that: (i) we must be in compliance with our SEC reporting obligations, (ii) our common stock must be quoted on an eligible trading market, (iii) a material adverse effect relating to, among other things, our results of operations, assets, business or financial condition must not have occurred since July 19, 2010, other than losses incurred in the ordinary course of business, (iv) we must not be in default under any material agreement, (v) Optimus and its affiliates must not own more than 9.99% of our outstanding common stock, and (vi) we must comply with certain other requirements set forth in the Series B purchase agreement, as amended. If we fail to comply with any of these requirements, Optimus will not be obligated to purchase our Series B preferred stock and we will not receive any funding from Optimus. Moreover, if we exercise our option to require Optimus to purchase our Series B preferred stock, and our common stock has a closing price of less than $0.15 per share on the trading day immediately preceding our delivery of the exercise notice, we may trigger at closing certain anti-dilution protection provisions in certain outstanding warrants that would result in an adjustment to the number and price of certain outstanding warrants.

In connection with our Series B preferred equity financing, we originally issued to an affiliate of Optimus a three-year warrant to purchase up to 40,500,000 shares of our common stock, at an initial exercise price of $0.25 per share, of which no shares of our common stock remain available to purchase. In connection with the amendment to the Series B purchase agreement, we subsequently issued to an affiliate of Optimus a three-year warrant to purchase up to an additional 25,560,000 shares of our common stock, at an initial exercise price of $0.15 per share. The warrants provide that on each tranche notice date under the Series B purchase agreement, as amended, (i) that portion of the warrants, in the aggregate, equal to 135% of the tranche amount will vest and become exercisable (and such vested portion may be exercised at any time during the exercise period on or after such tranche notice date) and (ii) the exercise price will be adjusted to the closing sale price of a share of our common stock on such tranche notice date. We are not permitted to deliver a tranche notice under the Series B purchase agreement, as amended, and require Optimus to purchase shares of Series B preferred stock if the number of registered shares underlying the warrant issued to the affiliate of Optimus is insufficient to cover the portion of the warrant that will vest and become exercisable in connection with such tranche notice. If the average closing sale price of our common stock on each tranche notice date is less than $0.15 per share, we may not be able to require Optimus to purchase the remaining $2.84 million of Series B preferred stock issuable under the Series B purchase agreement, as amended, without issuing additional warrant shares. We cannot assure you that we will be able to timely effect and maintain a registration statement for the remaining 25,560,000 warrant shares (or any additional warrant shares that may be necessary) so as to permit us to require Optimus to purchase the remaining $2,840,000 of Series B preferred stock under the Series B purchase agreement, as amended.

Our business will require substantial additional investment that we have not yet secured, and our failure to raise capital and/or pursue partnering opportunities will materially adversely affect our business, financial condition and results of operations.

We expect to continue to spend substantial amounts on research and development, including conducting clinical trials for our immunotherapies. However, we will not have sufficient resources to develop fully any new products or technologies unless we are able to raise substantial additional financing on acceptable terms, secure funds from new partners or consummate a preferred equity financing under the Series B purchase agreement, as amended. We cannot be assured that financing will be available at all. Our failure to raise a significant amount of capital in the near future, will materially adversely affect our business, financial condition and results of operations, and we may need to significantly curtail operations, cease operations or seek federal bankruptcy protection in the near future. Any additional investments or resources required would be approached, to the extent appropriate in the circumstances, in an incremental fashion to attempt to cause minimal disruption or dilution. Any additional capital raised through the sale of equity or convertible debt securities will result in dilution to our existing stockholders. No assurances can be given, however, that we will be able to achieve these goals or that we will be able to continue as a going concern.

We have significant indebtedness which may restrict our business and operations, adversely affect our cash flow and restrict our future access to sufficient funding to finance desired growth.

As of August 29, 2012, our total outstanding indebtedness was approximately $2.7 million, which included the face value of all our outstanding junior bridge notes in the amount of approximately $0.5 million, a note outstanding to our chief executive officer in the amount of approximately $0.4 million, debt acquired in October 2011 with a remaining aggregate principal amount of $50,000, debt acquired in January 2012 with a remaining aggregate principal amount of approximately $0.2 million, debt acquired in May 2012 with a remaining aggregate principal amount of approximately $1.0 million and debt acquired in July and August 2012 with a remaining aggregate principal balance at approximately $0.5 million. Approximately $1.0 million of the aggregate $2.7 million is due on May 18, 2013. Maturity dates for the remaining $1.7 million range between October 2011 and on or about September 30, 2014. Certain of our indebtedness contain restrictive covenants that limit our ability to issue certain types of indebtedness, which may prevent us from obtaining additional indebtedness on commercially reasonable terms, or at all. We dedicate a substantial portion of our cash to pay interest and principal on our debt. If we are not able to service our debt, we would need to refinance all or part of that debt, sell assets, borrow more money or sell securities, which we may not be able to do on commercially reasonable terms, or at all. In addition, our failure to timely repay (or extend) amounts due and owing under our outstanding junior bridge notes issued in October 2009 may trigger the anti-dilution protection provisions in substantially all of our warrants (other than the warrants issued to the affiliate of Optimus and to certain bridge note holders), in which case holders of our common stock will experience significant additional dilution.

The terms of our notes include customary events of default and covenants that restrict our ability to incur additional indebtedness. These restrictions and covenants may prevent us from engaging in transactions that might otherwise be considered beneficial to us. A breach of the provisions of our indebtedness could result in an event of default under our outstanding notes. If an event of default occurs under our notes (after any applicable notice and cure periods), the holders would be entitled to accelerate the repayment of amounts outstanding, plus accrued and unpaid interest. In the event of a default under our senior indebtedness, the holders could also foreclose against the assets securing such obligations. In the event of a foreclosure on all or substantially all of our assets, we may not be able to continue to operate as a going concern.

Our limited operating history does not afford investors a sufficient history on which to base an investment decision.

We commenced our *Lm*-LLO based immunotherapy development business in February 2002 and have existed as a development stage company since such time. Prior thereto we conducted no business. Accordingly, we have a limited operating history. Investors must consider the risks and difficulties we have encountered in the rapidly evolving vaccine and therapeutic biopharmaceutical industry. Such risks include the following:

- competition from companies that have substantially greater assets and financial resources than we have;
- need for acceptance of our immunotherapies;
- ability to anticipate and adapt to a competitive market and rapid technological developments;

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- amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;

- need to rely on multiple levels of complex financing agreements with outside funding due to the length of drug development cycles and governmental approved protocols associated with the pharmaceutical industry; and

- dependence upon key personnel including key independent consultants and advisors.

We cannot be certain that our strategy will be successful or that we will successfully address these risks. In the event that we do not successfully address these risks, our business, prospects, financial condition and results of operations could be materially and adversely affected. We may be required to reduce our staff, discontinue certain research or development programs of our future products and cease to operate.

We can provide no assurance of the successful and timely development of new products.

Our immunotherapies are at various stages of research and development. Further development and extensive testing will be required to determine their technical feasibility and commercial viability. Our success will depend on our ability to achieve scientific and technological advances and to translate such advances into licensable, FDA-approvable, commercially competitive products on a timely basis. Immunotherapies and vaccines that we may develop are not likely to be commercially available until five to ten or more years. The proposed development schedules for our immunotherapies may be affected by a variety of factors, including technological difficulties, clinical trial failures, regulatory hurdles, competitive products, intellectual property challenges and/or changes in governmental regulation, many of which will not be within our control. Any delay in the development, introduction or marketing of our products could result either in such products being marketed at a time when their cost and performance characteristics would not be competitive in the marketplace or in the shortening of their commercial lives. In light of the long-term nature of our projects, the unproven technology involved and the other factors described elsewhere in “Risk Factors,” there can be no assurance that we will be able to successfully complete the development or marketing of any new products.

Our research and development expenses are subject to uncertainty.

Factors affecting our research and development expenses include, but are not limited to:

- competition from companies that have substantially greater assets and financial resources than we have;

- need for acceptance of our immunotherapies;

- ability to anticipate and adapt to a competitive market and rapid technological developments;

- amount and timing of operating costs and capital expenditures relating to expansion of our business, operations and infrastructure;

- need to rely on multiple levels of outside funding due to the length of drug development cycles and governmental approved protocols associated with the pharmaceutical industry; and

- dependence upon key personnel including key independent consultants and advisors.

We are subject to numerous risks inherent in conducting clinical trials.

We outsource the management of our clinical trials to third parties. Agreements with clinical investigators and medical institutions for clinical testing and with other third parties for data management services, place substantial responsibilities on these parties which, if unmet, could result in delays in, or termination of, our clinical trials. For example, if any of our clinical trial sites fail to comply with FDA-approved good clinical practices, we may be unable to use the data gathered at those sites. If these clinical investigators, medical institutions or other third parties do not carry out their contractual duties or obligations or fail to meet expected deadlines, or if the quality or accuracy of the clinical data they obtain is compromised due to their failure to adhere to our clinical protocols or for other reasons, our clinical trials may be extended, delayed or terminated, and we may be unable to obtain regulatory approval for or successfully commercialize agents such as ADXS-HPV. We are not certain that we will successfully recruit enough patients to complete our clinical trials nor that we will reach our primary endpoints. Delays in recruitment, lack of clinical benefit or unacceptable side effects would delay or prevent the initiation of the Phase 3 trials of ADXS-HPV.

We or our regulators may suspend or terminate our clinical trials for a number of reasons. We may voluntarily suspend or terminate our clinical trials if at any time we believe they present an unacceptable risk to the patients enrolled in our clinical trials or do not demonstrate clinical benefit. In addition, regulatory agencies may order the temporary or permanent discontinuation of our clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements or that they present an unacceptable safety risk to the patients enrolled in our clinical trials.

Our clinical trial operations are subject to regulatory inspections at any time. If regulatory inspectors conclude that we or our clinical trial sites are not in compliance with applicable regulatory requirements for conducting clinical trials, we may receive reports of observations or warning letters detailing deficiencies, and we will be required to implement corrective actions. If regulatory agencies deem our responses to be inadequate, or are dissatisfied with the corrective actions we or our clinical trial sites have implemented, our clinical trials may be temporarily or permanently discontinued, we may be fined, we or our investigators may be precluded from conducting any ongoing or any future clinical trials, the government may refuse to approve our marketing applications or allow us to manufacture or market our products, and we may be criminally prosecuted.

The successful development of biopharmaceuticals is highly uncertain.

Successful development of biopharmaceuticals is highly uncertain and is dependent on numerous factors, many of which are beyond our control. Immunotherapies that appear promising in the early phases of development may fail to reach the market for several reasons including:

- Preclinical study results that may show the immunotherapy to be less effective than desired (e.g., the study failed to meet its primary objectives) or to have harmful or problematic side effects;

- Clinical study results that may show the immunotherapy to be less effective than expected (e.g., the study failed to meet its primary endpoint) or to have unacceptable side effects;

- Failure to receive the necessary regulatory approvals or a delay in receiving such approvals. Among other things, such delays may be caused by slow enrollment in clinical studies, length of time to achieve study endpoints, additional time requirements for data analysis, or Biologics License Application preparation, discussions with the FDA, an FDA request for additional preclinical or clinical data, or unexpected safety or manufacturing issues;

- Manufacturing costs, formulation issues, pricing or reimbursement issues, or other factors that make the immunotherapy uneconomical; and

- The proprietary rights of others and their competing products and technologies that may prevent the immunotherapy from being commercialized.

Success in preclinical and early clinical studies does not ensure that large-scale clinical studies will be successful. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. The length of time necessary to complete clinical studies and to submit an application for marketing approval for a final decision by a regulatory authority varies significantly from one immunotherapy to the next, and may be difficult to predict.

We must comply with significant government regulations.

The research and development, manufacture and marketing of human therapeutic and diagnostic products are subject to regulation, primarily by the FDA in the U.S. and by comparable authorities in other countries. These national agencies and other federal, state, local and foreign entities regulate, among other things, research and development activities (including testing in animals and in humans) and the testing, manufacturing, handling, labeling, storage, record keeping, approval, advertising and promotion of the products that we are developing. Noncompliance with applicable requirements can result in various adverse consequences, including delay in approving or refusal to approve product licenses or other applications, suspension or termination of clinical investigations, revocation of approvals previously granted, fines, criminal prosecution, recall or seizure of products, injunctions against shipping products and total or partial suspension of production and/or refusal to allow a company to enter into governmental supply contracts.

The process of obtaining requisite FDA approval has historically been costly and time-consuming. Current FDA requirements for a new human biological product to be marketed in the U.S. include: (1) the successful conclusion of preclinical laboratory and animal tests, if appropriate, to gain preliminary information on the product's safety; (2) filing with the FDA of an Investigational New Drug Application, which we refer to as an IND, to conduct human clinical trials for drugs or biologics; (3) the successful completion of adequate and well-controlled human clinical trials to establish the safety and efficacy of the investigational new drug for its recommended use; and (4) filing by a company and acceptance and approval by the FDA of a Biologic License Application, which we refer to as a BLA, for a biological investigational new drug, to allow commercial distribution of a biologic product. A delay in one or more of the procedural steps outlined above could be harmful to us in terms of getting our immunotherapies through clinical testing and to market.

We can provide no assurance that our investigational new drugs will obtain regulatory approval or that the results of clinical studies will be favorable.

In February 2006, we received permission from the appropriate governmental/regulatory agencies in Israel, Mexico and Serbia to conduct a Phase 1 clinical study of ADXS-HPV, our first *Lm*-LLO based immunotherapy targeting HPV16-E7 to determine safety and the maximum tolerated dose in patients with recurrent or refractory cervical cancer. The study was completed in the fiscal quarter ended January 31, 2008. The next step was to test ADXS-HPV in the U.S. which required the filing of an IND with the FDA. The filing included the required preclinical animal pharmacology and toxicology studies, manufacturing information, proposed clinical protocol and investigator information as well as the data generated from the Phase 1 study. Unlike the Phase 2 study patient population of late stage cervical cancer patients, the clinical protocol submitted in the IND proposed to evaluate the safety and efficacy of ADXS-HPV in healthy young patients with CIN 2/3, the pre-neoplastic stage of cervical cancer. On January 6, 2009 we received permission from the FDA to conduct the Phase 2 clinical trial and the trial was initiated in March 2010. However, even though we were allowed to initiate this trial, as with any investigational new drug under an IND, we are always at risk of a clinical hold. There can be delays in obtaining FDA or any other necessary regulatory approvals of any investigational new drug and failure to receive such approvals would have an adverse effect on the investigational new drug's potential commercial success and on our business, prospects, financial condition and results of operations. In addition, it is possible that an approved product may be found to be ineffective or unsafe due to conditions or facts which arise after development has been completed and regulatory approvals have been obtained. In this event, we may be required to withdraw such product from the market. To the extent that our success will depend on any regulatory approvals from governmental authorities outside of the U.S. that perform roles similar to that of the FDA, uncertainties similar to those stated above will also exist.

We rely upon patents to protect our technology. We may be unable to protect our intellectual property rights and we may be liable for infringing the intellectual property rights of others.

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technologies, including the *Lm*-LLO based immunotherapy platform technology, and the proprietary technology of others with whom we have entered into collaboration and licensing agreements.

As of August 29, 2012 we have 39 patents that have been issued and licenses for 39 patent applications that are pending (including the 23 patent applications obtained in May 2010 and 2 patent applications obtained in November 2011). We have licensed most of these patents and applications from Penn and we have obtained the rights to all future patent applications originating in the laboratories of Dr. Yvonne Paterson and Dr. Fred Frankel. Further, we rely on a combination of trade secrets and nondisclosure, and other contractual agreements and technical measures to protect our rights in the technology. We depend upon confidentiality agreements with our officers, employees, consultants, and subcontractors to maintain the proprietary nature of the technology. These measures may not afford us sufficient or complete protection, and others may independently develop technology similar to ours, otherwise avoid the confidentiality agreements, or produce patents that would materially and adversely affect our business, prospects, financial condition, and results of operations. Such competitive events, technologies and patents may limit

our ability to raise funds, prevent other companies from collaborating with us, and in certain cases prevent us from further developing our technology due to third party patent blocking rights.

We are aware of Aduro Biotech, a company comprised in part of former Cerus and Anza (two former biotech companies) employees that is investigating *Listeria* vaccines. We believe that through our exclusive worldwide license with Penn we have the earliest known and dominant patent positions in the U.S. and rest of world for the use of recombinant *Listeria monocytogenes* expressing fusion proteins or tumor antigens as an immunotherapy for the treatment of infectious diseases and cancer. We successfully defended our intellectual property by contesting a challenge made by Anza to our patent position in Europe on a claim not available in the U.S. The European Patent Office, which we refer to as the EPO, Board of Appeals in Munich, Germany has ruled in favor of The Trustees of Penn and its exclusive licensee Advaxis and reversed a patent ruling that revoked a technology patent that had resulted from an opposition filed by Anza. The ruling of the EPO Board of Appeals is final and cannot be appealed. The granted claims, the subject matter of which was discovered by Dr. Yvonne Paterson, scientific founder of Advaxis, are directed to the method of preparation and composition of matter of recombinant bacteria expressing tumor antigens for treatment of patients with cancer. Based on searches of publicly available databases, we do not believe that Anza, Aduro or any other third party owns any published *Listeria* patents or has any issued patent claims that might materially and adversely affect our ability to operate our business as currently contemplated in the field of recombinant *Listeria* monocytogenes. Additionally, our proprietary position is that the issued patents and licenses for pending applications restricts anyone from using plasmid based *Listeria* constructs, or those that are bioengineered to deliver antigens fused to LLO, ActA, or fragments of LLO or ActA.

We are dependent upon our license agreement with Penn; if we fail to make payments due and owing to Penn under our license agreement, our business will be materially and adversely affected.

Pursuant to the terms of our Second and Third Amendment Agreements with Penn, as amended, we have acquired exclusive worldwide licenses for an additional 25 patent applications related to our proprietary *Listeria* vaccine technology. As of August 29, 2012, we owed Penn approximately $482,000 in patent expenses (including licensing fees). We can provide no assurance that we will be able to make all payments due and owing thereunder, that such licenses will not be terminated or expire during critical periods, that we will be able to obtain licenses for other rights which may be important to us, or, if obtained, that such licenses will be obtained on commercially reasonable terms.

If we are unable to maintain and/or obtain licenses, we may have to develop alternatives to avoid infringing on the patents of others, potentially causing increased costs and delays in drug development and introduction or precluding the development, manufacture, or sale of planned products. Some of our licenses provide for limited periods of exclusivity that require minimum license fees and payments and/or may be extended only with the consent of the licensor. We can provide no assurance that we will be able to meet these minimum license fees in the future or that these third parties will grant extensions on any or all such licenses. This same restriction may be contained in licenses obtained in the future. Additionally, we can provide no assurance that the patents underlying any licenses will be valid and enforceable. To the extent any products developed by us are based on licensed technology, royalty payments on the licenses will reduce our gross profit from such product sales and may render the sales of such products uneconomical.

We have no manufacturing, sales, marketing or distribution capability and we must rely upon third parties for such.

We do not intend to create facilities to manufacture our products and therefore are dependent upon third parties to do so. We currently have agreements with Recipharm Cobra Biologics Limited, which we refer to as Recipharm Cobra, and Vibalogics GmbH for production of our immunotherapies for research and development and testing purposes. Our reliance on third parties for the manufacture of our drug substance, investigational new drugs and approved products creates a dependency that could severely disrupt our research and development, our clinical testing, and ultimately our sales and marketing efforts if the source of such supply proves to be unreliable or unavailable. If the contracted manufacturing source is unreliable or unavailable, we may not be able to manufacture clinical drug supplies of our immunotherapies, and our preclinical and clinical testing programs may not be able to move forward and our entire business plan could fail.

If we are unable to establish or manage strategic collaborations in the future, our revenue and drug development may be limited.

Our strategy includes eventual substantial reliance upon strategic collaborations for marketing and commercialization of ADXS-HPV, and we may rely even more on strategic collaborations for research, development, marketing and commercialization of our other immunotherapies. To date, we have not entered into any strategic collaborations with third parties capable of providing these services although we have been heavily reliant upon third party outsourcing for our clinical trials execution and production of drug supplies for use in clinical trials. In addition, we have not yet licensed, marketed or sold any of our immunotherapies or entered into successful collaborations for these services in order to ultimately commercialize our immunotherapies. Establishing strategic collaborations is difficult and time-consuming. Our discussion with potential collaborators may not lead to the establishment of collaborations on favorable terms, if at all. For example, potential collaborators may reject collaborations based upon their assessment of our financial, clinical, regulatory or intellectual property position. If we successfully establish new collaborations, these relationships may never result in the successful development or commercialization of our immunotherapies or the generation of sales revenue. To the extent that we enter into co-promotion or other collaborative arrangements, our product revenues are likely to be lower than if we directly marketed and sold any products that we may develop.

Management of our relationships with our collaborators will require:

- significant time and effort from our management team;
- coordination of our research and development programs with the research and development priorities of our collaborators; and
- effective allocation of our resources to multiple projects.

If we continue to enter into research and development collaborations at the early phases of drug development, our success will in part depend on the performance of our corporate collaborators. We will not directly control the amount or timing of resources devoted by our corporate collaborators to activities related to our immunotherapies. Our corporate collaborators may not commit sufficient resources to our research and development programs or the commercialization, marketing or distribution of our immunotherapies. If any corporate collaborator fails to commit sufficient resources, our preclinical or clinical development programs related to this collaboration could be delayed or terminated. Also, our collaborators may pursue existing or other development-stage products or alternative technologies in preference to those being developed in collaboration with us. Finally, if we fail to make required milestone or royalty payments to our collaborators or to observe other obligations in our agreements with them, our collaborators may have the right to terminate those agreements.

We may incur substantial liabilities from any product liability claims if our insurance coverage for those claims is inadequate.

We face an inherent risk of product liability exposure related to the testing of our immunotherapies in human clinical trials, and will face an even greater risk if the approved products are sold commercially. An individual may bring a liability claim against us if one of the immunotherapies causes, or merely appears to have caused, an injury. If we cannot successfully defend ourselves against the product liability claim, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for our immunotherapies;
- damage to our reputation;

- withdrawal of clinical trial participants;
- costs of related litigation;
- substantial monetary awards to patients or other claimants;
- loss of revenues;
- the inability to commercialize immunotherapies; and
- increased difficulty in raising required additional funds in the private and public capital markets.

We have insurance coverage on our clinical trials for each clinical trial site. We do not have product liability insurance because we do not have products on the market. We currently are in the process of obtaining insurance coverage and to expand such coverage to include the sale of commercial products if marketing approval is obtained for any of our immunotherapies. However, insurance coverage is increasingly expensive and we may not be able to maintain insurance coverage at a reasonable cost and we may not be able to obtain insurance coverage that will be adequate to satisfy any liability that may arise.

We may incur significant costs complying with environmental laws and regulations.

We and our contracted third parties will use hazardous materials, including chemicals and biological agents and compounds that could be dangerous to human health and safety or the environment. As appropriate, we will store these materials and wastes resulting from their use at our or our outsourced laboratory facility pending their ultimate use or disposal. We will contract with a third party to properly dispose of these materials and wastes. We will be subject to a variety of federal, state and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these materials and wastes. We may also incur significant costs complying with environmental laws and regulations adopted in the future.

If we use biological and hazardous materials in a manner that causes injury, we may be liable for damages.

Our research and development and manufacturing activities will involve the use of biological and hazardous materials. Although we believe our safety procedures for handling and disposing of these materials will comply with federal, state and local laws and regulations, we cannot entirely eliminate the risk of accidental injury or

contamination from the use, storage, handling or disposal of these materials. We do not carry specific biological or hazardous waste insurance coverage, workers compensation or property and casualty and general liability insurance policies which include coverage for damages and fines arising from biological or hazardous waste exposure or contamination. Accordingly, in the event of contamination or injury, we could be held liable for damages or penalized with fines in an amount exceeding our resources, and our clinical trials or regulatory approvals could be suspended or terminated.

We need to attract and retain highly skilled personnel; we may be unable to effectively manage growth with our limited resources.

As of August 29, 2012, we had 12 employees, all of which were full time employees. We do not intend to significantly expand our operations and staff unless we get adequate financing. If we receive such funding then our new employees may include key managerial, technical, financial, research and development and operations personnel who will not have been fully integrated into our operations. We will be required to expand our operational and financial systems significantly and to expand, train and manage our work force in order to manage the expansion of our operations. Our failure to fully integrate any new employees into our operations could have a material adverse effect on our business, prospects, financial condition and results of operations.

We operate under an agreement with AlphaStaff, a professional employment organization that provides us with payroll and human resources services. Our ability to attract and retain highly skilled personnel is critical to our operations and expansion. We face competition for these types of personnel from other technology companies and more established organizations, many of which have significantly larger operations and greater financial, technical, human and other resources than we have. We may not be successful in attracting and retaining qualified personnel on a timely basis, on competitive terms, or at all. If we are not successful in attracting and retaining these personnel, our business, prospects, financial condition and results of operations will be materially adversely affected. In such circumstances we may be unable to conduct certain research and development programs, unable to adequately manage our clinical trials and other products, and unable to adequately address our management needs. In addition, from time to time, we are unable to make payroll due to our lack of cash.

We depend upon our senior management and key consultants and their loss or unavailability could put us at a competitive disadvantage.

We depend upon the efforts and abilities of our senior executives, as well as the services of several key consultants, including Yvonne Paterson, Ph.D. The loss or unavailability of the services of any of these individuals for any significant period of time could have a material adverse effect on our business, prospects, financial condition and results of operations. We have not obtained, do not own, nor are we the beneficiary of, key-person life insurance.

Risks Related to the Biotechnology / Biopharmaceutical Industry

The biotechnology and biopharmaceutical industries are characterized by rapid technological developments and a high degree of competition. We may be unable to compete with more substantial enterprises.

The biotechnology and biopharmaceutical industries are characterized by rapid technological developments and a high degree of competition. Competition in the biopharmaceutical industry is based significantly on scientific and technological factors. These factors include the availability of patent and other protection for technology and products, the ability to commercialize technological developments and the ability to obtain governmental approval for testing, manufacturing and marketing. We compete with specialized biopharmaceutical firms in the U.S., Europe and elsewhere, as well as a growing number of large pharmaceutical companies that are applying biotechnology to their operations. Many biopharmaceutical companies have focused their development efforts in the human therapeutics area, including cancer. Many major pharmaceutical companies have developed or acquired internal biotechnology capabilities or made commercial arrangements with other biopharmaceutical companies. These companies, as well as academic institutions and governmental agencies and private research organizations, also compete with us in recruiting and retaining highly qualified scientific personnel and consultants. Our ability to compete successfully with other companies in the pharmaceutical field will also depend to a considerable degree on the continuing availability of capital to us.

We are aware of certain investigational new drugs under development or approved products by competitors that are used for the prevention, diagnosis, or treatment of certain diseases we have targeted for drug development. Various companies are developing biopharmaceutical products that have the potential to directly compete with our immunotherapies even though their approach to may be different. The biotechnology and biopharmaceutical industries are highly competitive, and this competition comes from both biotechnology firms and from major pharmaceutical companies, including companies like: Aduro Biotech, Agenus Inc., Bionovo Inc., Bristol-Myers Squibb, Celgene Corporation, Celldex Therapeutics, Dendreon Corporation, Inovio Pharmaceutical Inc., Oncolytics Biotech Inc., Oncothyreon Inc., et al.

We believe that our immunotherapies under development and in clinical trials will address unmet medical needs in the treatment of cancer. Our competition will be determined in part by the potential indications for which drugs are developed and ultimately approved by regulatory authorities. Additionally, the timing of market introduction of some of our potential products or of competitors' products may be an important competitive factor. Accordingly, the relative speed with which we can develop immunotherapies, complete preclinical testing, clinical trials and approval processes and supply commercial quantities to market is expected to be important competitive factors. We expect that competition among products approved for sale will be based on various factors, including product efficacy, safety, reliability, availability, price and patent position.

Risks Related to the Securities Markets and Investments in our Common Stock

The price of our common stock may be volatile.

The trading price of our common stock may fluctuate substantially. The price of our common stock that will prevail in the market after the sale of the shares of common stock by a selling stockholder may be higher or lower than the price you have paid, depending on many factors, some of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose part or all of your investment in our common stock. Those factors that could cause fluctuations include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in stock market prices and trading volumes of similar companies;
- actual or anticipated changes in our net loss or fluctuations in our operating results or in the expectations of securities analysts;
- the issuance of new equity securities pursuant to a future offering, including issuances of preferred stock pursuant to the Series B purchase agreement, as amended;
- general economic conditions and trends;
- major catastrophic events;
- sales of large blocks of our stock;
- significant dilution caused by the anti-dilutive clauses in our financial agreements;

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- departures of key personnel;
- changes in the regulatory status of our immunotherapies, including results of our clinical trials;
- events affecting Penn or any future collaborators;
- announcements of new products or technologies, commercial relationships or other events by us or our competitors;
- regulatory developments in the U.S. and other countries;
- failure of our common stock to be listed or quoted on the Nasdaq Stock Market, NYSE Amex Equities or other national market system;
- changes in accounting principles; and
- discussion of us or our stock price by the financial and scientific press and in online investor communities.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price, we may therefore be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

You may have difficulty selling our shares because they are deemed "penny stocks."

Our common stock is deemed to be "penny stock" as that term is defined in Rule 3a51-1, promulgated under the Exchange Act. Penny stocks are, generally, stocks:

- with a price of less than $5.00 per share;
- that are neither traded on a "recognized" national exchange nor listed on an automated quotation system sponsored by a registered national securities association meeting certain minimum initial listing standards; and

- of issuers with net tangible assets less than $2.0 million (if the issuer has been in continuous operation for at least three years) or $5.0 million (if in continuous operation for less than three years), or with average revenue of less than $6.0 million for the last three years.

Section 15(g) of the Exchange Act and Rule 15g-2 promulgated thereunder require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a "penny stock" for the investor's account. We urge potential investors to obtain and read this disclosure carefully before purchasing any shares that are deemed to be "penny stock."

Rule 15g-9 promulgated under the Exchange Act requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any "penny stock" to that investor. This procedure requires the broker-dealer to:

- obtain from the investor information about his or her financial situation, investment experience and investment objectives;

- reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has enough knowledge and experience to be able to evaluate the risks of "penny stock" transactions;

- provide the investor with a written statement setting forth the basis on which the broker-dealer made his or her determination; and

- receive a signed and dated copy of the statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives.

Compliance with these requirements may make it harder for investors in our common stock to resell their shares to third parties. Accordingly, our common stock should only be purchased by investors, who understand that such investment is a long-term and illiquid investment, and are capable of and prepared to bear the risk of holding our common stock for an indefinite period of time.

A limited public trading market may cause volatility in the price of our common stock.

Our common stock began trading on the OTC Bulletin Board on July 28, 2005 and is quoted under the symbol ADXS.OB. The quotation of our common stock on the OTC Bulletin Board does not assure that a meaningful, consistent and liquid trading market currently exists, and in recent years such market has experienced extreme price and volume fluctuations that have particularly affected the market prices of many smaller companies like us. Our common stock is thus subject to this volatility. Sales of substantial amounts of common stock, or the perception that such sales might occur, could adversely affect prevailing market prices of our common stock and our stock price may decline substantially in a short time and our stockholders could suffer losses or be unable to liquidate their holdings. Also there are large blocks of restricted stock that have met the holding requirements under Rule 144 that can be unrestricted and sold. Our stock is thinly traded due to the limited number of shares available for trading on the market thus causing large swings in price.

There is no assurance of an established public trading market.

A regular trading market for our common stock may not be sustained in the future. The effect on the OTC Bulletin Board of these rule changes and other proposed changes cannot be determined at this time. The OTC Bulletin Board is an inter-dealer, over-the-counter market that provides significantly less liquidity than the Nasdaq Stock Market. Quotes for stocks included on the OTC Bulletin Board are not listed in the financial sections of newspapers. As such, investors and potential investors may find it difficult to obtain accurate stock price quotations, and holders of our common stock may be unable to resell their securities at or near their original offering price or at any price. Market prices for our common stock will be influenced by a number of factors, including:

- the issuance of new equity securities pursuant to a future offering, including issuances of preferred stock pursuant to the Series B purchase agreement, as amended;
- changes in interest rates;
- significant dilution caused by the anti-dilutive clauses in our financial agreements;
- competitive developments, including announcements by competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- variations in quarterly operating results;

- change in financial estimates by securities analysts;
- the depth and liquidity of the market for our common stock;
- investor perceptions of our company and the technologies industries generally; and
- general economic and other national conditions.

We may not be able to achieve secondary trading of our stock in certain states because our common stock is not nationally traded.

Because our common stock is not listed for trading on a national securities exchange, our common stock is subject to the securities laws of the various states and jurisdictions of the U.S. in addition to federal securities law. This regulation covers any primary offering we might attempt and all secondary trading by our stockholders. If we fail to take appropriate steps to register our common stock or qualify for exemptions for our common stock in certain states or jurisdictions of the U.S., the investors in those jurisdictions where we have not taken such steps may not be allowed to purchase our stock or those who presently hold our stock may not be able to resell their shares without substantial effort and expense. These restrictions and potential costs could be significant burdens on our stockholders.

If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board, which would limit the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market.

Companies trading on the OTC Bulletin Board, such as us, must be reporting issuers under Section 12 of the Exchange Act, as amended, and must be current in their reports under Section 13, in order to maintain price quotation privileges on the OTC Bulletin Board. For our third quarter 2009 and fiscal year ended October 31, 2009, we were unable to file our respective quarterly report on Form 10-Q and annual report on Form 10-K in a timely manner, but we were able to make the filings and cure our compliance deficiencies with the OTC Bulletin Board within the grace period allowed by the OTC Bulletin Board. If we fail to remain current on our reporting requirements, we could be removed from the OTC Bulletin Board. As a result, the market liquidity for our securities could be severely adversely affected by limiting the ability of broker-dealers to sell our securities and the ability of stockholders to sell their securities in the secondary market. In addition, we may not be able to deliver a tranche notice to Optimus under the Series B purchase agreement.

Our internal control over financial reporting and our disclosure controls and procedures have been ineffective in the past, and may be ineffective again in the future, and failure to improve them at such time could lead to errors in our financial statements that could require a restatement or untimely filings, which could cause investors to lose confidence in our reported financial information, and a decline in our stock price.

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Our internal control over financial reporting and our disclosure controls and procedures have been ineffective in the past. We have taken steps to improve our disclosure controls and procedures and our internal control over financial reporting, and as of April 30, 2012, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures and internal control over financial reporting were effective. However, there is no assurance that our disclosure controls and procedures will remain effective or that there will be no material weaknesses in our internal control over financial reporting in the future. Additionally, as a result of the historical material weaknesses in our internal control over financial reporting and the historical ineffectiveness of our disclosure controls and procedures, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Our executive officers and directors can exert significant influence over us and may make decisions that do not always coincide with the interests of other stockholders.

As of August 29, 2012, our officers and directors and their affiliates, in the aggregate, beneficially own approximately 10.9% of the outstanding shares of our common stock. As a result, such persons, acting together, have the ability to substantially influence all matters submitted to our stockholders for approval, including the election and removal of directors, any merger, consolidation or sale of all or substantially all of our assets, an increase in the number of shares authorized for issuance under our stock option plans, and to control our management and affairs. Accordingly, such concentration of ownership may have the effect of delaying, deferring or preventing a change in or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would be beneficial to other stockholders.

Sales of additional equity securities may adversely affect the market price of our common stock and your rights in us may be reduced.

We expect to continue to incur drug development and selling, general and administrative costs, and to satisfy our funding requirements, we will need to sell additional equity securities, which may be subject to registration rights and warrants with anti-dilutive protective provisions. The sale or the proposed sale of substantial amounts of our common stock in the public markets may adversely affect the market price of our common stock and our stock price may decline substantially. Our stockholders may experience substantial dilution and a reduction in the price that they are able to obtain upon sale of their shares. Also, new equity securities issued may have greater rights, preferences or privileges than our existing common stock.

Additional authorized shares of common stock available for issuance may adversely affect the market.

We are authorized to issue 1,000,000,000 shares of our common stock. As of August 29, 2012, we had 388,205,123 shares of our common stock issued and outstanding, excluding shares issuable upon exercise of our outstanding warrants, options and convertible promissory notes. As of August 29, 2012, we had outstanding options to purchase 44,807,424 shares of our common stock at a weighted average exercise price of approximately $0.16 per share and outstanding warrants to purchase 89,178,771 shares of our common stock (excluding Optimus warrants in the amount of 25,560,000), with exercise prices ranging from $0.15 to $0.17 per share. To the extent the shares of common stock are issued, options and warrants are exercised or convertible promissory notes are converted, holders of our common stock will experience dilution. In addition, in the event of any future financing of equity securities or securities convertible into or exchangeable for, common stock, holders of our common stock may experience dilution. Moreover, the above-mentioned warrants to purchase our common stock are subject to “full ratchet” anti-dilution protection upon certain equity issuances below $0.15 per share (as may be further adjusted).

Shares eligible for future sale may adversely affect the market.

Sales of a significant number of shares of our common stock in the public market could harm the market price of our common stock. This prospectus covers 11,326,923 shares of common stock, including 3,250,000 shares of common stock issuable upon conversion of our outstanding August 2012 Note and 8,076,923 shares of our common stock; which represents approximately 2.1% of our outstanding shares of our common stock as of August 29, 2012, on a fully diluted basis. As additional shares of our common stock become available for resale in the public market pursuant to this offering, and otherwise, the supply of our common stock will increase, which could decrease its price. Some or all of the shares of common stock may be offered from time to time in the open market pursuant to Rule 144, and these sales may have a depressive effect on the market for our shares of common stock. In general, under Rule 144 as currently in effect, a non-affiliate of ours who has beneficially owned shares of our common stock for at least six months is entitled to sell his or her shares without any volume limitations, and an affiliate of ours can sell such number of shares within any three-month period as does not exceed the greater of 1% of the number of shares of our common stock then outstanding, which equaled approximately 3,882,051 shares as of August 29, 2012, or the average weekly trading volume of our common stock on the OTC Bulletin Board during the four calendar weeks preceding the filing of a notice on Form 144 with respect to that sale. Sales under Rule 144 by our affiliates are also subject to manner-of-sale provisions, notice requirements and the availability of current public information about us.

We are able to issue shares of preferred stock with rights superior to those of holders of our common stock. Such issuances can dilute the tangible net book value of shares of our common stock.

Our Amended and Restated Certification of Incorporation provides for the authorization of 5,000,000 shares of “blank check” preferred stock. Pursuant to our Amended and Restated Certificate of Incorporation, our board of directors is authorized to issue such “blank check” preferred stock with rights that are superior to the rights of stockholders of our common stock, at a purchase price then approved by our board of directors, which purchase price may be substantially lower than the market price of shares of our common stock, without stockholder approval. Such issuances can dilute the tangible net book value of shares of our common stock.

We do not intend to pay cash dividends.

We have not declared or paid any cash dividends on our common stock, and we do not anticipate declaring or paying cash dividends for the foreseeable future. Any future determination as to the payment of cash dividends on our common stock will be at our board of directors’ discretion and will depend on our financial condition, operating results, capital requirements and other factors that our board of directors considers to be relevant.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. These statements include, but are not limited to:

- statements as to the anticipated timing of clinical studies and other business developments;
- statements as to the development of new immunotherapies;
- expectations as to the adequacy of our cash balances to support our operations for specified periods of time and as to the nature and level of cash expenditures; and
- expectations as to the market opportunities for our immunotherapies, as well as our ability to take advantage of those opportunities.

These statements may be found in the sections of this prospectus titled “Prospectus Summary,” “Risk Factors,” “Management’s Discussion and Analysis and Results of Operations,” and “Description of our Business,” as well as in this prospectus generally. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in “Risk Factors” and elsewhere in this prospectus.

In addition, statements that use the terms “can,” “continue,” “could,” “may,” “potential,” “predicts,” “should,” “will,” “believe,” “plan,” “intend,” “estimate,” “anticipate,” “scheduled” and similar expressions are intended to identify forward-looking statements. All forward-looking statements in this prospectus reflect our current views about future events and are based on assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from future results expressed or implied by the forward-looking statements. Many of these factors are beyond our ability to control or predict. Forward-looking statements do not guarantee future performance and involve risks and uncertainties. Actual results will differ, and may differ materially, from projected results as a result of certain risks and uncertainties. The risks and uncertainties include, without limitation, those described under “Risk Factors” and those detailed from time to time in our filings with the SEC, and include, among others, the following:

- Our limited operating history and ability to continue as a going concern;
- Our ability to successfully develop and commercialize products based on our *Lm*-LLO based immunotherapy platform technology;

- A lengthy approval process and the uncertainty of FDA and other government regulatory requirements may have a material adverse effect on our ability to commercialize our applications;

- Clinical trials may fail to demonstrate the safety and effectiveness of our applications or therapies, which could have a material adverse effect on our ability to obtain government regulatory approval;

- The degree and nature of our competition;

- Our ability to employ and retain qualified employees; and

- The other factors referenced in this prospectus, including, without limitation, under the sections titled “Risk Factors,” “Management’s Discussion and Analysis and Results of Operations,” and “Description of our Business.”

These risks are not exhaustive. Other sections of this prospectus may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. These forward-looking statements are made only as of the date of this prospectus. Except for our ongoing obligation to disclose material information as required by federal securities laws, we do not intend to update you concerning any future revisions to any forward-looking statements to reflect events or circumstances occurring after the date of this prospectus.

USE OF PROCEEDS

We will not receive any proceeds from the resale of the shares of common stock offered by the selling stockholder as all of such proceeds will be paid to the selling stockholder.

MARKET PRICE OF AND DIVIDENDS ON OUR COMMON STOCK

AND RELATED STOCKHOLDER MATTERS

Since July 28, 2005, our common stock has been quoted on the OTC Bulletin Board under the symbol ADXS.OB. The following table shows, for the periods indicated, the high and low bid prices per share of our common stock as reported by the OTC Bulletin Board. These bid prices represent prices quoted by broker-dealers on the OTC Bulletin Board. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commissions, and may not represent actual transactions.

	Fiscal 2012		Fiscal 2011		Fiscal 2010	
	High	Low	High	Low	High	Low
First Quarter (November 1-January 31)	$0.19	$ 0.14	$0.16	$0.11	$0.19	$0.02
Second Quarter (February 1- April 30) (1)	$0.17	$ 0.11	$0.22	$0.11	$0.26	$0.12
Third Quarter (May 1 - July 31	$ 0.14	$ 0.07	$0.25	$0.14	$0.25	$0.17
Fourth Quarter (August 1 - October 31)	$0.08 (2)	$ 0.06(2)	$0.17	$0.13	$0.19	$0.10

(1) From March 1, 2011 through April 1, 2011, our common stock was traded on the OTCQB Market place, a new market for OTC-traded companies that are registered and current in their reporting obligations to the SEC or a U.S. banking or insurance regulator.

(2) Through August 30, 2012.

As of August 29, 2012, there were approximately 94 stockholders of record. Because shares of our common stock are held by depositaries, brokers and other nominees, the number of beneficial holders of our shares is substantially larger than the number of stockholders of record. Based on information available to us, we believe there are approximately 3,500 beneficial owners of our shares of our common stock in addition to the stockholders of record. On August 30, 2012, the last reported sale price per share for our common stock as reported by the OTC Bulletin Board was $0.06.

We have not declared or paid any cash dividends on our common stock, and we do not anticipate declaring or paying cash dividends for the foreseeable future. We are not subject to any legal restrictions respecting the payment of dividends, except that we may not pay dividends if the payment would render us insolvent. Any future determination as to the payment of cash dividends on our common stock will be at our board of directors' discretion and will depend on our financial condition, operating results, capital requirements and other factors that our board of directors considers to be relevant.

Holders of Series B preferred stock will be entitled to receive dividends, which will accrue in shares of Series B preferred stock on an annual basis at a rate equal to 10% per annum from the issuance date. Accrued dividends will be payable upon redemption of the Series B preferred stock or upon the liquidation, dissolution or winding up of our company. The Series B preferred stock ranks, with respect to dividend rights and rights upon liquidation:

- senior to our common stock and any other class or series of preferred stock (other than Series A preferred stock or any class or series of preferred stock that we intend to cause to be listed for trading or quoted on Nasdaq, NYSE Amex or the New York Stock Exchange);

- *pari passu* with any outstanding shares of our Series A preferred stock (none of which are issued and outstanding as of the date hereof); and

- junior to all of our existing and future indebtedness and any class or series of preferred stock that we intend to cause to be listed for trading or quoted on Nasdaq, NYSE Amex or the New York Stock Exchange.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Conditions and Results of Operations and other portions of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by the forward-looking information. Factors that may cause such differences include, but are not limited to, availability and cost of financial resources, product demand, market acceptance and other factors discussed in this prospectus under the heading "Risk Factors". This Management's Discussion and Analysis of Financial Conditions and Results of Operations should be read in conjunction with our financial statements and the related notes included elsewhere in this prospectus.

Overview

Advaxis is a development stage biotechnology company with the intent to develop safe and effective immunotherapies for cancer and infectious diseases. These immunotherapies are based on a platform technology under exclusive worldwide license from Penn that utilizes live attenuated *Listeria monocytogenes* bioengineered to secrete antigen/adjuvant fusion proteins. These *Lm*-LLO strains use a fragment of the protein listeriolysin (LLO), fused to a tumor associated antigen (TAA) or other antigen of interest. We believe these *Lm*-LLO agents redirect the potent immune response to Lm which are inherent in humans, to the TAA or antigen of interest. The immune response to a live, metabolically competent pathogen is much more complex than the response to a synthetic or organic molecule and may enable a more comprehensive therapeutic outcome than current treatment modalities. We believe this to be a broadly enabling platform technology that can be applied to the treatment of many types of cancers and infectious diseases.

We have no customers. Since our inception in 2002, we have focused our development efforts on understanding our technology and establishing a drug development pipeline that incorporates this technology into therapeutic immunotherapies (currently those targeting HPV-associated diseases (CIN 2/3, cervical cancer, head and neck cancer), prostate cancer, and HER2 expressing cancers (breast, gastric, bladder, brain, pancreatic and ovarian cancers). Although no immunotherapies have been commercialized to date, research and development and investment continues to be placed behind the pipeline and the advancement of this technology. Pipeline development and the further exploration of the technology for advancement entail risk and expense. We anticipate that our ongoing operational costs will increase significantly as we continue conducting our clinical development program.

The following factors, among others, could cause actual results to differ from those indicated in the above forward-looking statements: increased length and scope of our clinical trials, failure to recruit patients, increased costs related to intellectual property related expenses, increased cost of manufacturing and higher consulting costs. These factors or additional risks and uncertainties not known to us or that we currently deem immaterial may impair business

operations and may cause our actual results to differ materially from any forward-looking statement.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

We expect our future sources of liquidity to be primarily debt and equity capital raised from investors, as well as licensing fees and milestone payments in the event we enter into licensing agreements with third parties, and research collaboration fees in the event we enter into research collaborations with third parties.

If additional capital were raised through the sale of equity or convertible debt securities, the issuance of such securities would result in additional dilution to our existing stockholders. If we fail to raise a significant amount of capital, we may need to significantly curtail operations or cease operations in the near future. Any sale of our common stock or issuance of rights to acquire our common stock below $0.15 per share (as may be further adjusted) will trigger a significant dilution due to the anti-dilution protection provisions in certain of our outstanding warrants and debt instruments.

Plan of Operations

If we are successful in our financing plans we intend to use the majority of the proceeds to complete our two Phase 2 clinical trials of ADXS-HPV, our first *Lm*-LLO based immunotherapy targeting diseases associated with the Human Papilloma Virus, which we refer to as HPV. One trial is a 120 patient study in the U.S. in CIN 2/3, and the other trial is a 110 patient study in India in recurrent or refractory cervical cancer. We also anticipate using the funds to further our preclinical and clinical research and development efforts in developing immunotherapies in prostate cancer, HER2 expressing cancers (such as breast, gastric, bladder, brain, pancreatic and ovarian cancer) and for general and administrative activities.

During the next 24 months, our strategic focus will be to achieve the following goals and objectives:

- Complete our two Phase 2 clinical studies of ADXS-HPV in the treatment of CIN 2/3 and recurrent or refractory cervical cancer;

- Continue an additional Phase 2 clinical trial of ADXS-HPV in the treatment of advanced cervical cancer with the Gynecologic Oncology Group, which we refer to as the GOG, largely underwritten by the NCI;

- Continue to focus on our collaboration with the CRUK to carry out our Phase 1/2 clinical trial of ADXS-HPV in the treatment of head and neck cancer entirely underwritten by the CRUK;

- To support our Cooperative Research and Development Agreement with the NCI to understand the mechanisms of action of *Lm*-LLO based immunotherapies, to develop new constructs, and to advance them to clinical testing;

- Continue to further our structured collaboration with the University of British Columbia on innovative uses of *Listeria* constructs in infectious disease, parasitical disease and neonatal immunity;

- Continue to focus on our collaboration with the School of Veterinary Medicine at Penn to carry out our Phase 1 clinical trial of ADXS-HER2 in canine osteosarcoma;

- Continue to develop strategic and development collaborations with academic laboratories and potential commercial partners;

- Continue the development work necessary to bring ADXS-PSA for the treatment of prostate cancer into clinical trials, and initiate that trial provided that funding is available;

- Continue the development work necessary to bring ADXS-HER2 for the treatment of HER2 expressing cancers (such as breast, gastric, bladder, brain, pancreatic and ovarian cancer) into clinical trials, and initiate these trials when and if funding is available; and

- Continue the preclinical development of other immunotherapies, as well as continue research to expand our technology platform.

Our projected annual staff, overhead, laboratory and nonclinical expenses are estimated to be approximately $4.1 million starting in fiscal year beginning November 1, 2011. The cost of our Phase 2 clinical studies in therapeutic treatment of CIN 2/3 and recurrent and refractory cervical cancer is estimated to be approximately $11.2 million over the estimated 30 month period of the trial. While approximately $6 million has already been paid towards these costs, we must raise additional funds in order to complete the Phase 2 trials. If we can raise additional funds, we intend to commence the clinical work in prostate cancer and a HER2 expressing cancer in 2012. The timing and estimated costs of these projects are difficult to predict.

If the clinical progress continues to be successful and the value of our company increases, we may attempt to accelerate the timing of the required financing and, conversely, if the trial or trials are not successful we may slow our spending and defer the timing of additional financing. While we will attempt to attract a corporate partnership and grants, we have not assumed the receipt of any additional financial resources in our cash planning.

We anticipate that our research and development expenses will increase significantly as a result of our expanded development and commercialization efforts related to clinical trials, drug development, and development of strategic and other relationships required ultimately for the licensing, manufacture and distribution of our immunotherapies. We regard to three of our immunotherapies as major research and development projects. The timing, costs and uncertainties of those projects are as follows:

ADXS-HPV - Phase 2 CIN 2/3 Trial Summary Information (U.S.: target enrollment: 120 Patients)

The ADXS-HPV CIN 2/3 study is a randomized, single blind, placebo controlled Phase 2 dose-ranging study designed to assess the safety and efficacy of ADXS-HPV in up to 3 different dose cohorts:

- Cost incurred through April 30, 2012: approximately $4.9 million.
- Estimated future clinical costs: approximately $2.3 million.
- Anticipated Timing: commenced in March 2010 (with patient dosing having commenced in June 2010); reporting of low dose cohort in early 2012, mid dose cohort is actively enrolling; completion August 2012 or beyond. High dose cohort anticipated to commence recruiting in April 2012, completion anticipated in February-March 2013.

Uncertainties:

- The FDA (or relevant foreign regulatory authority) may place the project on clinical hold or stop the project;

- One or more serious adverse events in otherwise healthy patients enrolled in the trial;
- Lack of clinical benefit;
- Difficulty in recruiting patients;
- Delays in the program;
- Material cash flows; and

- Anticipated Timing: 2012/2013 and dependent upon completion and results from each dose cohort adequate fund raising, entering a licensing deal or pursuant to a marketing collaboration subject to regulatory approval to market and sell the product.

ADXS-HPV - Phase 2 Cervical Cancer Trial Summary Information (India: target enrollment: 110 Patients)

The ADXS-HPV cervical cancer trial in India is a Phase 2 study of ADXS-HPV +/- Cisplatin in patients with recurrent or refractory cervical cancer that has failed previous treatment:

- Cost incurred through April 30, 2012: approximately $2.3 million.
- Estimated future clinical costs: approximately $2.5 million.

- Anticipated Timing: commenced in November 2010; reporting of preliminary survival data began in January 2012, completion 2012 or beyond.

Additional Uncertainties:

- One or more serious adverse events in these advanced cancer patients enrolled in the trial; and
- Lack of clinical benefit.

ADXS-HPV - Phase 2 Cervical Cancer Trial Summary Information (U.S. GOG/NCI: target enrollment: 67 Patients)

The ADXS-HPV cervical cancer trial in the US is a randomized, active therapy controlled Phase 2 study to assess the safety and efficacy of ADXS-HPV +/- cisplatin as second line therapy for the treatment of recurrent or refractory cervical cancer that has not responded to previous treatment:

- Cost incurred through April 30, 2012: Minimal.
- Estimated future clinical costs: $500,000 (NCI underwriting costs of $4.0 million to $5.0 million).
- Anticipated Timing: commenced September 2011 and open to enrollment; 1st patient dosed on January 9, 2012; completion 2013 and beyond.

Additional Uncertainties:

- Unknown timing in recruiting patients and conducting the study based on GOG/NCI controlled study; and
- Delays in the program;
- One or more serious adverse events in these advanced cancer patients enrolled in the trial; and
- Lack of clinical benefit.

ADXS-HPV - Phase 2 Cancer of the Head and Neck Trial Summary Information (U.K. CRUK: target enrollment: 45 Patients)

The ADXS-HPV head and neck cancer trial is a Phase 1/2 dose escalation trial of ADXS-HPV in patients with head & neck cancer:

- Cost incurred through April 30, 2012: Minimal.

· Estimated future clinical costs: approximately $50,000 (CRUK to underwrite costs of $3.0 million to $4.0 million).

· Anticipated Timing: the CRUK is funding a study of up to 45 patients at 3 UK sites that we expect will commence in late 2012.

Additional Uncertainties:

· Unknown timing in recruiting patients and conducting the study based on CRUK controlling the study;

· Delays in the program;

23,516

4,603

8,673

Net income (1)(2)

8,589

32,265

14,911

15,463

8,444

Share Data

Diluted earnings per share

Common Stock

$
0.37

$
1.41

$
0.67

$
0.70

$
0.38

Class A Common Stock

0.33

1.35

0.59

0.67

0.36

Adjusted diluted earnings per share:[3]

Common Stock

$
0.37

$
1.41

$
0.67

$
0.70

$
0.38

Pension settlement expense [1]

0.90

—

—

—

—

Out-of-period adjustment[4]

—

(0.02
)

0.02

—

—

Adjusted diluted earnings per common share[3]

$
1.28

$
1.39

$
0.69

$
0.70

$
0.38

Cash dividends – amount per share:

Common Stock[5]

1.3200
$
0.2400

1.1200

0.1200

0.1000

Class A Common Stock[5]

1.2500
$
0.2250

1.0625

0.1125

0.0950

Shares outstanding (in thousands):

Common Stock

20,568

20,122

19,471

18,829

18,512

Class A Common Stock

2,081

2,393

2,775

3,120

3,331

Total shares

22,649

22,515

22,246

21,949

21,843

Financial Position

Inventories

$
107,139

$
91,483

$
96,902

$
93,713

$
91,938

Capital expenditures

$
30,882

$
20,202

$
25,014

$
17,566

$
14,053

Depreciation/amortization expense

22,613

21,450

19,415

18,242

16,859

Total assets

$
460,987

$
417,855

$
402,096

$

385,100

$
370,239

Total debt[(6)]

49,065

17,155

19,354

13,046

9,099

Stockholders' equity

292,083

298,264

259,428

262,669

253,182

Debt to total capital

14.4
%

5.4
%

6.9
%

4.7
%

3.5
%
Net cash provided by operating activities

55,454

55,889

52,168

19,072

24,201

Other Supplemental Data:

Employees

3,388

3,266

3,250

3,050

3,100

Retail sq. ft. (in thousands)

4,283

4,259

4,353

4,246

4,230

Annual retail net sales per weighted average sq. ft.

$
183

$
176

$
158

$
148

$
148

Due to rounding amounts may not add to totals.

(1) Includes for 2014 the impact of the settlement of the pension plan of a $21.6 million increase in expense and a tax benefit of $0.9 million, for a total impact of $20.7 million after tax or $0.90 per share.
(2) We reduced income tax expense $3.1 million and released $2.0 million of the valuation allowance in 2010. The valuation allowance was further reduced and we recorded a benefit to income taxes of $14.1 million in 2011, $1.2 million in 2012, and $1.4 million in 2013.
(3) Adjusted diluted earnings per share is a non-GAAP financial measure.
(4) We recorded an out-of-period adjustment in 2013 related to certain vendors' pricing allowances. The non-cash adjustment increased gross profit by $0.8 million or $0.02 per diluted share.
(5) Includes special dividends of $1.00 for Common Stock and $0.95 for Class A Common Stock paid both in the fourth quarter of 2012 and in the third quarter of 2014.
(6) Debt is comprised completely of lease obligations.
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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

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

Our Business
We sell home furnishings in our retail stores and via our website and record revenue when the products are delivered to our customer. Our products are selected to appeal to a middle to upper-middle income consumer across a variety of styles. Our commissioned sales associates receive a high level of product training and are provided a number of tools with which to serve our customers. We also have in-home designers serving 109 stores. These individuals work with our sales associates to provide customers additional confidence and inspiration. We do not outsource the delivery function, something common in the industry, but instead ensure that the "last contact" is handled by a customer-oriented Havertys delivery team. We are recognized as a provider of high quality fashionable products and service in the markets we serve.

2014 Highlights
Sales for 2014 grew 3.0% or $22.3 million over 2013. Gross profit as a percent of net sales decreased 10 basis points, and SG&A increased 80 basis points. We terminated and settled the obligations related to our defined benefit pension plan and recorded a pretax charge of $21.6 million. Our pre-tax income was $25.3 million, and excluding the pension charge and an out-of-period adjustment in 2013 decreased 9.2% or $4.8 million. We experienced import vendor and supply chain disruptions to our business from which we began to recover late in the year. Our fourth quarter results were a pre-tax loss of $5.0 million. Excluding the pension charge, our fourth quarter pre-tax income was $16.6 million, up 5.5% over the prior year period. We continued our focus on cash flow and made important investments in our business and returned cash to our stockholders. We did not use our credit facility during the year and our total debt to total capital was 14.4% at December 31, 2014.

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

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

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Operating Results

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

	Year Ended December 31,		
	2014	2013	2012
Statement of Operations Data:			
Net sales	$768,409	$746,090	$670,073
Gross profit	412,366	401,496	352,035
Selling, general and administrative expenses	364,654	348,599	328,826
Pension settlement expense	21,623	—	—
Income before interest and income taxes	26,308	53,594	24,140
Income before income taxes	25,257	52,487	23,516
Net income	$8,589	$32,265	$14,911
Other Financial Data:			
EBIT	$26,308	$53,594	$24,140
Pension settlement expenses	21,623	—	—
Q-1 2013 gross profit adjustment	—	(835)	835
Adjusted EBIT	$47,931	$52,759	$24,975
Adjusted EBIT as a percent of net sales	6.2%	7.1%	3.7%
Adjusted EBIT	$47,931	$52,759	$24,975
Interest expense, net	1,051	1,107	624
Adjusted income before income taxes	$46,880	$51,652	$24,351
Net income	$8,589	$32,265	14,911
Pension settlement expense, net of tax	20,725	—	—
Out-of-period adjustment, net of tax	—	(518)	518
Adjusted net income	$29,314	$31,747	$15,429
Earnings per diluted share	$0.37	$1.41	$0.67
Non-cash pension settlement expense	0.90	—	—
Out-of-period adjustment	—	(0.02)	0.02
Adjusted earnings per diluted share	$1.28	$1.39	$0.69

Due to rounding amounts may not add to the totals.

Net Sales

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

Total sales increased $22.3 million or 3.0% in 2014 and $76.0 million or 11.3% in 2013. Comparable store sales increased 3.6% or $26.2 million in 2014 and 11.0% or $72.0 million in 2013. The remaining $3.9 million in 2014 and $4.0 million in 2013 of the changes were from closed, new and otherwise non-comparable stores.

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

	December 31, 2014			2013			2012		
	Net Sales		Comp-Store Sales	Net Sales		Comp-Store Sales	Net Sales		Comp-Store Sales
Period Ended	Dollars in millions	% Increase (decrease) over prior period	% Increase (decrease) over prior period	Dollars in millions	% Increase (decrease) over prior period	% Increase (decrease) over prior period	Dollars in millions	% Increase (decrease) over prior period	% Increase (decrease) over prior period
Q1	$181.7	(2.3)%	(0.9)%	$186.1	13.8%	11.5%	$163.6	6.1%	5.7%
Q2	175.1	2.4	3.2	171.1	12.9	11.2	151.5	5.9	5.6
Q3	198.5	3.0	3.5	192.7	11.6	11.8	172.7	11.1	10.0
Q4	213.0	8.6	8.3	196.2	7.6	9.5	182.3	8.4	6.0
Year	$768.4	3.0%	3.6%	$746.1	11.3%	11.0%	$670.1	7.9%	6.8%

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

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

Sales in 2012 increased at a strong pace as our industry began its recovery. Our average ticket was up 7.8% as our customers responded to the value offered in our fashionable better quality merchandise. Sales in the upholstery product category showed strength increasing 12.6% over 2011 including a 17.9% increase in custom and special orders.

2015 Outlook

We believe as the general economy improves and consumer spending and the housing market strengthens, our business will benefit. We have upgraded stores, offer appealing merchandise and expanded special order and service offerings which will be important drivers for our 2015 sales results. We are growing our weighted average square

footage approximately 3.4%. We do anticipate headwinds in 2015 for certain of our markets due to changes in the competitive landscape.

Gross Profit

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

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

Gross profit as a percentage of net sales increased to 53.8% in 2013 compared to 52.5% in 2012. Our focus on higher price point products and pricing discipline were key to the gross profit improvement combined with a $1.1 million smaller LIFO impact and the $0.8 million out-of-period adjustment.

2015 Outlook
Our merchandising strategy will be similar to 2014 using promotional pricing selectively and focusing on product fashion and customer service. We expect that annual gross profit margins for 2015 will be approximately 53.3%, down slightly reflecting some higher import costs and the impact of increased competition in certain of our markets.

Selling, General and Administrative Expenses

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

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

	2014		2013		2012	
	$	% of Net Sales	$	% of Net Sales	$	% of Net Sales
Variable	$134,168	17.5 %	$124,770	16.7 %	$ 116,933	17.5 %
Fixed and discretionary	230,486	30.0	223,829	30.0	211,893	31.6

$364,654	47.5 %	$348,599	46.7 %	$328,826	49.1 %

Year-to-Year Comparisons

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

The fixed and discretionary expenses increased $11.9 million in 2013 to $223.8 million from $211.9 million in 2012. This increase was driven by $7.8 million in additional administrative costs primarily from greater incentive and compensation expense and higher health insurance costs. Our new stores and improvements generated a $2.0 million increase in depreciation in 2013 compared to 2012. We also spent $1.2 million more on advertising in 2013 over 2012. Our variable expenses were lower as a percent of net sales in 2013 compared to 2012 primarily due to efficiencies in our warehouse and delivery functions and changes in credit costs.

2015 Outlook

The fixed and discretionary type expenses within SG&A for the full year of 2015 are expected to be approximately $239.0 million to $241.0 million, up approximately 3.5% to 5% over those same costs in 2014. These expenses should average approximately $60.0 million per quarter and are expected to be slightly higher for the second half of the year in connection with our expansion activity. The main increases in this category are expected to be for personnel costs, new store occupancy expense and advertising expenses.

Variable costs within SG&A are expected to be 17.3% to 17.5% as a percent of sales for 2015.

Pension Settlement

We terminated our qualified defined benefit pension plan (the "Plan") effective July 20, 2014 as reported on our Form 8-K filed May 16, 2014. The Plan had been previously amended to freeze benefit accruals for eligible employees under the Plan effective December 31, 2006 when we transitioned to a stronger emphasis on our employee savings/ retirement (401(k)) plan. We informed Plan participants of the termination in May 2014 and they received vested benefits in December via either a lump sum cash distribution, roll-over contribution to other retirement accounts, or the purchase of an annuity contract with a third-party insurance company.

The Plan was fully funded and we made no contributions in 2014. The final settlement of lump sum payments and rollovers of $29.9 million and annuity purchases of $53.6 million were made in December 2014. There were surplus assets of $0.8 million remaining after the Plan's obligations were settled. The remaining Plan assets, less expenses, will be distributed to participants according to provisions of the Plan following final regulatory approvals which is expected to occur in 2015.

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

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

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

Interest Expense

Our interest expense for the years 2012 to 2014 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 has increased from eight in 2012, to sixteen in 2014. We expect interest expense for lease obligations will be $2.7 million in 2015.

Provision for Income Taxes

Our effective tax rate was 66.0%, 38.5% and 36.6% for 2014, 2013 and 2012, respectively. Refer to Note 7 of the Notes to the Consolidated Financial Statements for a reconciliation of our income tax expense to the federal income tax rate.

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

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

Our 2012 rate included a benefit from income taxes of $0.7 million related to the change in our uncertain tax positions. This benefit was partially offset by changes in our receivables and state net operating loss carryforwards of $0.3 million.

Liquidity and Capital Resources

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

At December 31, 2014, our cash and cash equivalents balance was $65.5 million, a decrease of $17.7 million compared to December 31, 2013. This decrease in cash primarily resulted from strong operating results offset by purchases of property and equipment, the payment of special cash dividends to stockholders and the purchases of certificates of deposit. Additional discussion of our cash flow results, including the comparison of 2014 activity to 2013, is set forth in the Analysis of Cash Flows section.

At December 31, 2014, our outstanding indebtedness was $49.1 million in lease obligations required to be recorded on our balance sheet. We had no amounts outstanding and $43.8 million available under our revolving credit facility.

Capital Expenditures

Our primary capital requirements have been focused on our stores and the development of both proprietary and purchased information systems. Our capital expenditures were $30.9 million in 2014, $10.7 million more than in 2013.

Our future capital requirements will depend in large part on the number of and timing for new stores we open within a given year, the investments we make to the improvement and maintenance of our existing stores, and our investment in distribution improvements and new information systems to support our key strategies. In 2015, we anticipate that our capital expenditures will be approximately $31 million, refer to our Store Expansion and Capital Expenditures discussion below.

Analysis of Cash Flows

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

	Year Ended December 31,		
	2014	2013	2012
Net cash provided by operating activities	$55,454	$55,889	$52,168
Capital expenditures	(30,882)	(20,202)	(25,014)
Free cash flow	$24,572	$35,687	$27,154
Net cash used in investing activities	$(41,372)	$(20,120)	$(24,766)
Net cash used in financing activities	$(31,786)	$(6,134)	$(23,437)

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

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

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

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

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

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During 2012, net cash provided by operating activities was $52.2 million. We generated net income of $14.9 million during the year, and depreciation and amortization totaled $19.4 million. Working capital increased and the major components of the change are listed below.

- Increase in customer deposits of $6.4 million as the level of our special order business increased and deliveries at the end of 2012 were hampered by product availability.
- Increase in accounts payable of $7.0 million, offset by increased inventory levels of $3.5 million. These increases were primarily due to our higher level of purchases in advance of the Chinese New Year and in response to our increased sales activity.
- Decrease in other liabilities of $3.5 million as the pension plan liability decreased $4.3 million.

Cash flows used in investing activities. Net cash used in investing activities was $41.4 million, $20.1 million and $24.8 million for 2014, 2013 and 2012, respectively. In each of these years, the amounts of cash used in investing activities consisted principally of capital expenditures related to store construction and improvements and information technology projects, refer to our Store Expansion and Capital Expenditures discussion below. During 2014, in addition to the expenditures for new stores and one store's major expansion, we purchased $10.0 million in certificates of deposit. During 2013, we invested in our distribution system for future expansion and added capacity to our internal cloud architecture to support our sales systems and video communications. During 2012, we completed information technology projects replacing our core network that controls the communication between our stores and data centers and invested in cloud infrastructure.

Cash flows used in financing activities. Net cash used in financing activities was $31.8 million for 2014, $6.1 million for 2013 and $23.4 million for 2012. During 2014 we paid a special dividend of approximately $22.6 million. During 2013 the number of restricted shares vesting increased as the acceleration goals of certain grants were met. This increased the withholding taxes for vested shares and contributed to the tax benefit from stock-based plans. During 2012 we paid a special dividend of approximately $22.0 million and we had expiring in-the-money options which generated additional option exercise activity in 2012. During 2014, 2013, and 2012, we did not make any draws on our revolving credit facility.

Long-Term Debt

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

Off-Balance Sheet Arrangements

We do not generally enter into off-balance sheet arrangements. We did not have any relationships with unconsolidated entities or financial partnerships which would have been established for the purposes of facilitating off-balance sheet financial arrangements for any period during the three years ended December 31, 2014. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

Contractual Obligations

The following summarizes our contractual obligations and commercial commitments as of December 31, 2014 (in thousands):

	Payments Due or Expected by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Lease obligations[1]	$68,239	$4,706	$10,079	$10,273	$43,181
Operating leases	202,777	32,148	59,535	48,065	63,029
Purchase orders	90,806	90,806	—	—	—
Total contractual obligations[2]	$361,822	$127,660	$69,614	$58,338	$106,210

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

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

Store Expansion and Capital Expenditures

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

	2014		2013		2012	
Store Activity:	# of Stores	Square Footage	# of Stores	Square Footage	# of Stores	Square Footage
Opened	5	167	—	—	4	139
Closed	5	160	3	103	1	32
Year end balances	119	4,283	119	4,259	122	4,353

During 2014 we also had a major remodeling project in our Knoxville, Tennessee store which increased its selling square footage.

The following table summarizes our store activity in 2014 and plans for 2015.

	Opening Quarter	
Location	Actual or Planned	Category
Plano, TX	Q-2-14	Closure
Fayetteville, NC	Q-3-14	Relocation
N. Fort Worth, TX	Q-3-14	Existing Market
Atlanta, GA	Q-4-14	Existing Market
Florence, KY	Q-4-14	Closure
Kissimmee, FL	Q-4-14	Relocation
Winston-Salem, NC	Q-4-14	Relocation
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
To be announced, Western Region	Q-4-15	New Market
To be announced, Central Region	Q-4-15	Closure

These plans and other changes should increase net selling space in 2015 by approximately 3.8% assuming the new stores open and existing stores close as planned.

Our investing activities in stores and operations in 2014, 2013 and 2012 and planned outlays for 2015 are categorized in the table below. Capital expenditures for stores in the years noted do not necessarily coincide with the years in which the stores open.

(Approximate in thousands)	Proposed 2015	2014	2013	2012
Stores:				
New or replacement stores	$13,000	$12,900	$100	$9,500
Remodels/expansions	8,000	6,900	11,200	5,500
Other improvements	3,000	4,200	3,900	4,600
Total stores	24,000	24,000	15,200	19,600
Distribution	3,500	3,500	2,300	1,600
Information technology	3,500	3,400	2,700	3,800
Total	$31,000	$30,900	$20,200	$25,000

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

Critical Accounting Estimates and Assumptions

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

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

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

Retirement benefits. Our supplemental executive retirement plan ("SERP") costs require the use of assumptions for discount rates, projected salary increases and mortality rates. Management is required to make certain critical estimates related to actuarial assumptions used to determine our expense and related obligation. We believe the most critical assumptions are related to (1) the discount rate used to determine the present value of the liabilities and (2) mortality rates. All of our actuarial assumptions are reviewed annually. Changes in these assumptions could have a material impact on the measurement of our SERP expense and related obligation.

The SERP is not funded so we pay benefits directly to participants. The unfunded obligation increased by $1.3 million between December 31, 2013 and December 31, 2014.

At each measurement date, we determine the discount rate by reference to rates of high quality, long-term corporate bonds that mature in a pattern similar to the future payments we anticipate making under the plans. As of December 31, 2014 and 2013, the weighted-average discount rates used to compute our benefit obligation were 4.09% and 4.96% respectively. This increased the SERP's benefit obligation by 12%. The SERP's mortality tables were updated in 2014 which increased the benefit obligation by 6%.

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

Self-Insurance. We are self-insured for certain losses related to worker's compensation, general liability and vehicle claims for amounts up to a deductible per occurrence. Our reserve is developed based on historical claims data and contains an actuarially developed incurred but not reported component. The resulting estimate is discounted and recorded as a liability. Our actuarial assumptions and discount rates are reviewed periodically and compared with actual claims experience and external benchmarks to ensure appropriateness. A one-percentage-point change in the actuarial assumption for the discount rate would impact 2014 expense for insurance by approximately $82,000, a 1.3% change.
We became primarily self-insured for employee group health care claims in 2012. We have purchased insurance coverage in order to establish certain limits to our exposure on both a per claim and aggregate basis. We record an accrual for the estimated amount of self-insured health care claims incurred by all participants but not yet reported (IBNR) using an actuarial method of applying a development factor to the reported monthly claims amounts. The Company's risk management and accounting management utilize a consistent methodology which involves various assumptions, judgment and other factors. The most significant factors which impact the determination of a required accrual are the historical pattern of the timeliness of claims processing, any changes in the nature or types of benefit plans, changes in the plan benefit designs, and medical trends and inflation. Historical experience is continually monitored, and accruals are adjusted when warranted by changes in facts and circumstances. The Company believes that the total health care cost accruals are reasonable and adequate to cover future payments on incurred claims.
Stock-based compensation. We have stock-based compensation plans and since 2004 have made grants of restricted stock, restricted stock units, and stock-settled appreciation rights. See Note 12, Stock Based Compensation Plans, to the Notes to the Consolidated Financial Statements for a complete discussion of our stock-based compensation programs. We recognize stock-based compensation expense based on the fair value of the respective awards. We estimated the fair value of our stock-settled appreciation rights awards as of the grant date based upon a Black-Scholes-Merton option pricing model. We estimate the fair value of our restricted stock awards and units as of the grant date utilizing the closing market price of our stock on that date. The compensation expense associated with

these awards is recorded in the consolidated statements of income with a corresponding credit to common stock.
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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of our independent registered public accounting firm, the Consolidated Financial Statements of Havertys and the Notes to Consolidated Financial Statements, and the supplementary financial information called for by this Item 8, are set forth on pages F-1 to F-22 of this report. Specific financial statements and supplementary data can be found at the pages listed in the following index:

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

Not Applicable.

ITEM 9A. CONTROLS AND PROCEDURES

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

(b) Management's Annual Report on Internal Control over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on that evaluation, our management concluded that our internal control over financial reporting is effective as of December 31, 2014.

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

(c) Changes in Internal Control over Financial Reporting. During the fourth quarter of 2014, there were no changes in our internal control over financial reporting that have affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting

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

We have audited Haverty Furniture Companies, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework (the COSO criteria). Haverty Furniture Companies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Haverty Furniture Companies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2014 consolidated financial statements of Haverty Furniture Companies, Inc. and our report dated March 16, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 16, 2015
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ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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

We provide some information about our executive officers in Part I of this report under the heading "Executive Officers and Significant Employees of the Registrant." The remaining information called for by this item is incorporated by reference to "Election of Directors," "Corporate Governance," "Board and Committees" and "Other Information – Section 16(a) Beneficial Ownership Reporting Compliance" in our 2015 Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information contained in our 2015 Proxy Statement with respect to executive compensation and transactions under the heading "Compensation Discussion and Analysis" is incorporated herein by reference in response to this item.

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

The information contained in our 2015 Proxy Statement with respect to the ownership of common stock and Class A common stock by certain beneficial owners and management, and with respect to our compensation plans under which equity securities are authorized for issuance under the headings "Ownership of Company Stock by Directors and Management" and "Equity Compensation Plan Information," is incorporated herein by reference in response to this item.

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

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

The information contained in our 2015 Proxy Statement with respect to certain relationships, related party transactions and director independence under the headings "Certain Relationships and Related Transactions" and "Corporate Governance – Director Independence" is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information under the heading "Audit Fees and Related Matters" in our 2015 Proxy Statement is incorporated herein by reference to this item.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

Consolidated Balance Sheets – December 31, 2014 and 2013
Consolidated Statements of Comprehensive Income – Years ended December 31, 2014, 2013 and 2012
Consolidated Statements of Stockholders' Equity – Years ended December 31, 2014, 2013 and 2012
Consolidated Statements of Cash Flows – Years ended December 31, 2014, 2013 and 2012
Notes to Consolidated Financial Statements

(2) Financial Statement Schedule.

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

Schedule II – Valuation and Qualifying Accounts

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

(3)Exhibits:

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

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

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

Exhibit No.	Exhibit
+10.3	1998 Stock Option Plan, effective as of December 18, 1997 (Exhibit 10.1 to our Registration Statement on Form S-8, File No. 333-53215); Amendment No. 1 to our 1998 Stock Option Plan effective as of July 27, 2001 (Exhibit 10.2 to our Registration Statement on Form S-8, File No. 333-66012).
+10.4	2004 Long-Term Incentive Plan effective as of May 10, 2004 (Exhibit 10.1 to our Registration Statement on Form S-8, File No. 333-120352); Amendment No. 1 to our 2004 Long-Term Incentive Plan effective as of May 9, 2011 (Exhibit 4.1 to our Registration Statement on Form S-8, File No. 333-176100)
+10.5	2014 Long-Term Incentive Plan effective as of May 12, 2014 (Exhibit 10.1 to our Registration Statement on Form S-8, File No. 333-197969).
+10.6	Amended and Restated Directors' Compensation Plan, effective as of February 18, 2014 (Exhibit 10.5 to our 2013 Form 10-K).
+10.7	Amended and Restated Supplemental Executive Retirement Plan, effective January 1, 2009 (Exhibit 10.9 to our 2009 Form 10-K).
+10.8	Form of Agreement dated December 9, 2011 regarding Change in Control with the Named Executive Officers and a Management Director (Exhibit 10.6 to our 2011 Form 10-K).
+10.9	Form of Agreement dated December 9, 2011, regarding Change in Control with Executive Officers who are not Named Executive Officers or Management Directors (Exhibit 10.7 to our 2011 Form 10-K).
+10.10	Top Hat Mutual Fund Option Plan, effective as of January 15, 1999 (Exhibit 10.15 to our 1999 Form 10-K).
10.11	Lease Agreement dated July 26, 2001; Amendment No. 1 dated November, 2001 and Amendment No. 2 dated July 29, 2002 between Haverty Furniture Companies, Inc. as Tenant and John W. Rooker, LLC as Landlord (Exhibit 10.1 to our 2002 Third Quarter Form 10-Q). Amendment No. 3 dated July 29, 2005 and Amendment No. 4 dated January 22, 2006 between Haverty Furniture Companies, Inc. as Tenant and ELFP Jackson, LLC as predecessor in interest to John W. Rooker, LLC as Landlord (Exhibit 10.15.1 to our 2006 Form 10-K).
10.12	Contract of Sale dated August 6, 2002, between Haverty Furniture Companies, Inc. as Seller and HAVERTACQII LLC, as Landlord (Exhibit 10.2 to our 2002 Third Quarter Form 10-Q).
10.13	Lease Agreement dated August 6, 2002, between Haverty Furniture Companies, Inc. as Tenant and HAVERTACQII LLC, as Landlord (Exhibit 10.3 to our 2002 Third Quarter Form 10-Q).
10.14	Amended and Restated Retailer Program Agreement, dated November 5, 2013, between Haverty Furniture Companies, Inc. and Capital Retail Bank (formerly known as GE Money Bank). Portions of this document have been redacted pursuant to a request for confidential treatment filed pursuant to the Freedom of Information Act.
+10.15	Form of Stock-Settled Appreciation Rights Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.2 to our Current Report on Form 8 K dated February 12, 2008).
+10.16	Form of Stock-Settled Appreciation Rights Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8 K dated February 2, 2009).

Exhibit No.	Exhibit
+10.17	Form of Restricted Stock Units Award Agreement in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated January 22, 2010).
+10.18	Form of Restricted Stock Units Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated January 31, 2011).
+10.19	Form of Restricted Stock Units Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibit 10.1 to our Current Report on Form 8-K dated January 30, 2012).
+10.20	Form of Restricted Stock Units Award Notice and Form of Stock Settled Appreciation Rights Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan (Exhibits 10.1 and 10.2 to our Current Report on Form 8-K dated January 30, 2013).
+10.21	Form of Restricted Stock Units Award Notice, Form of Performance Restricted Stock Units (EBITDA) Award Notice and Form of Performance Restricted Units (Sales) Award Notice in connection with the 2004 Long-Term Incentive Compensation Plan. (Exhibits 10.1, 10.2 and 10.3 to our Current Report on Form 8-K dated January 24, 2014).
*21	Subsidiaries of Haverty Furniture Companies, Inc.
*23.1	Consent of Independent Registered Public Accounting Firm.
*31.1	Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*31.2	Certification pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
*32.1	Certification pursuant to 18 U.S.C. Section 1350.
*101	The following financial information from Haverty Furniture Companies, Inc. Report on Form 10-K for the year ended December 31 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets for the years ended December 31, 2014 and 2013, (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2014, 2013 and 2012, (iii) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2014, 2013 and 2012, (iv) Consolidated Statements of Cash Flow for the years ended December 31, 2014, 2013 and 2012, and (v) the Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 16, 2015.

HAVERTY FURNITURE COMPANIES, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on March 16, 2015.

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

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

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

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

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

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

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

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

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

/s/ AL TRUJILLO
Al Trujillo
Director

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

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Haverty Furniture Companies, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Haverty Furniture Companies, Inc. at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Haverty Furniture Companies, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework and our report dated March 16, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Atlanta, Georgia
March 16, 2015

Haverty Furniture Companies, Inc.
Consolidated Balance Sheets

(In thousands, except per share data)	December 31, 2014	2013
Assets		
Current assets		
Cash and cash equivalents	$65,481	$83,185
Investments	7,250	—
Restricted cash and cash equivalents	8,017	7,016
Accounts receivable	7,146	8,172
Inventories	107,139	91,483
Prepaid expenses	6,418	6,494
Other current assets	8,010	4,349
Total current assets	209,461	200,699
Accounts receivable, long-term	731	832
Property and equipment	225,162	189,242
Deferred income taxes	17,610	13,253
Other assets	8,023	13,829
Total assets	$460,987	$417,855
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$24,152	$21,810
Customer deposits	23,687	19,008
Accrued liabilities	39,960	36,338
Deferred income taxes	5,689	—
Current portion of lease obligations	2,387	959
Total current liabilities	95,875	78,115
Lease obligations, less current portion	46,678	16,196
Other liabilities	26,351	25,280
Commitments	—	—
Total liabilities	168,904	119,591
Stockholders' equity		
Capital Stock, par value $1 per share		
Preferred Stock, Authorized – 1,000 shares; Issued: None		
Common Stock, Authorized – 50,000 shares; Issued: 2014 – 28,327; 2013 – 27,853	28,327	27,853
Convertible Class A Common Stock, Authorized – 15,000 shares; Issued: 2014 – 2,603; 2013 – 2,915	2,603	2,915
Additional paid-in capital	79,726	77,406
Retained earnings	260,031	281,222
Accumulated other comprehensive income (loss)	(2,168)	(15,412)
Less treasury stock at cost – Common Stock (2014 – 7,759; 2013 – 7,731) and Convertible Class A Common Stock (2014 and 2013 – 522)	(76,436)	(75,720)
Total stockholders' equity	292,083	298,264
Total liabilities and stockholders' equity	$460,987	$417,855

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

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Haverty Furniture Companies, Inc.
Consolidated Statements of Comprehensive Income

(In thousands, except per share data)	Year Ended December 31, 2014	2013	2012
Net sales	$768,409	$746,090	$670,073
Cost of goods sold	356,043	344,594	318,038
Gross profit	412,366	401,496	352,035
Credit service charges	298	320	293
Gross profit and other revenue	412,664	401,816	352,328
Expenses:			
Selling, general and administrative	364,654	348,599	328,826
Pension settlement expense	21,623	—	—
Provision for doubtful accounts	257	120	165
Other income, net	(178)	(497)	(803)
Total expenses	386,356	348,222	328,188
Income before interest and income taxes	26,308	53,594	24,140
Interest expense, net	1,051	1,107	624
Income before income taxes	25,257	52,487	23,516
Income tax expense	16,668	20,222	8,605
Net income	$8,589	$32,265	$14,911
Other comprehensive income, net of tax:			
Defined benefit pension plan adjustments; net of tax expense (benefit) of ($2,954), $4,822 and $921	$13,244	$7,966	$1,501
Other comprehensive income	—	—	117
Total other comprehensive income	13,244	7,966	1,618
Comprehensive income	$21,833	$40,231	$16,529
Basic earnings per share:			
Common Stock	$0.38	$1.45	$0.69
Class A Common Stock	$0.33	$1.37	$0.58
Diluted earnings per share:			
Common Stock	$0.37	$1.41	$0.67
Class A Common Stock	$0.33	$1.35	$0.59

The accompanying notes are an integral part of these consolidated financial statements.
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Haverty Furniture Companies, Inc.
Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share data)	Year Ended December 31, 2014 Shares	2014 Dollars	2013 Shares	2013 Dollars	2012 Shares	2012 Dollars
Common Stock:						
Beginning balance	27,853,412	$27,853	27,212,184	$27,212	26,578,193	$26,578
Conversion of Class A Common Stock	311,824	312	382,199	382	344,802	345
Stock compensation transactions, net	161,534	162	259,029	259	289,189	289
Ending balance	28,326,770	28,327	27,853,412	27,853	27,212,184	27,212
Class A Common Stock:						
Beginning balance	2,915,234	2,915	3,297,433	3,297	3,642,235	3,642
Conversion to Common Stock	(311,824)	(312)	(382,199)	(382)	(344,802)	(345)
Ending balance	2,603,410	2,603	2,915,234	2,915	3,297,433	3,297
Treasury Stock:						
Beginning balance (includes 522,410 shares Class A Stock for each of the years presented; remainder are Common Stock)	(8,253,414)	(75,720)	(8,263,557)	(75,816)	(8,271,024)	(75,847)
Directors' Compensation Plan	9,213	88	10,143	96	25,649	249
Purchases	(37,076)	(804)	—	—	(18,182)	(218)
Ending balance	(8,281,277)	(76,436)	(8,253,414)	(75,720)	(8,263,557)	(75,816)
Additional Paid-in Capital:						
Beginning balance		77,406		73,803		69,209
Stock option and restricted stock issuances		(2,232)		(1,928)		1,605
Tax benefit related to stock-based plans		896		1,754		289
Directors' Compensation Plan		337		454		147
Amortization of restricted stock		3,319		3,323		2,553
Ending balance		79,726		77,406		73,803
Retained Earnings:						
Beginning balance		281,222		254,310		264,083
Net income		8,589		32,265		14,911
Cash dividends (Common Stock: 2014 - $1.32; 2013 - $0.24 and 2012 - $1.12 per share Class A Common Stock: 2014 - $1.25; 2013 - $0.225 and 2012 - $1.0625 per share)		(29,780)		(5,353)		(24,684)
Ending balance		260,031		281,222		254,310
Accumulated Other Comprehensive Income (Loss):						
Beginning balance		(15,412)		(23,378)		(24,996)
Pension liabilities adjustment, net of taxes		13,244		7,966		1,501

Other	—	—	117
Ending balance	(2,168)	(15,412)	(23,378)
Total Stockholders' Equity	$292,083	$298,264	$259,428

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

Haverty Furniture Companies, Inc.
Consolidated Statements of Cash flows

(In thousands)	Year ended December 31, 2014	2013	2012
Cash Flows from Operating Activities			
Net income	$8,589	$32,265	$14,911
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	22,613	21,450	19,415
Stock-based compensation expense	3,319	3,323	2,553
Tax benefit from stock-based plans	(896)	(1,754)	(289)
Deferred income taxes	4,800	(652)	(2,209)
Provision for doubtful accounts	257	120	165
Pension settlement expense	21,623	—	—
Other	641	459	614
Changes in operating assets and liabilities:			
Accounts receivable	870	1,400	1,210
Inventories	(15,656)	5,419	(3,458)
Customer deposits	4,679	(1,955)	6,391
Other assets and liabilities	(2,023)	(2,638)	1,819
Accounts payable and accrued liabilities	6,638	(1,548)	11,046
Net Cash Provided by Operating Activities	55,454	55,889	52,168
Cash Flows from Investing Activities			
Capital expenditures	(30,882)	(20,202)	(25,014)
Purchase of certificates of deposit	(10,000)	—	—
Restricted cash and cash equivalents	(1,001)	(3)	(200)
Other investing activities	511	85	448
Net Cash Used in Investing Activities	(41,372)	(20,120)	(24,766)
Cash Flows from Financing Activities			
Proceeds from borrowings under revolving credit facilities	—	—	—
Payments of borrowings under revolving credit facilities	—	—	—
Net change in borrowings under revolving credit facilities	—	—	—
Payments on lease obligations	(1,088)	(867)	(766)
Proceeds from exercise of stock options	—	872	2,457
Tax benefit from stock-based plans	896	1,754	289
Dividends paid	(29,780)	(5,353)	(24,684)
Common stock repurchased and retired	(804)	—	(218)
Other financing activities	(1,010)	(2,540)	(515)
Net Cash Used In Financing Activities	(31,786)	(6,134)	(23,437)
Increase (Decrease) in cash and Cash Equivalents	(17,704)	29,635	3,965
Cash and Cash Equivalents at Beginning of Year	83,185	53,550	49,585
Cash and Cash Equivalents at End of Year	$65,481	$83,185	$53,550

The accompanying notes are an integral part of these consolidated financial statements
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Notes To Consolidated Financial Statements

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

Business:
Haverty Furniture Companies, Inc. ("Havertys," "we," "our," or "us") is a retailer of a broad line of residential furniture in the middle to upper-middle price ranges. We have 119 showrooms in 16 states at December 31, 2014. All of our stores are operated using the Havertys name and we do not franchise our stores. We offer financing through an internal revolving charge credit plan as well as a third-party finance company. We operate in one reportable segment, home furnishings retailing.

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

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

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

Investments:
We have purchased certificates of deposit held for investment that are not debt securities 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 $7,250,000 and are classified as current and those with remaining maturities greater than one year totaled $2,750,000 and are included in other assets.

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

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

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

Estimated useful lives for financial reporting purposes are as follows:

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

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

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

We typically offer our customers an opportunity for us to deliver their purchases and most choose this service. Delivery fees of approximately $27,293,000, $27,588,000 and $21,699,000 were charged to customers in 2014, 2013 and 2012, respectively, and are included in net sales. The costs associated with deliveries are included in selling, general and administrative expenses and were approximately $36,395,000, $32,736,000 and $31,411,000 in 2014, 2013 and 2012, respectively.

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

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

Selling, General and Administrative Expenses:
Our selling, general and administrative ("SG&A") expenses are comprised of advertising, selling, occupancy, delivery and administrative costs as well as certain warehouse expenses. The costs associated with our purchasing, warehousing, delivery and other distribution costs included in SG&A expense were approximately $70,420,000, $64,302,000 and $61,991,000 in 2014, 2013 and 2012, respectively.

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

Deferred Escalating Minimum Rent and Lease Incentives:

Certain of our operating leases contain predetermined fixed escalations of the minimum rentals during the term of the lease. For these leases, we recognize the related rental expense on a straight-line basis over the life of the lease, beginning with the point at which we obtain control and possession of the leased properties, and record the difference between the amounts charged to operations and amounts paid as "Accrued liabilities." The liability for deferred escalating minimum rent approximated $10,850,000 and $11,581,000 at December 31, 2014 and 2013, respectively. Any lease incentives we receive are deferred and subsequently amortized on a straight-line basis over the life of the lease as a reduction of rent expense. The liability for lease incentives approximated $1,373,000 and $1,766,000 at December 31, 2014 and 2013, respectively.

Advertising Expense:
Advertising costs, which include television, radio, newspaper and other media advertising, are expensed upon first showing. The total amount of prepaid advertising costs included in other current assets was approximately $718,000 and $604,000 at December 31, 2014 and 2013, respectively. We incurred approximately $45,067,000, $43,030,000 and $41,883,000 in advertising expense during 2014, 2013 and 2012, respectively.

Interest Expense, net:
Interest expense is comprised of amounts incurred related to our debt and lease obligations recorded on our balance sheet, net of interest income. The total amount of interest expense was approximately $1,423,000, $1,218,000 and $866,000 during 2014, 2013 and 2012, respectively.

Other Income, net:
Other income, net includes any gains or losses on sales of property and equipment and miscellaneous income or expense items outside of core operations.

Self-Insurance:
We are self-insured, for amounts up to a deductible per occurrence, for losses related to general liability, workers' compensation and vehicle claims. Beginning in 2012 we became primarily self-insured for employee group health care claims. We maintain an accrual for these costs based on claims filed and an estimate of claims incurred but not reported or paid, based on historical data and actuarial estimates. The current portion of these self-insurance reserves is included in accrued liabilities and the non-current portion is included in other liabilities. These reserves totaled $8,863,000 and $8,220,000 at December 31, 2014 and 2013, respectively.

Fair Values of Financial Instruments:
The fair values of our cash and cash equivalents, restricted cash and cash equivalents, accounts receivable, accounts payable and customer deposits approximate their carrying amounts due to their short-term nature. The assets that are related to our self-directed, non-qualified deferred compensation plans for certain executives and employees are valued using quoted market prices, a Level 1 valuation technique. The assets totaled approximately $2,728,000 and $2,081,000 at December 31, 2014 and 2013, respectively, and are included in other assets. The related liability of the same amount is included in other liabilities.

Impairment of Long-Lived Assets:
We review long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable. If an indicator of impairment is identified, we evaluate the long-lived assets at the individual property or store level, which is the lowest level at which individual cash flows can be identified. When evaluating these assets for potential impairment, we first compare the carrying amount of the asset to the store's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying amount of the asset, an impairment loss calculation is prepared. The impairment loss calculation compares the carrying amount of the asset to the store's assets' estimated fair value, which is determined on the basis of fair value for similar assets or future cash flows (discounted and with interest charges). If required, an impairment loss is recorded in SG&A expense for the difference in the asset's carrying value and the asset's estimated fair value. No such losses were recorded in 2014, 2013 and 2012.

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

Accumulated Other Comprehensive Income (Loss):
Accumulated other comprehensive income (loss) ("AOCI"), net of income taxes, were comprised of unrecognized pension and retirement liabilities totaling approximately $2,168,000 and $15,412,000 at December 31, 2014 and 2013, respectively. The amounts reclassified out of AOCI to SG&A related to our defined benefit pension plans.

Recently Issued and Adopted Accounting Pronouncement:

Changes to GAAP are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

We considered the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, Revenue From Contracts With Customers, that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This ASU is based on the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. This ASU is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). We are currently evaluating this ASU to determine our adoption method and the impact it will have on our consolidated financial statements.

Note 2, Accounts Receivable:

Amounts financed under our in-house credit programs, as a percent of net sales including sales tax, were approximately 3.2% in 2014, 3.6% in 2013 and 4.6% in 2012. The credit programs selected most often by our customers is "12 months no interest with equal monthly payments." The terms of the other programs vary as to payment terms (30 days to three years) and interest rates (0% to 21%). The receivables are collateralized by the merchandise sold.

Accounts receivable balances resulting from certain credit promotions have scheduled payment amounts which extend beyond one year. These receivable balances have been historically collected earlier than the scheduled dates. The amounts due per the scheduled payment dates approximate as follows: $7,351,000 in 2015, $712,000 in 2016, $133,000 in 2017 and $31,000 in 2018 for receivables outstanding at December 31, 2014.

Accounts receivable are shown net of the allowance for doubtful accounts of approximately $350,000 at December 31, 2014 and 2013. We provide an allowance utilizing a methodology which considers the balances in problem and delinquent categories of accounts, historical write-offs, existing economic conditions and management judgment. We assess the adequacy of the allowance account at the end of each quarter. Interest assessments are continued on past-due accounts but no "interest on interest" is recorded. Delinquent accounts are generally written off automatically after the passage of nine months without receiving a full scheduled monthly payment. Accounts are written off sooner

in the event of a discharged bankruptcy or other circumstances that make further collections unlikely.

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

Note 3, Inventories:

Inventories are measured using the last-in, first-out (LIFO) method of valuation because it results in a better matching of current costs and revenues. The excess of current costs over our carrying value of inventories was approximately $18,956,000 and $18,737,000 at December 31, 2014 and 2013, respectively. The use of the LIFO valuation method as compared to the FIFO method had a negative impact on our cost of goods sold of approximately $219,000 in 2014, a positive impact of $259,000 in 2013, and a negative impact of $886,000 in 2012. During 2013, inventory quantities declined resulting in liquidations of LIFO inventory layers. The effect of the liquidations (included in the preceding LIFO impact amounts) decreased cost of goods sold by an immaterial amount in 2013. We believe this information is meaningful to the users of these consolidated financial statements for analyzing the effects of price changes, for better understanding our financial position and for comparing such effects with other companies.

Note 4, Property and Equipment:

Property and equipment are summarized as follows:

(In thousands)	2014	2013
Land and improvements	$48,410	$47,650
Buildings and improvements	245,188	235,468
Furniture and fixtures	96,715	92,375
Equipment	43,236	39,954
Buildings under lease	36,756	19,577
Construction in progress	16,146	902
	486,451	435,926
Less accumulated depreciation	(253,009)	(240,808)
Less accumulated lease amortization	(8,280)	(5,876)
Property and equipment, net	$225,162	$189,242

During 2012, we transferred approximately $1,217,000 from "Other Assets" to "Property and Equipment" due to our decision to lease a retail location which had been listed for sale.

Note 5, Credit Arrangement:

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

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

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Availability fluctuates under a borrowing base calculation and is reduced by outstanding letters of credit. The borrowing base was $57.6 million and there were no outstanding letters of credit at December 31, 2014. Amounts available are based on the lesser of the borrowing base or the $50.0 million line amount and reduced by $6.2 million since a fixed charge coverage ratio test was not met for the immediately preceding twelve months, resulting in a net availability of $43.8 million. There were no borrowed amounts outstanding under the Credit Agreement at December 31, 2014.

Note 6, Accrued Liabilities and Other Liabilities:

Accrued liabilities and other liabilities consist of the following:

(In thousands)	2014	2013
Accrued liabilities:		
Employee compensation, related taxes and benefits	$15,145	$14,318
Taxes other than income and withholding	9,322	8,231
Self-insurance reserves	5,942	5,326
Other	9,551	8,463
	$39,960	$36,338
Other liabilities:		
Straight-line lease liability	$10,850	$11,581
Self-insurance reserves	2,921	2,894
Other	12,580	10,805
	$26,351	$25,280

Note 7, Income Taxes:

Income tax expense (benefit) consists of the following:

(In thousands)	2014	2013	2012
Current			
Federal	$10,257	$18,253	$9,375
State	1,611	2,621	1,439
	11,868	20,874	10,814
Deferred			
Federal	4,323	(706)	(2,235)
State	477	54	26
	4,800	(652)	(2,209)
	$16,668	$20,222	$8,605

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

(In thousands)	2014	2013	2012
Statutory rates applied to income before income taxes	$8,840	$18,370	$8,231
State income taxes, net of Federal tax benefit	788	1,610	769
Net permanent differences	42	316	8
Release of valuation allowance in accumulated other comprehensive income related to settled pension obligations	6,866	—	—
Change in deferred tax asset valuation allowance	—	(1,363)	(1,207)
Change in state credits	110	1,466	1,129
Change for net operating loss carrybacks, amended returns and related receivables	—	(204)	342
Change in deferred tax rate	—	—	(125)
Change in reserve for uncertain tax positions	—	—	(674)
Other	22	27	132
	$16,668	$20,222	$8,605

The change in state credits in 2014, 2013 and 2012 is the unused amounts which expired as of the end of each of the tax years.

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

(In thousands)	2014	2013
Deferred tax assets:		
Accounts receivable related	$743	$610
Net property and equipment	5,787	11,977
Leases	5,055	5,007
Accrued liabilities	9,523	776
State tax credits	—	110
Retirement benefits	720	4,633
Other	31	28
Total deferred tax assets	21,859	23,141
Deferred tax liabilities:		
Inventory related	9,198	8,951
Other	740	643
Total deferred tax liabilities	9,938	9,594
Net deferred tax assets	$11,921	$13,547

Deferred tax assets and deferred tax liabilities which are current are netted against each other as are non-current deferred tax assets and non-current deferred tax liabilities as they relate to each tax-paying component for presentation in the consolidated balance sheets. These groupings are detailed in the following table:

(In thousands)	2014	2013
Current assets (liabilities):		
Current deferred assets	$5,801	$11,048
Current deferred liabilities	(11,490)	(10,754)
	(5,689)	294
Non-current assets (liabilities):		
Non-current deferred assets	38,978	39,974
Non-current deferred liabilities	(21,368)	(26,721)
	17,610	13,253
Net deferred tax assets	$11,921	$13,547

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

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

We file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. With respect to U.S. federal, state and local jurisdictions, with limited exceptions, we are no longer subject to income tax audits for years before 2009.

Uncertain Tax Positions

During 2012 we settled federal and state audits and the statute of limitations lapsed eliminating our remaining $674,000 unrecognized tax positions and reducing our effective tax rate in that year. No new uncertain tax positions were identified in 2013 or 2014. Interest and penalties associated with uncertain tax positions, if any, are recognized as components of income tax expense.

Note 8, Long-Term Debt and Lease Obligations:

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

(In thousands)	2014	2013
Revolving credit notes [a]	$—	$—
Lease obligations [b]	49,065	17,155
	49,065	17,155
Less portion classified as current	(2,387)	(959)
	$46,678	$16,196

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

(b) These obligations are related to properties under lease with aggregate net book values of approximately $40,538,000 and $13,701,000 at December 31, 2014 and 2013, respectively.

The approximate aggregate maturities of these lease obligations during the five years subsequent to December 31, 2014 and thereafter are as follows: 2015 - $2,387,000; 2016 - $2,740,000, 2017 - $2,931,000; 2018 - $3,139,000; 2019 - $3,351,000 and $34,517,000 thereafter. These maturities are net of imputed interest of approximately $19,174,000 at December 31, 2014.

Cash payments for interest were approximately $1,400,000, $1,185,000 and $834,000 in 2014, 2013 and 2012, respectively.

Note 9, Stockholders' Equity:

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

A special cash dividend of $1.00 for Common Stock and $0.95 for Class A Common Stock was paid in the third quarter of 2014 and the fourth quarter of 2012, respectively. Aggregate dividends paid on Common Stock was $27,077,000, $4,787,000 and $21,721,000 in 2014, 2013 and 2012, respectively. Aggregate dividends paid on Class A Common Stock was $2,703,000, $566,000 and $2,963,000 in 2014, 2013 and 2012, respectively.

Note 10, Benefit Plans:

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

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

The remaining $813,000 plan assets will fund additional plan termination professional fees, administration expenses and any required adjustments identified to amounts settled, with the remainder distributed equally to current plan participants after final IRS approval is obtained. Accordingly, we have no future obligations related to the terminated Pension Plan.

We also have a non-qualified, non-contributory supplemental executive retirement plan (the "SERP") for employees whose retirement benefits are reduced due to their annual compensation levels. The SERP provides annual benefits amounting to 55% of final average earnings less benefits payable from our pension plan and Social Security benefits. The SERP limits the total amount of annual retirement benefits that may be paid to a participant from all sources (Retirement Plan, Social Security and the SERP) to $125,000. The SERP is not funded so we pay benefits directly to participants.

The following table summarizes information about our pension plan and SERP.

	Pension Plan		SERP	
(In thousands)	2014	2013	2014	2013
Change in benefit obligation:				
Benefit obligation at beginning of the year	$73,456	$80,610	$5,974	$6,368
Service cost	—	—	117	134
Interest cost	3,232	3,278	289	259
Plan settlements	(83,453)	—	—	—
Special termination benefits	813	—	—	—
Actuarial losses (gains)	10,700	(6,838)	1,095	(595)
Benefits paid	(3,935)	(3,594)	(205)	(192)
Benefit obligation at end of year	813	73,456	7,270	5,974
Change in plan assets:				
Fair value of plan assets at beginning of year	82,904	73,842	—	—
Employer contribution	—	4,200	205	192
Actual return on plan assets	5,297	8,456	—	—
Plan settlements	(83,453)	—	—	—
Benefits paid	(3,935)	(3,594)	(205)	(192)
Fair value of plan assets at end of year	813	82,904	—	—
Funded status of the plan – (underfunded)	$—	$9,448	$(7,270)	$(5,974)
Accumulated benefit obligations	$—	$73,456	$7,270	$5,974

Amounts recognized in the consolidated balance sheets consist of:

	Pension Plan		SERP	
(In thousands)	2014	2013	2014	2013
Noncurrent assets	$—	$9,448	$—	$—
Current liabilities	—	—	(228)	(214)
Noncurrent liabilities	—	—	(7,042)	(5,760)
	$—	$9,448	$(7,270)	$(5,974)

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

	Pension Plan		SERP	
(In thousands)	2014	2013	2014	2013
Prior service cost	$—	$—	$(432)	$(641)
Net actuarial loss	—	(11,176)	(1,663)	(568)
	$—	$(11,176)	$(2,095)	$(1,209)

Net pension cost included the following components:

	Pension Plan			SERP		
(In thousands)	2014	2013	2012	2014	2013	2012
Service cost-benefits earned during the period	$—	$—	$—	$117	$134	$97
Interest cost on projected benefit obligation	3,232	3,278	3,506	289	259	262
Expected return on plan assets	(4,475)	(4,948)	(4,474)	—	—	—
Amortization of prior service cost	—	—	—	210	210	210
Amortization of actuarial loss	244	1,627	1,847		68	26
Settlement loss recognized	20,810	—	—	—	—	—
Special termination benefit recognized	813	—	—	—	—	—
Net pension costs	$20,624	$(43)	$879	$616	$671	$595

The estimated amount that will be amortized from accumulated other comprehensive loss into net periodic cost in 2015 is approximately $324,000 for the SERP.

Assumptions
We use a measurement date of December 31 for our pension and SERP plan. Assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Plan		SERP	
	2014	2013	2014	2013
Discount rate	n/a	4.93%	4.09%	4.96%
Rate of compensation increase	n/a	n/a	3.50%	3.50%

Assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	Pension Plan			SERP		
	2014	2013	2012	2014	2013	2012
Discount rate	4.93%	4.13%	4.60%	4.96%	4.08%	4.60%
Expected long-term return on plan assets	6.00%	6.65%	6.75%	n/a	n/a	n/a
Rate of compensation increase	n/a	n/a	n/a	3.50%	3.50%	3.50%

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

Prior to the termination and settlement of the obligations of the pension plan its assets were held in audited institutional mutual funds and collective trusts. Since the net asset values of these funds were not quoted on actively traded markets, they were classified in a Level 2 valuation category. Some of the holdings in these funds were valued using quoted market prices for similar instruments in active markets, a Level 2 valuation technique. The remaining assets were valued using quoted market prices, a Level 1 valuation technique. The fair values by asset category are as follows (in thousands):

	Fair Value Measurements					
	December 31, 2014			December 31, 2013		
	Total	Level 1	Level 2	Total	Level 1	Level 2
Money Market Funds	$813	$813	$ —	$380	$380	$—
Equity Securities:						
Haverty Class A Common Stock				6,348	6,348	
U.S. Large Cap Passive[(a)]				9,151		9,151
U.S. Small/Mid Cap Growth				1,183		1,183
U.S. Small/Mid Cap Value				1,174		1,174
International Equity				6,316		6,316
Emerging Markets Equity				1,530		1,530
	—	—	—	25,702	6,348	19,354
Fixed Income:						
Opportunistic[(b)]				8,143		8,143
Passive				4,294		4,294
Long Duration Active[(c)]				16,964		16,964
Long Duration Passive				6,478		6,478
Long Duration Investment Grade[(d)]				20,943		20,943
	—	—	—	56,822	—	56,822
Total	$813	$813	$ —	$82,904	$6,728	$76,176

(a) This category comprises low-cost equity index funds not actively managed that track the S&P 500.
(b) This fund invests primarily in U.S. dollar-denominated, investment grade bonds, including government securities, corporate bonds, and mortgage and asset-backed securities. This fund may also invest a significant portion of its assets in any combination of non-investment grade bonds, non-U.S. dollar denominated bonds, and bonds issued by issuers in emerging capital markets.
(c) This category invests primarily in U.S. dollar-denominated, investment grade bonds, including government securities, corporate bonds, and mortgage and asset-backed securities, among others.
(d) This category invests primarily in U.S. dollar-denominated, investment grade corporate bonds as well as U.S. Treasury bonds.

Cash Flows

We did not make any contributions to the pension plan in 2014 and its remaining assets are expected to be distributed in 2015. The following schedule outlines the expected benefit payments related to the SERP in future years. These expected benefits were estimated based on the same actuarial assumptions used to determine benefit obligations at December 31, 2014.

(In thousands)	SERP
2015	$228
2016	260
2017	369

2018	372
2019	379
2020-2024	2,098

Other Plans

We have an employee savings/retirement (401(k)) plan to which substantially all our employees may contribute. We match employee contributions 100% of the first 1% of eligible pay and 50% of the next 5% contributed by participants. We expensed matching employer contributions of approximately $3,449,000, $3,104,000 and $2,907,000 in 2014, 2013 and 2012, respectively.

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

Note 11, Accumulated Other Comprehensive Income (loss):

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

	Year Ended December 31,		
	2014	2013	2012
Beginning balance	$(15,412)	$(23,378)	$(24,996)
Other comprehensive income (loss)			
Defined benefit pension plans:			
Net gain (loss) during year	(10,974)	10,943	339
Amortization of prior service cost[1]	210	210	210
Amortization of net loss[1]	244	1,695	1,873
Settlement loss recognized[2]	20,810	—	—
	10,290	12,848	2,422
Tax expense (benefit)[3]	(2,954)	4,882	921
Defined benefit pension plans, net	13,244	7,966	1,501
Other [4]	—	—	117
Total other comprehensive income	13,244	7,966	1,618
Ending balance	$(2,168)	$(15,412)	$(23,378)

(1) These amounts are included in the computation of net periodic pension costs and were reclassified to selling, general and administrative costs.
(2) This amount was reclassified and is part of the line item "pension settlement expense."
(3) These amounts were reclassified to income tax expense.
(4) This amount was reclassified to selling, general and administrative costs.

Note 12, Stock-Based Compensation Plans:

We have issued options and awards for Common Stock under three stock-based employee compensation plans, the 2014 Long Term Incentive Plan (the "2014 LTIP Plan"), the 2004 Long Term Incentive Plan (the "2004 LTIP Plan") and the 1998 Stock Option Plan (the "1998 Plan"). No new awards may be granted under the 1998 Plan and as of December 31, 2014 all previously granted awards have been exercised, forfeited, or expired. No new awards may be granted under the 2004 LTIP Plan. As of December 31, 2014, 1,187,941 shares were available for awards and options under the 2014 LTIP Plan.

The following table summarizes our equity award activity during the years ended December 31, 2014, 2013 and 2012:

	Restricted Stock Award		Stock-Settled Appreciation Rights		Options	
	Shares or Units	Weighted-Average Award Price	Rights	Weighted-Average Award Price	Shares	Weighted-Average Exercise Price
Outstanding at January 1, 2011	432,025	$ 12.13	144,049	$ 8.87	292,100	$ 14.20
Granted	252,700	12.34	—	—	—	—
Exercised or restrictions lapsed[1]	(127,050)	11.87	(22,300)	8.94	(236,100)	12.89
Forfeited or expired	(1,750)	12.34	—	—	(6,000)	12.84
Outstanding at December 31, 2012	555,925	12.28	121,749	8.85	50,000	20.56
Granted	162,150	18.15	112,000	18.14	—	—
Exercised or restrictions lapsed[1]	(277,975)	12.24	(84,049)	8.90	(48,000)	20.75
Forfeited or expired	(3,100)	15.00	—	—	(2,000)	15.90
Outstanding at December 31, 2013	437,000	14.46	149,700	15.78	—	—
Granted	146,748	28.72	—	—		
Exercised or restrictions lapsed[1]	(235,925)	14.01	(13,725)	12.30		
Forfeited or expired	(26,501)	24.28	(6,000)	18.14		
Outstanding at December 31, 2014	321,322	$ 20.49	129,975	$ 16.04	—	—
Exercisable at December 31, 2014			51,975	$ 12.88	—	—
Restricted units expected to vest	321,322	$ 20.49				
Exercisable at December 31, 2013			37,700	$ 8.76	—	—
Exercisable at December 31, 2012			96,224	$ 8.89	50,000	$ 20.56

(1) The total intrinsic value of options and stock-settled appreciation rights exercised was approximately $184,000, $1,312,000 and $760,000 in 2014, 2013 and 2012, respectively.

The fair value for stock-settled appreciation rights are estimated at the date of grant using a Black Scholes pricing model. The aggregate intrinsic value of vested and outstanding stock-settled appreciation rights at December 31, 2014 was approximately $475,000 and $777,000, respectively.

The total fair value of restricted common stock shares that vested in 2014, 2013 and 2012 was approximately $5,985,000, $6,308,000 and $1,528,000, respectively. The aggregate intrinsic value of outstanding restricted stock awards was $7,290,000 at December 31, 2014.

Grants of restricted common stock, restricted units, performance units and stock-settled appreciation rights have been made to certain officers and key employees under the 2004 and the 2014 LTIP Plan. The restrictions on the restricted units generally lapse or vest annually, primarily over four year periods. The performance units are based on one-year

performance periods but cliff vest in three years from grant date. The compensation for all awards is being charged to selling, general and administrative expense over the respective grants' vesting periods, primarily on a straight-line basis, and was approximately $3,319,000, $3,323,000 and $2,553,000 in 2014, 2013 and 2012, respectively. As of December 31, 2014, the total compensation cost related to unvested equity awards was approximately $4,536,000 and is expected to be recognized over a weighted-average period of 2.2 years.

Note 13, Earnings Per Share:

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

Numerator:	2014	2013	2012
Common:			
Distributed earnings	$27,077	$4,787	$21,721
Undistributed earnings	(19,220)	23,972	(8,522)
Basic	7,857	28,759	13,199
Class A Common earnings	732	3,506	1,712
Diluted	$8,589	$32,265	$14,911
Class A Common:			
Distributed earnings	$2,703	$566	$2,963
Undistributed earnings	(1,971)	2,940	(1,251)
	$732	$3,506	$1,712

Denominator:	2014	2013	2012
Common:			
Weighted average shares outstanding - basic	20,426	19,865	19,096
Assumed conversion of Class A Common Stock	2,199	2,558	2,943
Dilutive options, awards and common stock equivalents	315	392	343
Total weighted average diluted Common Stock	22,940	22,815	22,382
Class A Common:			
Weighted average shares outstanding	2,199	2,558	2,943
Basic net earnings per share			
Common Stock	$0.38	$1.45	$0.69
Class A Common Stock	$0.33	$1.37	$0.58
Diluted net earnings per share			
Common Stock	$0.37	$1.41	$0.67
Class A Common Stock	$0.33	$1.35	$0.59

At December 31, 2012, we did not include options to purchase approximately 50,000 shares of Havertys Common Stock in the computation of diluted earnings per common share because the exercise prices of those options were greater than the average market price and their inclusion would have been antidilutive.

Note 14, Commitments:

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

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

(In thousands)	Operating Leases
2015	$32,148
2016	31,085
2017	28,450
2018	26,615
2019	21,450
Subsequent to 2020	63,029
Total minimum lease payments	202,777
Less total minimum sublease rentals	(12)
Net minimum lease payments	$202,765

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

	2014	2013	2012
Property			
Minimum	$27,264	$27,370	$27,633
Additional rentals based on sales	79	—	—
Sublease income	(144)	(146)	(137)
	27,199	27,224	27,496
Equipment	2,568	2,444	2,162
	$29,767	$29,668	$29,658

Note 15, Supplemental Cash Flow Information:

Income Taxes Paid and Refunds Received
We paid state and federal income taxes of approximately $11,420,000, $20,432,000 and $9,197,000 in 2014, 2013 and 2012, respectively. We also received income tax refunds of approximately $191,000, $3,003,000 and $662,000 in 2014, 2013 and 2012, respectively.

Non-Cash Transactions
We increased property and equipment and lease obligations related to new retail stores by approximately $7,073,000 in 2012. We reduced property and equipment and lease obligations by approximately $2,600,000 in 2013 as one property was completed and accounting for its lease finalized. We increased property and equipment and lease obligations related to retail properties in 2014 by approximately $28,356,000 and $32,999,000, respectively.

Note 16, Selected Quarterly Financial Data (Unaudited):

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2014 and 2013 (in thousands, except per share data):

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

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

	2013 Quarter Ended			
	March 31	June 30	September 30	December 31
Net sales	$186,090	$171,114	$192,722	$196,164
Gross profit	100,309	91,311	103,877	106,000
Credit service charges	86	76	78	79
Income before taxes	13,450	7,866	15,388	15,783
Net income	8,260	4,830	9,494	9,681
Basic net earnings per share:				
Common	0.37	0.22	0.42	0.43
Class A Common	0.35	0.20	0.40	0.41
Diluted net earnings per share:				
Common	0.36	0.21	0.42	0.42
Class A Common	0.34	0.20	0.40	0.41

The first quarter of 2013 includes a benefit of $0.8 million to gross profit, a $0.02 per share impact, for an out-of-period adjustment.

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

Schedule II – Valuation and Qualifying Accounts
Haverty Furniture Companies, Inc. and subsidiaries:

Column A (In thousands)	Column B Balance at beginning of period	Column C Additions charged to costs and expenses	Column D Deductions Describe (1)(2)	Column E Balance at end of period
Year ended December 31, 2014:				
Allowance for doubtful accounts	$ 350	$ 257	$ 257	$ 350
Reserve for cancelled sales and allowances	$ 1,277	$ 11,126	$ 10,776	$ 1,627
Year ended December 31, 2013:				
Allowance for doubtful accounts	$ 395	$ 120	$ 165	$ 350
Reserve for cancelled sales and allowances	$ 1,152	$ 10,402	$ 10,277	$ 1,277
Year ended December 31, 2012:				
Allowance for doubtful accounts	$ 525	$ 165	$ 295	$ 395
Reserve for cancelled sales and allowances	$ 1,100	$ 9,027	$ 8,975	$ 1,152

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

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