

HOOKER FURNITURE CORP  
Form 10-Q  
September 12, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q  
\_\_\_\_\_

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended August 3, 2014

Commission file number 000-25349

HOOKER FURNITURE CORPORATION  
(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of incorporation or  
organization)

54-0251350  
(IRS employer identification no.)

440 East Commonwealth Boulevard, Martinsville, VA 24112  
(Address of principal executive offices, zip code)

(276) 632-0459  
(Registrant's telephone number, including area code)

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

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

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 o Accelerated filer x  
Non-accelerated Filer o (Do not check if a smaller  
reporting company) Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of September 5, 2014:

Common stock, no par value (Class of common stock)	10,762,991	(Number of shares)
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Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Information</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	27
Item 4.	<u>Controls and Procedures</u>	27

PART II. OTHER INFORMATION

Item 6.	<u>Exhibits</u>	28
	<u>Signature</u>	29

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Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands)

As of	August 3, 2014 (unaudited)	February 2, 2014
Assets		
Current assets		
Cash and cash equivalents	\$36,943	\$23,882
Trade accounts receivable, less allowance for doubtful accounts of \$1,058 and \$1,243 on each respective date	25,224	29,393
Inventories	44,595	49,016
Prepaid expenses and other current assets	2,334	2,413
Deferred taxes	1,165	1,664
Income tax recoverable	36	682
Total current assets	110,297	107,050
Property, plant and equipment, net	23,185	23,752
Cash surrender value of life insurance policies	19,746	18,891
Deferred taxes	4,135	4,051
Intangible assets	1,382	1,382
Other assets	1,666	355
Total non-current assets	50,114	48,431
Total assets	\$160,411	\$155,481
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$8,709	\$7,077
Accrued salaries, wages and benefits	3,295	3,478
Accrued commissions	764	934
Customer deposits	599	659
Other accrued expenses	809	759
Total current liabilities	14,176	12,907
Deferred compensation	7,937	7,668
Income tax accrual	132	103
Other long-term liabilities	325	-
Total long-term liabilities	8,394	7,771
Total liabilities	22,570	20,678
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, and 10,763 and 10,753 shares issued and outstanding, respectively, on each date	17,714	17,585
Retained earnings	120,045	117,120
Accumulated other comprehensive income	82	98

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Total shareholders' equity	137,841	134,803
Total liabilities and shareholders' equity	\$160,411	\$155,481

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of ContentsHOOKER FURNITURE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
Net sales	\$54,883	\$55,301	\$116,279	\$111,596
Cost of sales	41,226	42,044	87,012	84,423
Gross profit	13,657	13,257	29,267	27,173
Selling and administrative expenses	10,243	10,617	21,610	21,299
Operating income	3,414	2,640	7,657	5,874
Other income (expense), net	52	(22 )	98	(54 )
Income before income taxes	3,466	2,618	7,755	5,820
Income tax expense	1,194	930	2,679	2,006
Net income	\$2,272	\$1,688	\$5,076	\$3,814
Earnings per share				
Basic	\$0.21	\$0.16	\$0.47	\$0.35
Diluted	\$0.21	\$0.16	\$0.47	\$0.35
Weighted average shares outstanding:				
Basic	10,731	10,722	10,728	10,719
Diluted	10,767	10,753	10,762	10,749
Cash dividends declared per share	\$0.10	\$0.10	\$0.20	\$0.20

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands)  
(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
Net Income	\$ 2,272	\$ 1,688	\$ 5,076	\$ 3,814
Other comprehensive income:				
Amortization of actuarial gain	(12)	(27)	(25)	(53)
Income tax effect on amortization of actuarial gains	4	10	9	19
Adjustments to net periodic benefit cost	(8)	(17)	(16)	(34)
Comprehensive Income	\$ 2,264	\$ 1,671	\$ 5,060	\$ 3,780

The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	August 3, 2014	August 4, 2013
Operating Activities:		
Net income	\$5,076	\$3,814
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,259	1,186
Gain on disposal of assets	(37 )	(9 )
Deferred income tax expense (benefit)	499	(95 )
Noncash restricted stock and performance awards	272	333
Provision for doubtful accounts	94	33
Changes in assets and liabilities:		
Trade accounts receivable	4,075	2,005
Inventories	4,422	1,378
Income tax recoverable	646	(515 )
Gain on life insurance policies	(477 )	(451 )
Prepaid expenses and other current assets	618	921
Trade accounts payable	1,631	(819 )
Accrued salaries, wages, and benefits	(183 )	(243 )
Accrued income taxes	-	(751 )
Accrued commissions	(170 )	(163 )
Customer deposits	(60 )	-
Other accrued expenses	53	(68 )
Deferred compensation	55	92
Other long-term liabilities	23	-
Net cash provided by operating activities	\$17,796	\$6,648
Investing Activities:		
Purchases of property and equipment	(1,999 )	(1,726 )
Proceeds received on notes for sale of assets	16	28
Proceeds from sale of property and equipment	69	31
Premiums paid on life insurance policies	(670 )	(715 )
Proceeds received on life insurance policies	-	516
Net cash used in investing activities	(2,584 )	(1,866 )
Financing Activities:		
Cash dividends paid	(2,151 )	(2,150 )
Net cash used in financing activities	(2,151 )	(2,150 )
Net increase in cash and cash equivalents	13,061	2,632
Cash and cash equivalents - beginning of year	23,882	26,342
Cash and cash equivalents - end of quarter	\$36,943	\$28,974



Supplemental schedule of cash flow information:

Income taxes paid, net	\$1,563	\$3,368
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in tables, except per share amounts, in thousands unless otherwise indicated)  
(Unaudited)

For the Twenty-Six Weeks Ended August 3, 2014

1. Preparation of Interim Financial Statements

The condensed consolidated financial statements of Hooker Furniture Corporation and subsidiaries (referred to as “we,” “us,” “our,” “Hooker” or the “Company”) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these statements include all adjustments necessary for a fair statement of the results of all interim periods reported herein. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) are condensed or omitted pursuant to SEC rules and regulations. However, we believe that the disclosures made are adequate for a fair presentation of our results of operations and financial position. Operating results for the interim periods reported herein may not be indicative of the results expected for the fiscal year. These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our annual report on Form 10-K for the fiscal year ended February 2, 2014 (“2014 Annual Report”).

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect both the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from our estimates.

The financial statements contained herein are being filed as part of a quarterly report on Form 10-Q and include:

§ our results of operations for the thirteen-week period (also referred to as “three months,” “three-month period,” “quarter,” “second quarter” or “quarterly period”) that began May 5, 2014 and the twenty-six week period (also referred to as “six months,” “six-month period” or “first half”) that began February 3, 2014, which both ended August 3, 2014, compared to the thirteen-week period that began May 6, 2013 and the twenty-six week period that began February 4, 2013, which both ended August 4, 2013; and

§ our financial condition as of August 3, 2014 compared to February 2, 2014.

References in these notes to the condensed consolidated financial statements of the Company to:

§ the 2015 fiscal year and comparable terminology mean the fiscal year that began February 3, 2014 and will end February 1, 2015; and

§ the 2014 fiscal year and comparable terminology mean the fiscal year that began February 4, 2013 and ended February 2, 2014.

2. Change in Presentation of Consolidated Statement of Cash Flows

GAAP permits the direct or indirect methods of computing cash flows. Beginning with our fiscal 2014 annual report on Form 10-K, we elected to change the presentation of our cash flow statements from the direct to indirect method of computing cash flows. We believe the indirect method is preferable because:

§

it provides a more straight-forward presentation of the reconciliation between consolidated net income and consolidated cash flows;

§ it helps financial statement users to better understand how non-cash transactions are factors of consolidated net income but not sources of consolidated cash flows; and

§ it helps financial statement users to better understand the different linkages among our consolidated financial statements.

Consequently, we have recast our prior-year condensed consolidated statements of cash flows to conform to the fiscal 2015 presentation under the indirect method.

Table of Contents

## 3. Accounts Receivable

	August 3, 2014	February 2, 2014
Trade accounts receivable	\$ 18,446	\$ 22,776
Receivable from factor	7,836	7,860
Allowance for doubtful accounts	(1,058 )	(1,243 )
Accounts receivable	\$ 25,224	\$ 29,393

“Receivable from factor” represents amounts due with respect to factored accounts receivable. We factor substantially all of our domestically-produced upholstery accounts receivable without recourse to us.

Under our factoring agreement, invoices for domestically produced upholstery products are generated and transmitted to our customers, with copies to the factor on a daily basis, as products are shipped to our customers. The factor collects the amounts due and remits collected funds to us semi-weekly, less factoring fees. We retain ownership of the accounts receivable until the invoices are 90 days past due. At that time, the factor pays us the net invoice amount, less factoring fees, and takes ownership of the accounts receivable. The factor is then entitled to collect the invoices on its own behalf and retain any subsequent remittances. The invoiced amounts are reported as accounts receivable on our condensed consolidated balance sheets, generally from the date the merchandise is shipped to our customer until payment is received from the factor.

A limited number of our accounts receivable for our domestically produced upholstery are factored with recourse to us. The amounts of these receivables at August 3, 2014 and February 2, 2014 were \$375,000 and \$324,000, respectively. If the factor is unable to collect the amounts due, invoices are returned to us for collection. We include an estimate of potentially uncollectible receivables in our calculation of our allowance for doubtful accounts.

## 4. Inventories

	August 3, 2014	February 2, 2014
Finished furniture	\$ 54,472	\$ 58,515
Furniture in process	737	804
Materials and supplies	8,523	8,068
Inventories at FIFO	63,732	67,387
Reduction to LIFO basis	(19,137 )	(18,371 )
Inventories	\$ 44,595	\$ 49,016

Table of Contents

## 5. Property, Plant and Equipment

	Depreciable Lives (In years)	August 3, 2014	February 2, 2014
Computer software and hardware	3 - 10	\$ 22,745	\$ 22,294
Buildings and land improvements	15 - 30	22,036	24,026
Machinery and equipment	10	4,778	4,495
Leasehold improvements	5	2,811	2,765
Furniture and fixtures	3 - 8	2,200	2,060
Other	5	668	689
Total depreciable property at cost		55,238	56,329
Less accumulated depreciation		36,023	36,447
Total depreciable property, net		19,215	19,882
Land		1,067	1,152
Construction-in-progress		2,903	2,718
Property, plant and equipment, net		\$ 23,185	\$ 23,752

At August 3, 2014, construction-in-progress consisted of \$2.0 million of expenditures related to our ongoing Enterprise Resource Planning (ERP) conversion efforts and \$910,000 related to various other projects to enhance our facilities and operations.

The \$2.0 million decline in buildings and land improvements during the fiscal 2015 first half is primarily due to the completion of the sale of our Cloverleaf warehouse facility in April 2014. We recognized a gain of \$34,000 on the sale in our fiscal 2015 first-half financial statements. See Item 2 of this report, "Management's Discussion and Analysis of Financial Condition and Results of Operations", for additional information regarding this transaction.

## 6. Fair Value Measurements

Fair value is the price that would be received upon the sale of an asset or paid upon the transfer of a liability (an exit price) in an orderly transaction between market participants on the applicable measurement date. We use a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

Level 1, defined as observable inputs such as quoted prices in active markets for identical assets and liabilities;

Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level 3, defined as unobservable inputs for which little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of August 3, 2014 and February 2, 2014, Company-owned life insurance was measured at fair value on a recurring basis based on Level 2 inputs. The fair value of the Company-owned life insurance is determined by inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Additionally, the fair value of the Company-owned life insurance is marked to market each reporting period and any change in fair value is reflected in income for that period.

As of August 3, 2014, a mortgage note receivable was measured at fair value on a non-recurring basis using Level 3 inputs. The note receivable was delivered to us by the buyer as part of the purchase price for our Cloverleaf facility during the fiscal 2015 first quarter and was recorded at approximately \$1.6 million, the original face value of the note. The carrying value of the note is assumed to approximate its fair value. We measure the probability that amounts due to us under this note will be collected primarily based on the buyer's payment history. Specifically, we consider the buyer's adherence to the contractual payment terms for both timeliness and payment amounts. Should it become probable that we would be unable to collect all amounts due according to the contractual terms of the note, we would measure the note for impairment and record a valuation allowance against the note, if needed, with the related expense charged to income for that period. The note is included in the "Other assets" line of our condensed consolidated balance sheets.

Table of Contents

Our assets measured at fair value on a recurring and non-recurring basis at August 3, 2014 and February 2, 2014, were as follows:

Description	Fair value at August 3, 2014				Fair value at February 2, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
(In thousands)								
Assets measured at fair value								
Company-owned								
life insurance	\$ -	\$ 19,746	\$ -	\$ 19,746	\$ -	\$ 18,891	\$ -	\$ 18,891
Mortgage note receivable	-	-	1,575	1,575	-	-	-	-

## 7. Intangible Assets

Non-amortizable Intangible Assets	Segment	August 3,	February 2,
		2014	2014
Trademarks and trade names - Bradington-Young	Upholstery	\$ 861	\$ 861
Trademarks and trade names - Sam Moore	Upholstery	396	396
URL- Homeware.com	Casegoods	125	125
Total trademarks and tradenames		1,382	1,382

## 8. Long-Term Debt

As of August 3, 2014, we had an aggregate \$13.3 million available under our \$15.0 million unsecured revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.7 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of August 3, 2014. There were no additional borrowings outstanding under the revolving credit facility on August 3, 2014. Any principal outstanding under the revolving credit facility is due July 31, 2018.

## 9. Employee Benefit Plans

We maintain a supplemental retirement income plan ("SRIP") for certain former and current executives. The liability for the SRIP at August 3, 2014 and February 2, 2014 was \$7.7 million and is shown in our condensed consolidated balance sheets as follows:

	August 3, 2014	February 2, 2014
Accrued salaries, wages and benefits (current portion)	\$ 354	\$ 354
Deferred compensation (long-term portion)	7,381	7,308
Total liability	\$ 7,735	\$ 7,662

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Components of net periodic benefit cost for the SRIP are included in our condensed consolidated statements of income under selling and administrative expenses:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
Net periodic benefit cost				
Service cost	\$25	\$64	\$51	\$128
Interest cost	85	73	170	146
Actuarial gain	(13 )	(26 )	(26 )	(53 )
Net periodic benefit cost	\$97	\$111	\$195	\$221

10

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Table of Contents

## 10. Earnings Per Share

We refer you to the discussion of Earnings Per Share in Note 1-Summary of Significant Accounting Policies, in the financial statements included in our 2014 Annual Report, for additional information concerning the calculation of earnings per share.

We have issued restricted stock awards to non-employee members of the board of directors since 2006 and restricted stock units (RSUs) and/or restricted stock to certain senior executives and other key employees since fiscal 2012 under the Company's Stock Incentive Plan. Each RSU entitles the recipient to receive one share of the Company's common stock if the recipient remains continuously employed with the Company through the end of a three-year service period. The RSUs may be paid in shares of our common stock, cash or both at the discretion of the Compensation Committee of our board of directors. We expect to continue to grant these types of awards annually in the future. The following table sets forth the number of outstanding restricted stock awards and RSUs, net of forfeitures and vested shares, as of the fiscal period-end dates indicated:

	August 3, 2014	Feb 2, 2014
Restricted shares	27	29
Restricted stock units	35	32
	62	61

All restricted shares and RSUs awarded that have not yet vested are considered when computing diluted earnings per share. The following table sets forth the computation of basic and diluted earnings per share:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 3, 2014	August 4, 2013	August 3, 2014	August 4, 2013
Net income	\$2,272	\$1,688	\$5,076	\$3,814
Less: Unvested participating restricted stock dividends	3	3	6	6
Net earnings allocated to unvested participating restricted stock	7	5	15	11
Earnings available for common shareholders	2,262	1,680	5,055	3,797
Weighted average shares outstanding for basic earnings per share	10,731	10,722	10,728	10,719
Dilutive effect of unvested restricted stock and RSU awards	36	31	34	30
Weighted average shares outstanding for diluted earnings per share	10,767	10,753	10,762	10,749
Basic earnings per share	\$0.21	\$0.16	\$0.47	\$0.35
Diluted earnings per share	\$0.21	\$0.16	\$0.47	\$0.35

## 11. Income Taxes

We recorded income tax expense of \$1.2 million for the fiscal 2015 second quarter compared to \$930,000 for the comparable prior year period. The effective tax rates for the fiscal 2015 and 2014 second quarters were 34.4% and 35.5%, respectively. In the fiscal 2014 second quarter we reduced the carrying value of our deferred tax assets to reflect the rate at which they were expected to be utilized. This discrete adjustment increased income tax expense in the fiscal year 2014 quarter by approximately 4%. Our effective tax rate was lower in the fiscal 2015 second quarter primarily due the absence of a similar adjustment in the fiscal 2015 second quarter, partially offset by the impact of smaller anticipated rate benefits from earnings on company-owned life insurance policies and distributions from our former captive insurance arrangement as a percentage of quarterly income, due to the increased income in the quarter.

We recorded income tax expense of \$2.7 million for the fiscal 2015 first-half compared to \$2.0 million for the comparable prior year period. The effective tax rate for the fiscal 2015 and 2014 six-month periods was 34.5%. The impact of the change in deferred rates, recorded in fiscal year 2014 was offset by the impact of smaller anticipated rate benefits from earnings on company-owned life insurance policies and distributions from our former captive insurance arrangement in fiscal year 2015.

Table of Contents

The net unrecognized tax benefits as of August 3, 2014 and February 2, 2014, which, if recognized, would affect our effective tax rate are \$339,000 and \$303,000, respectively. In fiscal 2014, an uncertain tax position was identified and accrued for which forthcoming remediation action steps will effectively settle the uncertainty in the next 12 months. In fiscal 2014, we also established a reserve for an uncertain tax position related to the use of a portion of state loss carryforwards in our current tax returns. The balance of that reserve at August 3, 2014 and February 2, 2014 was \$132,000 and \$103,000, respectively.

The tax years ending 2012 through 2014 remain subject to examination by federal taxing authorities. State tax returns for the years ending 2011 through 2014 remain subject to examination.

## 12. Segment Information

For financial reporting purposes, we are organized into two operating segments – casegoods furniture and upholstered furniture. Results from our new H Contract and Homeware business initiatives, and the elimination of intercompany sales and profits related to these businesses, are aggregated with the results from our casegoods operating segment. The following table presents segment information for the periods, and as of the dates, indicated:

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	August 3, 2014	% Net Sales	August 4, 2013	% Net Sales	August 3, 2014	% Net Sales	August 4, 2013	% Net Sales
<b>Net Sales</b>								
Casegoods	\$ 33,996	61.9 %	\$ 34,839	63.0 %	\$ 73,014	62.8 %	\$ 70,281	63.0 %
Upholstery	20,887	38.1 %	20,462	37.0 %	43,265	37.2 %	41,315	37.0 %
Consolidated	\$ 54,883	100.0 %	\$ 55,301	100.0 %	\$ 116,279	100.0 %	\$ 111,596	100.0 %
<b>Gross Profit &amp; Margin</b>								
Casegoods	\$ 9,657	28.4 %	\$ 9,148	26.3 %	\$ 21,034	28.8 %	\$ 19,146	27.2 %
Upholstery	4,000	19.2 %	4,109	20.1 %	8,233	19.0 %	8,027	19.4 %
Consolidated	\$ 13,657	24.9 %	\$ 13,257	24.0 %	\$ 29,267	25.2 %	\$ 27,173	24.3 %
<b>Operating Income &amp; Margin</b>								
Casegoods	\$ 2,688	7.9 %	\$ 1,806	5.2 %	\$ 6,399	8.8 %	\$ 4,372	6.2 %
Upholstery	726	3.5 %	834	4.1 %	1,258	2.9 %	1,502	3.6 %
Consolidated	\$ 3,414	6.2 %	\$ 2,640	4.8 %	\$ 7,657	6.6 %	\$ 5,874	5.3 %
<b>Depreciation &amp; Amortization</b>								
Casegoods	\$ 388		\$ 381		\$ 755		\$ 762	
Upholstery	258		220		504		424	
Consolidated	\$ 646		\$ 601		\$ 1,259		\$ 1,186	
<b>Capital Expenditures</b>								
Casegoods	\$ 705		\$ 549		\$ 1,383		\$ 1,227	
Upholstery	286		297		616		499	

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Consolidated	\$ 991	\$ 846	\$ 1,999	\$ 1,726
	As of August 3, 2014	% Total Assets	As of February 2, 2014	% Total Assets
Total Assets				
Casegoods	\$ 126,723	79.0 %	\$ 122,345	78.7 %
Upholstery	33,688	21.0 %	33,136	21.3 %
Consolidated	\$ 160,411	100.0 %	\$ 155,481	100.0 %

13. Subsequent Events

Dividends

On September 2, 2014, our board of directors declared a quarterly cash dividend of \$0.10 per share, payable on September 30, 2014 to shareholders of record at September 15, 2014.

Table of Contents

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

This quarterly report on Form 10-Q includes our unaudited condensed consolidated financial statements for the thirteen-week period (also referred to as "three months," "three-month period," "quarter," "second quarter" or "quarterly period") that began May 5, 2014, and the twenty-six week period (also referred to as "six months," "six-month period" or "first half") that began February 3, 2014, and which both ended August 3, 2014. This report discusses our results of operations for these periods compared to the fiscal year 2014 thirteen-week period that began May 6, 2013 and the twenty-six week period that began February 4, 2013, which both ended August 4, 2013 and our financial condition as of August 3, 2014 compared to February 2, 2014.

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the related notes, contained elsewhere in this quarterly report. We also encourage users of this report to familiarize themselves with all of our recent public filings made with the Securities and Exchange Commission ("SEC"), especially our 2014 annual report on Form 10-K ("2014 Annual Report") filed with the SEC on April 18, 2014. Our 2014 Annual Report contains critical information regarding known risks and uncertainties we face, critical accounting policies and information on commitments and contractual obligations which are not reflected in our consolidated financial statements, as well as a more thorough and detailed discussion of our corporate strategy and new business initiatives. Our 2014 Annual Report and our other public filings made with the SEC are available, without charge, at [www.sec.gov](http://www.sec.gov) and at <http://investors.hookerfurniture.com>

For financial reporting purposes, we are organized into two operating segments – casegoods furniture and upholstered furniture. Results from our new H Contract and Homeware business initiatives, and the elimination of intercompany sales and profits related to these businesses, are aggregated with the results of our casegoods operating segment. References in this report to "we," "us," "our," "Hooker," "Hooker Furniture" or "the Company" refer to Hooker Furniture Corporation and our consolidated subsidiaries, unless specifically referring to segment information.

References in this report to:

§ the 2015 fiscal year and comparable terminology mean the fiscal year that began February 3, 2014 and will end February 1, 2015; and

§ the 2014 fiscal year and comparable terminology mean the fiscal year that began February 4, 2013 and ended February 2, 2014.

Dollar amounts presented in the tables below are in thousands except for per share data.

Nature of Operations

Hooker Furniture Corporation is a home furnishings marketing, design and logistics company offering worldwide sourcing of residential casegoods and upholstery, as well as domestically-produced custom leather and fabric-upholstered furniture. We were incorporated in Virginia in 1924 and are ranked among the nation's top 10 largest publicly traded furniture sources, based on 2013 shipments to U.S. retailers, according to a 2014 survey published by Furniture Today, a leading trade publication. We are a key resource for residential wood and metal furniture (commonly referred to as "casegoods") and upholstered furniture. Our major casegoods product categories include accents, home office, dining, bedroom and home entertainment furniture under the Hooker Furniture brand. Our residential upholstered seating companies include Bradington-Young, a specialist in upscale motion and stationary leather furniture and Sam Moore Furniture, a specialist in upscale occasional chairs, settees, sofas and sectional seating with an emphasis on cover-to-frame customization. An extensive selection of designs and formats along with finish and cover options in each of these product categories makes us a comprehensive resource for home

furnishings retailers primarily targeting the upper-medium price range. For our core product line, our principal customers are retailers of residential home furnishings that are broadly dispersed throughout the United States. Our customers also include home furniture retailers in Canada and in more than 10 other countries internationally. Other customers include independent furniture stores, specialty retailers, department stores, catalog and internet merchants, interior designers and national and regional chains.

To expand and grow beyond our core business, we launched two start-up brands during the 2014 fiscal year focused on serving the needs of emerging consumer groups on the opposite ends of the age and life stage spectrum. One, H Contract, focuses on the burgeoning senior living market for retirees. The other, Homeware, primarily focuses on younger and more mobile consumers in the early stages of their careers.

H Contract supplies upholstered seating and casegoods to upscale senior living facilities throughout the country, working with designers specializing in the contract industry to provide functional furniture that meets the style and comfort expectations of today's retirees.

Table of Contents

To address the needs of younger furniture shoppers, as well as those living in urban or smaller spaces, we launched Homeware . Homeware is an online-only brand that is sold through leading international e-commerce retailers as well as our own e-commerce website, homeware.com. In addition to unique chairs and ottomans designed to be assembled in minutes by the consumer with no tools or hardware required, Homeware also offers home accessories and living room tables. Homeware plans to expand into multi-seat upholstery, in late fiscal 2015 and into casual dining and entertainment centers in the first-half of fiscal 2016.

Overview

Consumer home furnishings purchases are driven by an array of factors, including general economic conditions such as:

- § consumer confidence;
- § availability of consumer credit;
- § energy and other commodity prices; and
- § housing and mortgage markets;

as well as lifestyle-driven factors such as changes in:

- § fashion trends;
- § disposable income; and
- § household formation and turnover.

Economic and economic-related factors, such as high unemployment and changing consumer priorities, have resulted in a somewhat depressed retail environment for discretionary home furnishings and related purchases since 2008. The extended weakness in housing and housing-related industries is beginning to show signs of sustained recovery, and mostly positive news on housing and consumer confidence is encouraging. However, we acknowledge that some economic headwinds persist.

Our lower overhead, variable-cost import operations have driven our profitability over the last few years and provide us with more flexibility to respond to changing demand by adjusting inventory purchases from suppliers. On the other hand, our import model requires a larger investment in inventory and longer production lead times. In addition, we must constantly evaluate our imported furniture suppliers and, when quality concerns or inflationary pressures diminish the value proposition offered by our current suppliers, transition sourcing to other suppliers, often located in different countries or regions.

Results for our domestic upholstery operations, which have significantly higher overhead and fixed costs than our import operations, have been particularly affected by the decline in demand for home furnishings and experienced operating losses or low operating profitability beginning with our fiscal 2009 second quarter through the second quarter of fiscal 2013. We initiated extensive cost reduction efforts over that time, which mitigated the effect of the weakness in demand. Our upholstery segment operations have been profitable for the last two fiscal years, as well as for the first-half of fiscal 2015.

The following are the primary factors that affected our consolidated results of operations for the three-month period ended August 3, 2014 compared to the three-month period ended August 4, 2013:

- § Net sales were essentially flat, decreasing 0.8% or \$418,000, primarily due to lower unit volume in both segments, partially offset by higher average selling prices in our upholstery segment;
- §

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Gross profit increased by \$400,000, or 3.0%, primarily due to lower casegoods segment cost of goods sold as a percentage of net sales, primarily due to changes in product mix and decreased casegoods segment discounting, partially offset by increased returns and allowances;

§ Selling and administrative expenses decreased both in absolute terms and as a percentage of net sales; and  
§ Consolidated operating profitability increased by \$774,000 or 29.4%, primarily due to a casegoods segment operating profitability increase of \$882,000 or 48.8%.

The following are the primary factors that affected our consolidated results of operations for the six-month period ended August 3, 2014 compared to the six-month period ended August 4, 2013:

§ Net sales increased 4.2% or \$4.7 million, due to increased unit volume in our casegoods segment and higher average selling prices in our upholstery segment;

§ Gross profit increased by \$2.1 million or 7.7%, primarily due to lower casegoods segment cost of goods sold as a percentage of net sales. Decreased casegoods segment discounting was offset by increased returns and allowances;

§ Selling and administrative expenses decreased as a percentage of net sales to 18.6% from 19.1%, but increased in absolute terms by \$311,000; and

§ Consolidated operating profitability increased by \$1.8 million or 30.4%, primarily due to a casegoods segment operating profitability increase of \$2.0 million or 46.4%.



Table of Contents

## Results of Operations

The following table sets forth the percentage relationship to net sales of certain items included in the condensed consolidated statements of income included in this report.

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	August 3, 2014		August 4, 2013		August 3, 2014		August 4, 2013	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales	75.1		76.0		74.8		75.7	
Gross profit	24.9		24.0		25.2		24.3	
Selling and administrative expenses	18.7		19.2		18.6		19.1	
Operating income	6.2		4.8		6.6		5.3	
Other income, net	0.1		-		0.1		-	
Income before income taxes	6.3		4.7		6.7		5.2	
Income tax expense	2.2		1.7		2.3		1.8	
Net income	4.1		3.1		4.4		3.4	

## Fiscal 2015 Second Quarter Compared to Fiscal 2014 Second Quarter

	August 3, 2014		Net Sales Thirteen Weeks Ended August 4, 2013		\$ Change	% Change
		% Net Sales		% Net Sales		
Casegoods	\$33,996	61.9	% \$34,839	63.0	% \$(843)	) -2.4
Upholstery	20,887	38.1	% 20,462	37.0	% 425	2.1
Consolidated	\$54,883	100.0	% \$55,301	100.0	% \$(418)	) -0.8

Unit Volume	FY15 Q2 % Increase vs. FY14 Q2	Average Selling Price	FY15 Q2 % Increase vs. FY14 Q2
Casegoods	-2.8	Casegoods	0.0
Upholstery	-4.8	Upholstery	7.6
Consolidated	-3.5	Consolidated	2.7

Table of Contents

The decrease in consolidated net sales for the fiscal 2015 second quarter was primarily due to decreased unit volume in both operating segments, partially offset by higher upholstery segment average selling prices. Unit volume decreases in our casegoods segment were primarily due to general weakness at retail, which we believe belies the beginning of a recovery in casegoods sales industry-wide. Upholstery net sales increased due to net sales gains at Sam Moore, which were due primarily to higher average selling prices and, to a lesser extent, increased unit volume. Both of our new business initiatives, H Contract and Homeware, contributed net sales in the fiscal 2015 quarter compared to the prior-year period, when they were in the pre-revenue phase of their startups.

	Gross Income and Margin Thirteen Weeks Ended								
	August 3, 2014	% Net Sales		August 4, 2013	% Net Sales				\$ Change
Casegoods	\$9,657	28.4	%	\$9,148	26.3	%	\$509	5.6	%
Upholstery	4,000	19.2	%	4,109	20.1	%	(109)	-2.7	%
Consolidated	\$13,657	24.9	%	\$13,257	24.0	%	\$400	3.0	%

Consolidated gross profit increased in the fiscal 2015 second quarter, primarily due to:

- § Lower casegoods segment cost of sales as a percentage of net sales primarily due to changes in product mix.
- § Lower casegoods segment discounting, as a percentage of net sales and in absolute terms, as a result of successful efforts to reduce slow-moving inventory earlier in fiscal 2015.

These improvements were partially offset by decreased upholstery segment gross profit, due primarily to lower sales of imported upholstery, partially offset by improved gross profit at Sam Moore due to increased net sales.

	Selling and Administrative Expenses Thirteen Weeks Ended								
	August 3, 2014	% Net Sales		August 4, 2013	% Net Sales				\$ Change
Casegoods	\$6,969	20.6	%	\$7,342	21.1	%	\$(373)	-5.1	%
Upholstery	3,274	15.6	%	3,275	16.0	%	(1)	0.0	%
Consolidated	\$10,243	18.7	%	\$10,617	19.2	%	\$(374)	-3.5	%

Consolidated selling and administrative expenses decreased both as a percentage of net sales and in absolute terms. Casegoods selling and administrative expenses decreased both as a percentage of net sales and in absolute terms, primarily due to decreased:

- § professional services expenses due to lower compliance costs;
- § selling expenses due to lower net sales; and
- § benefits expense due to increases in the cash surrender value of Company-owned life insurance.

These improvements were partially offset by an approximate \$57,000 increase in operating expenses for the H Contract and Homeware divisions. Upholstery selling and administrative expenses were essentially flat as compared to the prior year period.

Table of Contents

	August 3, 2014		August 4, 2013		Operating Profit and Margin Thirteen Weeks Ended		\$ Change	% Change	
		% Net Sales		% Net Sales					
Casegoods	\$2,688	7.9	% \$1,806	5.2	% \$882		48.8	%	
Upholstery	726	3.5	% 834	4.1	% (108 )		-12.9	%	
Consolidated	\$3,414	6.2	% \$2,640	4.8	% \$774		29.4	%	

Operating profitability increased for the fiscal 2015 second quarter, both as a percentage of net sales and in absolute terms, due to the factors discussed above.

	August 3, 2014		August 4, 2013		Income Taxes Thirteen Weeks Ended		\$ Change	% Change	
		% Net Sales		% Net Sales					
Consolidated income tax expense	\$1,194	2.2	% \$930	1.7	% \$264		28.4	%	
Effective Tax Rate	34.4	%		35.5	%				

We recorded income tax expense of \$1.2 million for the fiscal 2015 second quarter compared to \$930,000 for the comparable prior year period. The effective tax rates for the fiscal 2015 and 2014 second quarters were 34.4% and 35.5%, respectively. In the fiscal 2014 second quarter we reduced the carrying value of our deferred tax assets to reflect the rate at which they were expected to be utilized. This discrete adjustment increased income tax expense in the fiscal year 2014 quarter by approximately 4%. Our effective tax rate was lower in the fiscal 2015 second quarter primarily due the absence of a similar adjustment in the fiscal 2015 second quarter, partially offset by the impact of smaller anticipated rate benefits from earnings on company-owned life insurance policies and distributions from our former captive insurance arrangement as a percentage of quarterly income, due to the increased income in the quarter.

	August 3, 2014		August 4, 2013		Net Income Thirteen Weeks Ended		\$ Change	% Change	
		% Net Sales		% Net Sales					
Consolidated	\$2,272	4.1	% \$1,688	3.1	% \$586		34.8	%	
Earnings per share	\$0.21			\$0.16					

Table of Contents

## Fiscal 2015 First Half Compared to Fiscal 2014 First Half

	August 3, 2014		Net Sales Twenty-Six Weeks Ended August 4, 2013		\$ Change	% Change
		% Net Sales		% Net Sales		
Casegoods	\$73,014	62.8	% \$70,281	63.0	% \$2,733	3.9
Upholstery	43,265	37.2	% 41,315	37.0	% \$1,950	4.7
Consolidated	\$116,279	100.0	% \$111,596	100.0	% \$4,683	4.2

Unit Volume	FY15 YTD % Increase vs. FY14 YTD		Average Selling Price	FY15 YTD % Increase vs. FY14 YTD	
		%			%
Casegoods	5.3	%	Casegoods	-1.6	%
Upholstery	-0.6	%	Upholstery	5.7	%
Consolidated	3.5	%	Consolidated	0.7	%

The increase in consolidated net sales for the fiscal 2015 first half was principally due to increased unit volume in our casegoods segment during the first quarter and, to a lesser extent, higher average selling prices in our upholstery segment. Unit volume increases in our casegoods segment during the first quarter were led by increases in container-direct shipments to retailers, which we continue to believe to be indicative of a recovery in casegoods sales industry-wide. The higher average selling prices in the upholstery segment were primarily the result of a shift in the mix of products sold toward some of our higher priced items.

	August 3, 2014		Gross Profit Twenty-Six Weeks Ended August 4, 2013		\$ Change	% Change
		% Net Sales		% Net Sales		
Casegoods	\$21,034	28.8	% \$19,146	27.2	% \$1,888	9.9
Upholstery	8,233	19.0	% 8,027	19.4	% 206	2.6
Consolidated	\$29,267	25.2	% \$27,173	24.3	% \$2,094	7.7

Consolidated gross profit increased in the fiscal 2015 first half primarily due to higher net sales in both segments and lower casegoods cost of goods sold as a percentage of net sales. Decreased casegoods segment discounting was offset by increased returns and allowances.

	August 3, 2014		Selling and Administrative Expenses Twenty-Six Weeks Ended August 4, 2013		\$ Change	% Change
		% Net Sales		% Net Sales		
Casegoods	\$14,635	20.1	% \$14,774	21.0	% \$(139)	-0.9
Upholstery	6,975	16.1	% 6,525	15.8	% 450	6.9
Consolidated	\$21,610	18.6	% \$21,299	19.1	% \$311	1.5

Consolidated selling and administrative expenses increased in absolute terms but decreased as a percentage of net sales in the fiscal 2015 first half.

Casegoods selling and administrative expenses decreased as a percentage of net sales and in absolute terms primarily due to decreased professional services and selling expenses, partially offset by increased commissions expense due to higher sales and increased operating expenses for our H Contract and Homeware initiatives.

Table of Contents

Upholstery selling and administrative expenses increased both as a percentage of net sales and in absolute terms primarily due to increased:

- § employee benefit costs;
- § bad debts expense due to higher net sales and related increases in accounts receivable balances; and
- § ERP-related project costs;

	August 3, 2014		August 4, 2013		\$ Change	% Change
		% Net Sales		% Net Sales		
Operating Income						
Twenty-Six Weeks Ended						
Casegoods	\$6,399	8.8	% \$4,372	6.2	% \$2,027	46.4
Upholstery	1,258	2.9	% 1,502	3.6	% (244 )	-16.2
Consolidated	\$7,657	6.6	% \$5,874	5.3	% \$1,783	30.4

Operating profitability increased for the fiscal 2015 first half, both as a percentage of net sales and in absolute terms due to the factors discussed above.

	August 3, 2014		August 4, 2013		\$ Change	% Change
		% Net Sales		% Net Sales		
Income Taxes						
Twenty-Six Weeks Ended						
Consolidated income tax expense	\$2,679	2.3	% \$2,006	1.8	% \$673	33.5
Effective Tax Rate	34.5	%	34.5	%		

We recorded income tax expense of \$2.7 million for the fiscal 2015 first-half compared to \$2.0 million for the comparable prior year period. The effective tax rate for the fiscal 2015 and 2014 six-month periods was 34.5%. The impact of the change in deferred rates, recorded in fiscal year 2014 was offset by the impact of smaller anticipated rate benefits from earnings on company-owned life insurance policies and distributions from our former captive insurance arrangement in fiscal year 2015.

	August 3, 2014		August 4, 2013		\$ Change	% Change
		% Net Sales		% Net Sales		
Net Income and Earnings Per Share						
Twenty-Six Weeks Ended						
Consolidated	\$5,076	4.4	% \$3,814	3.4	% \$1,262	33.1
Earnings per share	\$0.47		\$0.35			

Review and Outlook

Orders for the fiscal 2015 first half increased over the prior-year period, but were not as strong as we would have expected them to be during the post Spring furniture-market period. The retail demand environment was particularly weak for casegoods during the fiscal 2015 second quarter. As we head into the Fall selling season, we expect to see an increase in retail furniture sales and are prepared to capitalize on any improvements in external conditions with our good inventory position on best sellers, strong product line, expected progress in our upholstery segment and with improvements in our new business initiatives.

#### Spring and Fall Furniture Markets

We are encouraged by results from the Spring International Home Furnishings Market (the “Market”) held in April 2014. We are pleased that our initial efforts at expanding the “good” and “better” parts of our merchandising reach were successful, as products offered in these two categories, as well as products in the “best” category, were very well received. Initial presentations of products slated to be released at the Fall Market are encouraging.

## Table of Contents

### Casegoods

Upholstery sales have outperformed casegoods industry-wide over the last few years. However, we are seeing indications of what we believe to be a recovery in casegoods' sales and higher retailer confidence in the ability to sell large-ticket bedroom, dining and occasional furniture, despite the general weakness observed at retail during our fiscal 2015 second quarter. Significant increases in our container-direct shipments to retailers from our Asian warehouse program in the fiscal 2015 first quarter helped drive our fiscal year-to-date sales performance. We have strengthened our container-direct offering with a good service position on a broader selection of best sellers, and we believe that retailers are becoming more comfortable committing to the larger container purchases. Container direct shipments were brisk in August, as we began shipping the first wave of our well-placed April product introductions. We expect increased new product shipment momentum in the coming weeks as our domestic distribution centers begin shipping these new products to our broader customer base.

We introduced a new Vietnam-based warehouse container direct program to retailers at the Spring Market, which we expect will strengthen container direct sales even further. Initial demand for this program has been strong. While our China-based warehouse program focuses on the "best" price points in our good-better-best assortment, the Vietnam-based warehouse program focuses on the "good" and "better" price points. We continue to take orders for this new program, and began flowing product into the warehouse in early July. We expect to be fully operational in late September, in advance of what is historically the strongest selling season each year for furniture at retail. We believe this program will strengthen our value proposition at the retail level in the good and better price ranges. We expect the savings to retailers from this container program, compared to the same products sold out of our Martinsville warehouse, will be in the high single digits to low double-digits percentage range.

Additionally, we are seeing benefits from a sales management reorganization we implemented during the middle of the 2013 calendar year, in which we shifted from a sales management group organized around brand and product specialization to a regional management focus. The regional management strategy has helped our sales efforts to be more effective across both operating segments.

Another factor in the casegoods sales increase in the fiscal 2015 first-half was a national promotion of our Corsica Collection we conducted in March-April 2014. Sales of our Corsica Collection increased as a result of this effort, which achieved over 15 million consumer impressions for the collection and a drive-to-retail message across a wide spectrum of top digital and social media venues, including our own websites. We believe that our new state-of-the art, consumer-centric website, which debuted in August, and additional national marketing campaigns planned for the Fall selling season will positively contribute to casegoods performance in the second-half of fiscal 2015.

### Upholstery Segment

Overall upholstery sales were up 4.7% for the fiscal 2015 first half on the strength of another double digit sales increase at Sam Moore, which offset a decline at Hooker Upholstery and relatively modest sales growth at Bradington-Young (BY).

After considerable effort, Sam Moore, has reduced order backlogs by over 33% from the end of fiscal year 2014 as increased capacity and greater labor efficiency helped improve service to our customers. Currently, order backlogs are at our goal of five weeks or less. We believe that retail sales associates are recommending and selling Sam Moore products with greater confidence and without the hesitation they once had that deliveries of Sam Moore items would be delayed. Gaining the confidence of retail sales professionals is critical, since they are such a key, front-line advocate for our brand. Additionally, we are pleased to report that Sam Moore had an operating profit for the second quarter, primarily due to increased net sales and more favorable medical plan experience. Our expectation is that we will have steady improvements sequentially over the next several quarters. However, this depends on a consistent rate



of incoming orders at current or increased levels, among other factors. While Sam Moore was not profitable on an operating basis for our fiscal 2015 first-half, we expect it to be so for the 2015 fiscal year.

BY's fiscal 2015 second quarter performance was encouraging despite a net sales decrease. A highlight of the BY summer selling season was the introduction of a new reclining chair program which targets more moderate price points. In addition, we introduced "B-Y X" or "Bradington-Young Express," an in-stock quick-ship program on some of our best-selling reclining chairs. After introducing this program, we experienced an approximate 200% rate of sale increase on these recliners, which positively impacted our second quarter order rate, particularly in July and then continuing into the fiscal 2015 third quarter. At the Fall premarket scheduled for mid-September 2014, we plan to introduce a stationary leather sofa program to strengthen our opening price points. The program will offer several sofas with superior construction and cover selection to choose from at what we believe to be a key wholesale price point.

## Table of Contents

As we continue to deal with steady increases in leather raw material costs and rising prices from leather suppliers, we're finding it important to fine-tune our value equation in both the Bradington-Young domestically-produced line and the Hooker Upholstery imported leather line. Because of these price increases, the price gap between our domestic and imported leather lines is narrowing; therefore, we are strengthening our opening price points in both lines to offer a better value proposition for both. We are also seeking to be more creative and innovative in our design and color direction. Overall, we are doing whatever we can to mitigate rising leather costs without sacrificing gross margins. Upholstery management continues to work with BY to improve the perceived value of its imported leather products. The increase in leather costs has had some positive impact in reducing competition in the leather market. As leather has been positioned more firmly as a luxury product, the promotional players are moving away from leather to less expensive alternative covers. However, more expensive leather furniture also makes fabric and leather alternative covers more attractive to consumers.

Future upholstery profitability increases will continue to require us to increase sales while maintaining Bradington-Young gross margins at, or close to, current levels and improve manufacturing processes and work flow at the Sam Moore facility.

### H Contract and Homeware

Our H Contract product line was close to operating profitability for the first six-months of fiscal 2015, but remained a small part of our net sales overall. We are pleased that H Contract order activity is increasing, as is the size of bid opportunities as the H Contract brand becomes better established in the industry. We expect H Contract to continue to broaden its customer base and product line, increase sales and to contribute to consolidated operating profitability in fiscal 2015.

Our Homeware product line is performing close to expectations. We continue to be enthusiastic about the brand and the future of online furniture retailing. While we have experienced and expect to continue to experience the challenges associated with new initiatives, such as developing the right sourcing relationships and building the correct levels of inventory, we have seen steady improvement in month-over-month website traffic and other key performance indicators. During the fiscal 2015 first quarter, we introduced occasional tables as well as home décor products such as rugs, lighting and mirrors. In late fiscal 2015, we plan to introduce major upholstery items including sofas, loveseats and sectionals. Casual dining and entertainment will follow in the first half of fiscal 2016. We believe that expanding the product line will be an important catalyst for growth. We also believe the Homeware initiative is critical to address the migration of retail business to online outlets, but expect it will take longer than H Contract to reach critical mass and profitability. However, we view this investment as a vital step toward the future of consumer-centric home furnishings retailing.

Collectively, these new ventures increased net sales by \$2.1 million in the fiscal 2015 first-half and operating losses from these ventures totaled \$677,000. We expect these new ventures will negatively affect net income by between \$0.04 and \$0.06 per share for the 2015 fiscal year. Results from these new business initiatives are aggregated with the results from our casegoods operating segment.

### Sale of Cloverleaf Warehouse Facility

During the fiscal 2015 first quarter, we completed the sale of our Cloverleaf warehouse facility. Part of the purchase price was paid in the form of a mortgage note receivable with an original amount of \$1.6 million. As required by GAAP (Accounting Standards Codification 360-20-55), we utilized the installment method for gain recognition and recognized approximately \$34,000 on the sale in our fiscal 2015 first quarter condensed consolidated income statements. The gain was netted against our warehouse and distribution expenses, which are included in the "cost of goods sold" line of our condensed consolidated income statements. Under the installment method, we will apportion

principal payments made by the buyer on the mortgage note between the cost recovered and profit. The apportionment is in the same ratio as total cost and profit bear to the sales value. Consequently, the remaining balance of the gain of \$302,000 on the sale was deferred and will be recognized as we receive principal payments on the mortgage note. The mortgage note specifies an interest-only payment period. Consequently, no additional gain beyond the initial \$34,000 was recognized in the fiscal 2015 first-half. The deferred gain is recorded in the “other long-term liabilities” line of our condensed consolidated balance sheets.

Table of Contents

Fiscal 2015

As we progress through fiscal 2015, we will continue to focus on:

- § improving sales in our existing distribution channels, through efforts like our P3 program;
- § pursuing additional distribution channels, including for our new H Contract and Homeware initiatives;
  - § controlling costs;
- § expanding our merchandising reach in the “good” and “better” parts of our “good-better-best” casegoods product offerings;
  - § adjusting product pricing on our main-line products in order to mitigate inflation and improve margins;
  - § achieving proper inventory levels, while optimizing product availability on best-selling items;
- § sourcing product from cost-competitive locations and from quality-conscious sourcing partners, and strengthening our relationships with key vendors;
  - § improving the product assortment and value proposition of the Hooker Upholstery imported products line;
    - § improving profitability and production capacity at Sam Moore;
  - § offering an array of new products and designs, which we believe will help generate additional sales; and
    - § upgrading and refining our information systems capabilities to support our businesses.

Possible U.S. West Coast Port Strike

The International Longshoremen and Warehouse Union’s contract with the Pacific Maritime Association expired on June 30, 2014. However, to date, there has been no work stoppage. Negotiations are continuing between the two parties and a tentative agreement on health benefits, believed to be a key element of the negotiations, was reached in late August. The recent movement of importers’ cargo through other ports to avoid a potential shutdown has worsened port congestion at East Coast and Canadian ports of entry. While we do not bring a large volume of cargo through Los Angeles or Long Beach ports, we have been warned by freight forwarders with whom we do business that, in the event of a strike that disrupts operations on the West Coast, port congestion surcharges will be applied not only at the ports where union workers are striking, but at other ports where cargo may be diverted to avoid any threatened work stoppages. Consequently, the ports through which we transport our imported product could be affected. The proposed surcharges would likely be very expensive, - over \$1,000 per shipping container, which would result in a 25-30% increase in our shipping costs for the duration of any disruption, which in turn could adversely affect our earnings, financial condition and liquidity.

Potential Duties on Accent Chests

On May 27, 2014, the U.S. Department of Commerce (DoC) determined that certain accent chests manufactured in China for one of our competitors constitute “wooden bedroom furniture” that is subject to anti-dumping duties under the Continued Dumping Subsidy Offset Act of 2000. In early June 2014, the DoC directed U.S. Customs and Border Protection (CBP) to begin collecting the anti-dumping duty on these items. While the DoC ruling applies only to the specific accent chests mentioned in the ruling, it is uncertain whether CBP also will begin to collect anti-dumping duties with respect to other similar accent chests imported from China. We currently import, and have imported in the past, accent chests from China that may be similar to those that are subject to the DoC ruling, including accent chests sourced from the same Chinese company that manufactures the accent chests addressed by the DoC ruling.

We are currently not able to determine whether any of the accent chests we source from China, now or in the past, would be subject to the anti-dumping duties. Nor are we able to estimate the potential amount of any such duties. We do not believe the duties, if any, would be assessed retroactively; however, CBP audits can go back five years and any assessment could be subject to interest and penalties. During the fiscal 2015 second quarter, the DoC agreed to reconsider some of its earlier findings related to accent chests. However, if the bedroom furniture anti-dumping duties,

or related penalties, were to be assessed on accent chests that we import, or have imported in the past, from China, our results of operations, financial condition, liquidity and prospects could be adversely affected.

Our business is subject to a number of significant risks and uncertainties, including our reliance on offshore sourcing, any of which can affect adversely our business, results of operations, financial condition or future prospects. For a discussion of risks and uncertainties that we face, see Item 1A, “Risk Factors” in our 2014 Annual Report and “Forward Looking Statements” beginning on page 25 of this report.

Table of Contents

## Financial Condition, Liquidity and Capital Resources

## Working Capital

The following chart shows changes in our current assets, current liabilities, net working capital (current assets less current liabilities) and working capital ratio (current assets compared to current liabilities) as of the end of the second quarter of fiscal 2015 compared to the fiscal 2014 year end:

Balance Sheet and Working Capital			
	August 3, 2014	February 2, 2014	\$ Change
Total Assets	\$ 160,411	\$ 155,481	\$ 4,930
Cash and Cash Equivalents	\$ 36,943	\$ 23,882	\$ 13,061
Trade Receivables, net	25,224	29,393	(4,169 )
Inventories	44,595	49,016	(4,421 )
Prepaid Expenses & Other	3,535	4,759	(1,224 )
Total Current Assets	\$ 110,297	\$ 107,050	\$ 3,247
Trade Accounts Payable	\$ 8,709	\$ 7,077	\$ 2,231
Accrued Salaries, Wages and Benefits	3,295	3,478	(183 )
Other Accrued Expenses	2,172	2,352	(779 )
Total Current Liabilities	\$ 14,176	\$ 12,907	\$ 1,269
Net Working Capital	\$ 96,121	\$ 94,143	\$ 1,978
Working Capital Ratio	7.8 to 1	8.3 to 1	

As of August 3, 2014, total assets increased compared to February 2, 2014, primarily due to increased cash and cash equivalents (resulting from decreased inventories and accounts receivable) and increased trade accounts payable. Inventories decreased as a result of our efforts to liquidate slow-moving inventory and to match inventory levels with projected demand. Accounts receivable decreased due to the excess of collections over net sales. Accounts payable increased primarily due to the timing of payments.

## Cash Flows – Operating, Investing and Financing Activities

Twenty-Six Weeks Ended		
	August 3, 2014	August 4, 2013
Net cash provided by operating activities	\$ 17,796	\$ 6,648
Net cash used in investing activities	(2,584 )	(1,866 )
Net cash used in financing activities	(2,151 )	(2,150 )
Net increase in cash and cash equivalents	\$ 13,061	\$ 2,632

During the six months ended August 3, 2014, cash generated from operations of \$17.8 million helped to fund an increase in cash and cash equivalents of \$13.1 million, cash dividends of \$2.2 million, capital expenditures of \$2.0 million to enhance our business systems and facilities and to pay premiums of \$670,000 on Company-owned life insurance policies.

In comparison, during the six months ended August 4, 2013, cash generated from operations of \$6.6 million and \$516,000 in proceeds received from Company-owned life insurance policies helped to fund an increase in cash and cash equivalents of \$2.6 million, cash dividends of \$2.2 million, capital expenditures of \$1.7 million to enhance our business systems and facilities and to pay premiums of \$715,000 on Company-owned life insurance policies.

#### Liquidity, Financial Resources and Capital Expenditures

We believe that we have the financial resources, including available cash and cash equivalents, expected cash flow from operations and lines of credit needed to meet business requirements for the foreseeable future, including capital expenditures and working capital, as well as to pay regular quarterly cash dividends on our common stock. Cash flow from operations is highly dependent on incoming order rates and our operating performance.

## Table of Contents

As of August 3, 2014, we had an aggregate \$13.3 million available under our revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.7 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of August 3, 2014. There were no additional borrowings outstanding under the revolving credit facility on August 3, 2014.

### Loan Agreement and Revolving Credit Facility

We have a \$15 million unsecured revolving credit facility under a loan agreement with Bank of America, N.A., up to \$3.0 million of which can be used to support letters of credit. The loan agreement allows the Company to permanently terminate or reduce the \$15 million revolving commitment without penalty and includes, among others, the following terms:

- § a maturity date of July 31, 2018;
- § a floating interest rate, adjusted monthly, based on LIBOR plus an applicable margin based on the ratio of our funded debt to our EBITDA (each as defined in the loan agreement);
- § a quarterly unused commitment fee of 0.20%; and
- § no pre-payment penalty.

The loan agreement also includes customary representations and warranties and requires us to comply with customary covenants, including, among other things, the following financial covenants:

- § Maintain a tangible net worth of at least \$95.0 million;
- § Limit capital expenditures to no more than \$15.0 million during any fiscal year; and
- § Maintain a ratio of funded debt to EBITDA not exceeding 2.0:1.0.

We were in compliance with each of these financial covenants at August 3, 2014 and expect to remain in compliance with existing covenants for the foreseeable future. The loan agreement does not restrict our ability to pay cash dividends on, or repurchase our common shares, subject to complying with the financial covenants under the agreement.

### Factoring Arrangement

We currently factor substantially all of our domestic upholstery accounts receivable, in most cases without recourse to us. Historically, we have factored these receivables because factoring:

- § allowed us to outsource the administrative burden of the credit and collections functions for our domestic upholstery operations;
- § allowed us to transfer the collection risk associated with the majority of our domestic upholstery receivables to the factor; and
- § provided us with an additional, potential source of short-term liquidity.

In order to realize operational efficiencies, cost savings, leverage best practices and present a single face to our customers, we plan to end our factoring relationship as our new ERP system becomes fully operational for our domestic upholstery companies, which we expect to occur at Sam Moore in late fiscal 2015 and in the first-half of fiscal 2016 at Bradington-Young. We expect collections may slow somewhat as we transition these receivables in-house. However, given our current and projected liquidity, we do not expect the transition to have a material adverse effect on our future liquidity.

### Capital Expenditures



We expect to spend between \$1.0 million to \$2.0 million in capital expenditures during the remainder of the 2015 fiscal year to maintain and enhance our operating systems and facilities. Of these estimated amounts, we expect to spend approximately \$600,000 on the implementation of our ERP system in our upholstery segment during the remainder of fiscal 2015.

#### Enterprise Resource Planning

Our new Enterprise Resource Planning (ERP) system became operational for our casegoods segment and imported upholstery operations early in the third quarter of fiscal 2013. ERP conversion efforts began for our domestic upholstery units early in the fiscal 2014 first quarter, with full implementation scheduled to be completed during fiscal 2015 at Sam Moore and during fiscal 2016 at Bradington-Young. Once both segments are fully operational on the ERP platform, we expect to realize operational efficiencies and cost savings as well as present a single face to our customers and leverage best practices across the organization.

Cost savings are difficult to quantify until the ERP system becomes fully operational Company-wide. We expect to be able to reduce administrative functions, which are presently duplicated across our segments and improve our purchasing power and economies of scale. In addition to the capital expenditures discussed above, our ERP implementation will require a significant amount of time invested by our associates.

## Table of Contents

We refer you to Item “1A. Risk Factors”, in our 2014 Annual Report, for additional discussion of risks involved in our ERP system conversion and implementation.

### Share Repurchase Authorization

During the fiscal 2013 first quarter, our board of directors authorized the repurchase of up to \$12.5 million of the Company’s common shares. The authorization does not obligate us to acquire a specific number of shares during any period and does not have an expiration date, but it may be modified, suspended or discontinued at any time at the discretion of our board of directors. In fiscal 2013, we used approximately \$671,000 of the authorization to purchase 57,700 of our common shares (at an average price of \$11.63 per share). We made no share purchases during fiscal 2014 or during the first half of fiscal 2015. Approximately \$11.8 million remained available for future purchases under the authorization as of the end of the fiscal 2015 second quarter.

### New Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for us in the first quarter of fiscal 2018 (February 2017). Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

### Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” included in our 2014 Annual Report.

### Forward-Looking Statements

Certain statements made in this report, including under Part I, Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in the notes to the condensed consolidated financial statements included in this report, are not based on historical facts, but are forward-looking statements. These statements reflect our reasonable judgment with respect to future events and typically can be identified by the use of forward-looking terminology such as “believes,” “expects,” “projects,” “intends,” “plans,” “may,” “will,” “should,” “would,” “could” or “ant” negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Those risks and uncertainties include but are not limited to:

- § general economic or business conditions, both domestically and internationally, and instability in the financial and credit markets, including their potential impact on our (i) sales and operating costs and access to financing or (ii) customers and suppliers and their ability to obtain financing or generate the cash necessary to conduct their respective businesses;

- § our ability to successfully implement our business plan to increase sales and improve financial performance;

- § the cost and difficulty of marketing and selling our products in foreign markets;

§ disruptions involving our vendors or the transportation and handling industries, particularly those affecting imported products from China, including customs issues, labor stoppages, strikes or slowdowns and the availability of shipping containers and cargo ships;

§ disruptions affecting our Henry County, Virginia warehouses and corporate headquarters facilities;

§ when or whether our new business initiatives, including, among others, H Contract and Homeware, become profitable;

§ price competition in the furniture industry;

§ changes in domestic and international monetary policies and fluctuations in foreign currency exchange rates affecting the price of our imported products and raw materials;

§ the cyclical nature of the furniture industry, which is particularly sensitive to changes in consumer confidence, the amount of consumers' income available for discretionary purchases, and the availability and terms of consumer credit;

§ risks associated with the cost of imported goods, including fluctuation in the prices of purchased finished goods and transportation and warehousing costs;

Table of Contents

- § risks associated with domestic manufacturing operations, including fluctuations in capacity utilization and the prices and availability of key raw materials, as well as changes in transportation, warehousing and domestic labor costs and environmental compliance and remediation costs;
- § the interruption, inadequacy, security failure or integration failure of our information systems or information technology infrastructure, related service providers or the internet;
- § the direct and indirect costs associated with the implementation of our Enterprise Resource Planning system, including costs resulting from unanticipated disruptions to our business;
- § achieving and managing growth and change, and the risks associated with new business lines, acquisitions, restructurings, strategic alliances and international operations;
- § adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products;
- § risks associated with distribution through third-party retailers, such as non-binding dealership arrangements;
  - § capital requirements and costs;
- § competition from non-traditional outlets, such as catalog and internet retailers and home improvement centers;
- § changes in consumer preferences, including increased demand for lower-quality, lower-priced furniture due to, among other things, declines in consumer confidence, amounts of discretionary income available for furniture purchases and the availability of consumer credit;
- § higher than expected costs associated with product quality and safety, including regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products; and
  - § higher than expected employee medical costs.

Any forward-looking statement that we make speaks only as of the date of that statement, and we undertake no obligation, except as required by law, to update any forward-looking statements whether as a result of new information, future events or otherwise.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, which could impact our results of operations or financial condition. We manage our exposure to this risk through our normal operating activities.

For imported products, we generally negotiate firm pricing denominated in U.S. Dollars with our foreign suppliers, typically for periods of at least one year. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk, but could choose to do so in the future. Most of our imports are purchased from suppliers located in China. The Chinese currency floats within a limited range in relation to the U.S. Dollar, resulting in exposure to foreign currency exchange rate fluctuations. Although our purchases are denominated in U.S. dollars, we are subject to exchange rate risk on an indirect basis in the pricing we receive from non-U.S. vendors.

Since we transact our imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar could increase the price we pay for imported products beyond the negotiated periods. We generally expect to reflect substantially all of the effect of any price increases from suppliers in the prices we charge for imported products. However, these changes could adversely impact sales volume or profit margins during affected periods.

Amounts outstanding under our revolving credit facility would bear interest at variable rates. In the past, we have entered into swap agreements to hedge against the potential impact of increases in interest rates on our floating-rate debt instruments. There was no outstanding balance under our revolving credit facility as of August 3, 2014, other than standby letters of credit in the amount of \$1.7 million. Therefore, a fluctuation in market interest rates of one percentage point (or 100 basis points) would not have a material impact on our results of operations or financial condition.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended August 3, 2014. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended August 3, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 6. Exhibits

- 3.1 Amended and Restated Articles of Incorporation of the Company, as amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 28, 2003)
- 3.2 Amended and Restated Bylaws of the Company, as amended December 10, 2013 (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K (SEC File No. 000-25349) for the year ended February 2, 2014)
- 4.1 Amended and Restated Articles of Incorporation of the Company, as amended (See Exhibit 3.1)
- 4.2 Amended and Restated Bylaws of the Company, as amended (See Exhibit 3.2)
- 31.1\* Rule 13a-14(a) Certification of the Company's principal executive officer
- 31.2\* Rule 13a-14(a) Certification of the Company's principal financial officer
- 32.1\* Rule 13a-14(b) Certification of the Company's principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101\* The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended August 3, 2014, formatted in Extensible Business Reporting Language ("XBRL"): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income, (iii) condensed consolidated statements of comprehensive income (iv) condensed consolidated statements of cash flows, and (v) the notes to the condensed consolidated financial statements

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\*Filed herewith

Table of Contents

SIGNATURE

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

HOOKER FURNITURE CORPORATION

Date: September 12, 2014

By: /s/ Paul A. Huckfeldt  
Paul A. Huckfeldt  
Senior Vice President – Finance and  
Accounting and Chief Financial  
Officer

