HOOKER FURNITURE CORP
Form 10-Q
June 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended May 4, 2014

Commission file number 000-25349

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

| | |
|---|---|
| Virginia<br>(State or other jurisdiction of incorporation or organization) | 54-0251350<br>(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<br>Non-accelerated Filer o (Do not check if a smaller reporting company) | Accelerated filer x<br>Smaller reporting company o |

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of June 6, 2014:

| | |
|---|---|
| Common stock, no par value | 10,752,982 |
| (Class of common stock) | (Number of shares) |

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

| As of | May 4, 2014 (unaudited) | February 2, 2014 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $31,686 | $23,882 |
| Trade accounts receivable, less allowance for doubtful accounts of $1,276 and $1,243 on each respective date | 30,396 | 29,393 |
| Inventories | 43,587 | 49,016 |
| Prepaid expenses and other current assets | 2,397 | 2,413 |
| Deferred taxes | 1,246 | 1,664 |
| Income tax recoverable | - | 682 |
| Total current assets | 109,312 | 107,050 |
| Property, plant and equipment, net | 22,840 | 23,752 |
| Cash surrender value of life insurance policies | 19,202 | 18,891 |
| Deferred taxes | 4,121 | 4,051 |
| Intangible assets | 1,382 | 1,382 |
| Other assets | 1,703 | 355 |
| Total non-current assets | 49,248 | 48,431 |
| Total assets | $158,560 | $155,481 |
| | | |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Trade accounts payable | $8,694 | $7,077 |
| Accrued salaries, wages and benefits | 2,805 | 3,478 |
| Income tax accrual | 142 | - |
| Accrued commissions | 856 | 934 |
| Customer deposits | 433 | 659 |
| Other accrued expenses | 832 | 759 |
| Total current liabilities | 13,762 | 12,907 |
| Deferred compensation | 7,793 | 7,668 |
| Income tax accrual | 117 | 103 |
| Other long-term liabilities | 308 | - |
| Total long-term liabilities | 8,218 | 7,771 |
| Total liabilities | 21,980 | 20,678 |
| | | |
| Shareholders' equity | | |
| Common stock, no par value, 20,000 shares authorized, 10,753 shares issued and outstanding on each date | 17,641 | 17,585 |
| Retained earnings | 118,849 | 117,120 |
| Accumulated other comprehensive income | 90 | 98 |

| | | |
|---|---|---|
| Total shareholders’ equity | 136,580 | 134,803 |
| Total liabilities and shareholders’ equity | $158,560 | $155,481 |

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 INCOME
(In thousands, except per share data)
(Unaudited)

| | Thirteen Weeks Ended May 4, 2014 | Thirteen Weeks Ended May 5, 2013 |
|---|---|---|
| Net sales | $61,396 | $56,295 |
| Cost of sales | 45,786 | 42,379 |
| Gross profit | 15,610 | 13,916 |
| Selling and administrative expenses | 11,367 | 10,682 |
| Operating income | 4,243 | 3,234 |
| Other income (expense), net | 46 | (32) |
| Income before income taxes | 4,289 | 3,202 |
| Income tax expense | 1,485 | 1,076 |
| Net income | $2,804 | $2,126 |
| Earnings per share | | |
| Basic | $0.26 | $0.20 |
| Diluted | $0.26 | $0.20 |
| Weighted average shares outstanding: | | |
| Basic | 10,724 | 10,717 |
| Diluted | 10,762 | 10,747 |
| Cash dividends declared per share | $0.10 | $0.10 |

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)

| | For the Thirteen Weeks Ended | |
|---|---|---|
| | May 4, 2014 | May 5, 2013 |
| Net Income | $2,804 | $2,126 |
| Other comprehensive income: | | |
| Amortization of actuarial gain net of tax of $5 and $10, respectively | (8) | (17) |
| Adjustments to net periodic benefit cost | (8) | (17) |
| | | |
| Comprehensive Income | $2,796 | $2,109 |

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)

| | Thirteen Weeks Ended May 4, 2014 | Thirteen Weeks Ended May 5, 2013 |
|---|---|---|
| Operating Activities: | | |
| Net income | $2,804 | $2,126 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 613 | 584 |
| Gain on disposal of assets | (34) | (8) |
| Deferred income tax expense (benefit) | 353 | (5) |
| Noncash restricted stock and performance awards | 135 | 229 |
| Provision for doubtful accounts | 125 | 75 |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | (1,129) | 1,762 |
| Inventories | 5,429 | 3,366 |
| Income tax recoverable | 682 | - |
| Gain on life insurance policies | (126) | (135) |
| Prepaid expenses and other current assets | 237 | 832 |
| Trade accounts payable | 1,616 | (2,876) |
| Accrued salaries, wages, and benefits | (673) | (712) |
| Accrued income taxes | 142 | (1,034) |
| Accrued commissions | (78) | (267) |
| Customer deposits | (226) | - |
| Other accrued expenses | 77 | 11 |
| Deferred compensation | 34 | 45 |
| Other long-term liabilities | 20 | - |
| Net cash provided by operating activities | $10,001 | $3,993 |
| | | |
| Investing Activities: | | |
| Purchases of property and equipment | (1,008) | (880) |
| Proceeds received on notes for sale of assets | 11 | 14 |
| Proceeds from sale of property and equipment | 65 | 8 |
| Premiums paid on life insurance policies | (190) | (190) |
| Proceeds received on life insurance policies | - | 516 |
| Net cash used in investing activities | (1,122) | (532) |
| | | |
| Financing Activities: | | |
| Cash dividends paid | (1,075) | (1,075) |
| Net cash used in financing activities | (1,075) | (1,075) |
| | | |
| Net increase in cash and cash equivalents | 7,804 | 2,386 |
| Cash and cash equivalents - beginning of year | 23,882 | 26,342 |
| Cash and cash equivalents - end of quarter | $31,686 | $28,728 |

| | | |
|---|---|---|
| Supplemental schedule of cash flow information: | | |
| Income taxes paid, net | $(294) | $(2,115) |

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

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 Thirteen Weeks Ended May 4, 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 covering the thirteen-week period (also referred to as "three months," "three-month period," "quarter," "first quarter" or "quarterly period") that began February 3, 2014 and ended May 4, 2014. These financial statements also include the thirteen-week period that began February 4, 2013 and ended May 5, 2013.

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

U.S. generally accepted accounting principles permit the direct or indirect methods of computing cash flows. We have elected to change the presentation of our cash flow statement 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

| | May 4, 2014 | February 2, 2014 |
|---|---|---|
| Trade accounts receivable | $ 23,105 | $ 22,776 |
| Receivable from factor | 8,567 | 7,860 |
| Allowance for doubtful accounts | (1,276 ) | (1,243 ) |
| Accounts receivable | $ 30,396 | $ 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 May 4, 2014 and February 2, 2014 were $413,000 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

| | May 4, 2014 | Feb 2, 2014 |
|---|---|---|
| Finished furniture | $ 53,356 | $ 58,515 |
| Furniture in process | 879 | 804 |
| Materials and supplies | 8,030 | 8,068 |
| Inventories at FIFO | 62,265 | 67,387 |
| Reduction to LIFO basis | (18,678 ) | (18,371 ) |
| Inventories | $ 43,587 | $ 49,016 |

Table of Contents

5. Property, Plant and Equipment

| | Depreciable Lives (In years) | May 4, 2014 | Feb 2, 2014 |
|---|---|---|---|
| Computer software and hardware | 3 - 10 | $ 22,270 | $ 22,294 |
| Buildings and land improvements | 15 - 30 | 21,635 | 24,026 |
| Machinery and equipment | 10 | 4,594 | 4,495 |
| Leasehold improvements | 5 | 2,811 | 2,765 |
| Furniture and fixtures | 3 - 8 | 2,092 | 2,060 |
| Other | 5 | 724 | 689 |
| Total depreciable property at cost | | 54,126 | 56,329 |
| Less accumulated depreciation | | 35,774 | 36,447 |
| Total depreciable property, net | | 18,352 | 19,882 |
| Land | | 1,067 | 1,152 |
| Construction-in-progress | | 3,421 | 2,718 |
| Property, plant and equipment, net | | $ 22,840 | $ 23,752 |

At May 4, 2014, construction-in-progress consisted of $1.7 million of expenditures related to our ongoing Enterprise Resource Planning (ERP) conversion efforts and $1.7 million related to various other projects to enhance our facilities and operations.

The $2.4 million change in the buildings and land improvements during the fiscal 2015 first quarter is primarily due to the completion of the previously announced sale of our Cloverleaf warehouse facility in April 2014. We recognized a gain of $34,000 on the sale in our fiscal 2015 financial statements. See Item 2 of this report, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, for additional information on this transaction.

6. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer 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 May 4, 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 May 4, 2014, a mortgage note receivable (related to the previously announced sale of our Cloverleaf facility during the fiscal 2015 first quarter) was measured at fair value on a non-recurring basis using Level 3 inputs. The note receivable was recorded at approximately $1.6 million, which was the face value of the note issued for the mortgage. The carrying value of the note is assumed to approximate its fair value. We measure the probability to collect amounts due to us under this note primarily based on the buyer’s payment history. Specifically, we consider the buyer’s adherence to the contractual payment terms for both the 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 loan agreement, 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 basis at May 4, 2014 and February 2, 2014, respectively, were as follows:

| | Fair value at May 4, 2014 | | | | Fair value at February 2, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| Description | 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 | $ - | $ 19,202 | $ - | $ 19,202 | $ - | $ 18,891 | $ - | $ 18,891 |
| Mortgage note receivable | - | - | 1,575 | 1,575 | - | - | - | - |

7. Intangible Assets

| | Segment | May 4, 2014 | February 2, 2014 |
|---|---|---|---|
| Non-amortizable Intangible Assets | | | |
| 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 May 4, 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 May 4, 2014. There were no additional borrowings outstanding under the revolving credit facility on May 4, 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 May 4, 2014 and February 2, 2014 was $7.7 million at both dates and is shown in our condensed consolidated balance sheets as follows:

| | May 4, 2014 | February 2, 2014 |
|---|---|---|
| Accrued salaries, wages and benefits (current portion) | $ 354 | $ 354 |
| Deferred compensation (long-term portion) | 7,335 | 7,308 |
| Total liability | $ 7,689 | $ 7,662 |

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 | |
|---|---|---|
| | May 4, 2014 | May 5, 2013 |
| Net periodic benefit cost | | |
| Service cost | $ 25 | $ 64 |
| Interest cost | 85 | 73 |
| Actuarial gain | (13) | (26) |
| Net periodic benefit cost | $ 97 | $ 111 |

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) to certain senior executives since fiscal 2012 under the Company's Stock Incentive Plan. Each RSU entitles the executive to receive one share of the Company's common stock if the executive 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:

| | May 4, 2014 | Feb 2, 2014 |
|---|---|---|
| Restricted shares | 29 | 29 |
| Restricted stock units | 35 | 32 |
| | 64 | 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 | | | |
|---|---|---|---|---|
| | | May 4, 2014 | | May 5, 2013 |
| Net income | $ | 2,804 | $ | 2,126 |
| Less: Unvested participating restricted stock dividends | | 3 | | 3 |
| Net earnings allocated to unvested participating restricted stock | | 7 | | 6 |
| Earnings available for common shareholders | | 2,794 | | 2,117 |
| | | | | |
| Weighted average shares outstanding for basic earnings per share | | 10,724 | | 10,717 |
| Dilutive effect of unvested restricted stock and RSU awards | | 38 | | 30 |
| Weighted average shares outstanding for diluted earnings per share | | 10,762 | | 10,747 |
| | | | | |
| Basic earnings per share | $ | 0.26 | $ | 0.20 |
| | | | | |
| Diluted earnings per share | $ | 0.26 | $ | 0.20 |

11. Income Taxes

We recorded income tax expense of $1.5 million for the fiscal 2015 first quarter compared to $1.1 million for the comparable prior year period. The effective tax rates for the fiscal 2015 and 2014 first quarters were 34.6% and 33.6%, respectively. Our effective tax rate was higher in the fiscal 2015 first quarter primarily due to smaller anticipated rate benefits from earnings on company-owned life insurance policies and distributions from our former captive insurance arrangement as well as increases in our reserve for uncertain tax positions.

Table of Contents

The net unrecognized tax benefits as of May 4, 2014 and February 2, 2014, which, if recognized, would affect our effective tax rate are $323,000 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 May 4, 2014 and February 2, 2014 was $117,000 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 | | | | | |
|---|---|---|---|---|---|---|
| | May 4, 2014 | % Net Sales | | May 5, 2013 | % Net Sales | |
| Net Sales | | | | | | |
| Casegoods | $39,018 | 63.6 | % | $35,444 | 63.0 | % |
| Upholstery | 22,378 | 36.4 | % | 20,851 | 37.0 | % |
| Consolidated | $61,396 | 100.0 | % | $56,295 | 100.0 | % |
| | | | | | | |
| Gross Profit & Margin | | | | | | |
| Casegoods | $11,377 | 29.2 | % | $9,998 | 28.2 | % |
| Upholstery | 4,233 | 18.9 | % | 3,918 | 18.8 | % |
| Consolidated | $15,610 | 25.4 | % | $13,916 | 24.7 | % |
| | | | | | | |
| Operating Income & Margin | | | | | | |
| Casegoods | $3,712 | 9.5 | % | $2,566 | 7.2 | % |
| Upholstery | 531 | 2.4 | % | 668 | 3.2 | % |
| Consolidated | $4,243 | 6.9 | % | $3,234 | 5.7 | % |
| | | | | | | |
| Capital Expenditures | | | | | | |
| Casegoods | $678 | | | $678 | | |
| Upholstery | 330 | | | 202 | | |
| Consolidated | $1,008 | | | $880 | | |
| | | | | | | |
| Depreciation & Amortization | | | | | | |
| Casegoods | $367 | | | $381 | | |
| Upholstery | 246 | | | 203 | | |
| Consolidated | $613 | | | $584 | | |

| | As of May 4, 2014 | % Total Assets | As of February 2, 2014 | % Total Assets |
|---|---|---|---|---|
| Total Assets | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Casegoods | $124,996 | 78.8 | % | $122,345 | 78.7 | % |
| Upholstery | 33,564 | 21.2 | % | 33,136 | 21.3 | % |
| Consolidated | $158,560 | 100.0 | % | $155,481 | 100.0 | % |

13. Subsequent Events

Dividends

On June 5, 2014, our board of directors declared a quarterly cash dividend of $0.10 per share, payable on June 30, 2014 to shareholders of record at June 16, 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" "first quarter" or "quarterly period") that began February 3, 2014 and ended on May 4, 2014. This report discusses our results of operations for this period compared to the 2014 fiscal year thirteen-week period that began February 4, 2013 and ended on May 5, 2013; and our financial condition as of May 4, 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 that we face, critical accounting policies and information on commitments and contractual obligations that 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 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 2012 shipments to U.S. retailers, according to a 2013 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 just-completed 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, 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 during our 2014 fiscal year, 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 plans to expand into living room tables, multi-seat upholstery, entertainment centers and dining room furniture in the coming fiscal year.

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 the most recently completed fiscal quarter.

Consolidated net sales for the fiscal 2015 first quarter increased by $5.1 million, or 9.1%, to $61.4 million, and net income for the fiscal 2015 first quarter increased by $678,000, or 31.9%, to $2.8 million, in each case compared to the fiscal 2014 first quarter. The following are the primary factors that affected our consolidated fiscal 2015 first quarter results of operations:

§

Consolidated net sales increased by 9.1% due to increased unit volume on essentially flat average selling prices. Unit volume increased in our casegoods segment, while remaining essentially flat in our upholstery segment. Higher average selling prices increased in our upholstery segment, but were offset by lower average selling prices in our casegoods segment, primarily due to increased discounting and higher container direct sales

§ Gross profit increased in absolute terms due to increased sales in both segments and increased as a percentage of net sales due primarily to lower casegoods segment warehouse and distribution expenses.

§ Selling and administrative expenses decreased as a percentage of net sales due to increased net sales, but increased in absolute terms due to a variety of other factors, including start-up costs for our H Contract and Homeware initiatives.

§ Our casegoods segment increased operating profitability by 44.6% or $1.1 million, from $2.6 million in the fiscal 2014 first quarter to $3.7 million in the fiscal 2015 first quarter.

Table of Contents

Rsults 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 | | | |
|---|---|---|---|---|
| | May 4, 2014 | | May 5, 2013 | |
| Net sales | 100.0 | % | 100.0 | % |
| Cost of sales | 74.6 | | 75.3 | |
| Gross profit | 25.4 | | 24.7 | |
| Selling and administrative expenses | 18.5 | | 19.0 | |
| Operating income | 6.9 | | 5.7 | |
| Other (expense) income, net | 0.1 | | 0.0 | |
| Income before income taxes | 7.0 | | 5.7 | |
| Income tax expense | 2.4 | | 1.9 | |
| Net income | 4.6 | | 3.8 | |

Fiscal 2015 First Quarter Compared to Fiscal 2014 First Quarter

| | Net Sales Thirteen Weeks Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | May 4, 2014 | | | May 5, 2013 | | | $ Change | % Change | |
| | | % Net Sales | | | % Net Sales | | | | |
| Casegoods | $39,018 | 63.6 | % | $35,444 | 63.0 | % | $3,574 | 10.1 | % |
| Upholstery | 22,378 | 36.4 | % | 20,851 | 37.0 | % | 1,527 | 7.3 | % |
| Consolidated | $61,396 | 100.0 | % | $56,295 | 100.0 | % | $5,101 | 9.1 | % |

| Unit Volume | FY15 Q1 % Increase vs. FY14 Q1 | | Average Selling Price | FY15 Q1 % Increase vs. FY14 Q1 | |
|---|---|---|---|---|---|
| Casegoods | 13.6 | % | Casegoods | -3.3 | % |
| Upholstery | 0.8 | % | Upholstery | 6.8 | % |
| Consolidated | 9.6 | % | Consolidated | -0.5 | % |

Table of Contents

The increase in consolidated net sales for the fiscal 2015 first quarter was primarily due to increased unit volume in our casegoods segment and essentially flat consolidated average selling prices. Unit volume in our casegoods segment was led by increases in container-direct shipments to retailers, which we believe to be indicative of a recovery in casegoods sales industry-wide. Both of our new business initiatives, H Contract and Homeware, contributed sales in the fiscal year 2015 quarter compared to the prior-year period, when they were in the pre-revenue phase of their startups. Upholstery net sales increased due to net sales gains at Sam Moore, which were due to both higher average selling prices and increased unit volume.

| | Gross Income and Margin<br>Thirteen Weeks Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | May 4, 2014 | | | May 5, 2013 | | | $ Change | % Change | |
| | | % Net Sales | | | % Net Sales | | | | |
| Casegoods | $11,377 | 29.2 | % | $9,998 | 28.2 | % | $1,379 | 13.8 | % |
| Upholstery | 4,233 | 18.9 | % | 3,918 | 18.8 | % | 315 | 8.0 | % |
| Consolidated | $15,610 | 25.4 | % | $13,916 | 24.7 | % | $1,694 | 12.2 | % |

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

- § higher sales volume in both operating segments;
- § essentially flat discounting, as a percentage of net sales and in absolute terms, in our upholstery segment; and
- § lower casegoods segment warehouse and distribution expenses.

These improvements were partially offset by higher discounting in our casegoods segment, as we continued our efforts to reduce our levels of slow moving inventory and match inventory levels with projected demand, and higher manufacturing costs at Sam Moore, due to increases in labor and benefit costs.

| | Selling and Administrative Expenses<br>Thirteen Weeks Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | May 4, 2014 | | | May 5, 2013 | | | $ Change | % Change | |
| | | % Net Sales | | | % Net Sales | | | | |
| Casegoods | $7,666 | 19.6 | % | $7,432 | 21.0 | % | $234 | 3.1 | % |
| Upholstery | 3,701 | 16.5 | % | 3,250 | 15.6 | % | 451 | 13.9 | % |
| Consolidated | $11,367 | 18.5 | % | $10,682 | 19.0 | % | $685 | 6.4 | % |

Consolidated selling and administrative expenses decreased as a percentage of net sales primarily due to increased sales volume, but increased in absolute terms in the fiscal 2015 first quarter compared to the same prior-year period.

Casegoods selling and administrative expenses increased in absolute terms, primarily due to an approximate $200,000 increase in operating expenses for the H Contract and Homeware divisions. Higher casegoods selling expenses, due to increased sales, were offset by lower long-term incentive accruals and professional fees.

Upholstery selling and administrative expenses increased both as a percentage of net sales and in absolute terms in the fiscal 2015 first quarter, primarily due to increased:

- § employee benefits costs;
- § ERP-related project costs;
- § sales commissions, samples and other sales related costs due to higher net sales; and
- § bad debts expense due to higher net sales and related increases in accounts receivable balances.

Table of Contents

Operating Profit and Margin
Thirteen Weeks Ended

| | May 4, 2014 | % Net Sales | May 5, 2013 | % Net Sales | $ Change | % Change |
|---|---|---|---|---|---|---|
| Casegoods | $3,712 | 9.5% | $2,566 | 7.2% | $1,146 | 44.7% |
| Upholstery | 531 | 2.4% | 668 | 3.2% | (137) | -20.5% |
| Consolidated | $4,243 | 6.9% | $3,234 | 5.7% | $1,009 | 31.2% |

Operating profitability increased for the fiscal 2015 first quarter compared to the same prior-year period, both as a percentage of net sales and in absolute terms, due to the factors discussed above.

Income taxes
Thirteen Weeks Ended

| | May 4, 2014 | % Net Sales | May 5, 2013 | % Net Sales | $ Change | % Change |
|---|---|---|---|---|---|---|
| Consolidated income tax expense | $1,485 | 2.4% | $1,076 | 1.9% | $409 | 38.0% |
| Effective Tax Rate | 34.6% | | 33.6% | | | |

We recorded income tax expense of $1.5 million for the fiscal 2015 first quarter compared to $1.1 million for the comparable prior year period. The effective tax rates for the fiscal 2015 and 2014 first quarters were 34.6% and 33.6%, respectively. Our effective tax rate was higher in the fiscal 2015 first quarter primarily due to smaller anticipated rate benefits from earnings on company-owned life insurance policies and distributions from our former captive insurance arrangement as well as increases in our reserve for uncertain tax positions.

Net Income
Thirteen Weeks Ended

| | May 4, 2014 | % Net Sales | May 5, 2013 | % Net Sales | $ Change | % Change |
|---|---|---|---|---|---|---|
| Consolidated | $ 2,804 | 4.6% | $ 2,126 | 3.8% | $ 678 | 31.9% |
| Earnings per share | $ 0.26 | | $ 0.20 | | | |

Review and Outlook

Orders for the fiscal 2015 first quarter increased over the prior-year quarter, but were not as strong as we would have expected them to be this spring during the post furniture-market period. We are positioned very well internally, but are concerned about the retail demand environment. We are a little less bullish than we were at the beginning of the fiscal 2015 first quarter, due to an improved, but somewhat slower housing market, inconsistency at retail and an economy not as robust as expected. As we head into the summer months, we expect 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 our new business initiatives.

Table of Contents

Spring Market

We are encouraged by results from the recent Spring International Home Furnishings 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 at market.

Casegoods

While upholstery sales have outperformed casegoods in the industry over the last few years, 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. Significant increases in our container-direct shipments to retailers from our Asian warehouse program helped drive the quarter's solid 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 more comfortable committing to the larger container purchases. Additionally, we are seeing benefits from the 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 this quarter was a national promotion on our Corsica Collection we conducted during the mid-March to mid-April period. 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 introduced a new Vietnamese warehouse container direct program to retailers at the April Furniture Market which we expect will strengthen container direct sales even further. While the China warehouse program focuses on the "best" price points in our good-better-best assortment, the Vietnamese warehouse program focuses on the "good" and "better" price points. We are taking orders now for this new program, and will begin flowing product into the warehouse as early as July. We expect to be fully operational in the fall, during what is historically the strongest selling season for furniture at retail. We believe this program will strengthen our value proposition at the retail level in the good and better price ranges. The savings to retailers in this container program, compared to the same products sold out of our Martinsville warehouse, will be in the high single digits to low double-digit percentage.

Upholstery Segment

We were pleased with our upholstery segment's overall earnings and sales performance in the fiscal 2015 first quarter, with the segment reporting 7.3% net sales growth. The segment's sales growth was driven by a double-digit net sales increase at Sam Moore, where order backlogs were down over 10% from the end of fiscal year 2014 as increased capacity and greater labor efficiency helped improve service to our customers. In mid-February, we reduced our shipment lead times from ten weeks to eight weeks, and then from eight weeks to six weeks by mid-May. As of early June, we are at 5 ½ weeks, which is within reach of Sam Moore's goal to ship to retailers within four to five weeks after receipt of orders on a consistent basis. We expect to reach that goal in mid-summer. However, Sam Moore was not profitable on an operating basis for the quarter, primarily due to continued unfavorable medical plan experience and, to a lesser degree, higher material costs. While Sam Moore's labor costs have improved in recent months, excess labor costs also continue to hamper Sam Moore's return to profitability.

Bradington-Young is operating more efficiently and has undertaken a number of cost reduction initiatives, including efforts to improve leather utilization, which have helped offset the impact of leather price increases. The rise in leather raw material costs continues to be the most significant factor impacting Bradington-Young. We've have had several additional price increases from leather suppliers since the April Furniture Market. However, 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 improving 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 fiscal 2015 first quarter, but remained a small part of our net sales for the quarter. We expect H Contract to continue to broaden its customer base and product line, increase sales and to begin to contribute to consolidated operating profitability in fiscal 2015.

Table of Contents

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 quarter, we introduced occasional tables as well as home décor products such as rugs, lighting and mirrors. We plan to introduce casual dining furniture, home entertainment furniture and major upholstery items such as sofas and sectionals later in the 2015 fiscal year. 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 approximately $910,000 in the quarter and operating losses from these ventures totaled $357,000. We expect these new ventures will negatively affect net income by between $0.02 and $0.04 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 closed on the sale of our Cloverleaf warehouse facility. As specified by the requirements of 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 financial statements. The gain was netted with our warehouse and distribution expenses, which are included in the "cost of goods sold" line of our condensed consolidated income statements. The installment method apportions each cash receipt and principal payment by the buyer on debt assumed 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 was deferred and will be recognized as we receive principal payments on the loan. The deferred gain is recorded in the "other long-term liabilities" line of our condensed consolidated balance sheets.

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 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.

Unrest in Vietnam

In fiscal 2014, products sourced from Vietnam accounted for approximately 16% of our import purchases. In May 2014, protests over territorial disputes with People's Republic of China escalated into violent protests in Vietnam.

Some foreign-owned factories, particularly those run by Chinese companies, were burned and looted by protestors. As of the date of this report, the violence appears to have subsided. The factories from which we source products in Vietnam were affected by the protests and it appears shipments to us were delayed by seven to fourteen days. We believe that we have sufficient inventory in transit and on hand to mitigate this shipping delay and we currently do not anticipate a material adverse effect on our fiscal 2015 second quarter sales, earnings or liquidity as a result of this delay. However, we cannot predict whether the protests, or other unrest, in Vietnam will resume, or arise, in the future, or, if they were to occur, whether those events would have an adverse effect on our business, results of operations, financial condition or future prospects.

Table of Contents

Possible U.S. West Coast Port Strike

The International Longshoremen and Warehouse Union's contract with the Pacific Maritime Association expires on June 30, 2014. 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 disrupting operations on the West Coast, port congestion surcharges will be applied not only at the ports being struck, but at others where cargo may be diverted to avoid any threatened work stoppages. Consequently, the ports at which we import our products could be affected. The proposed surcharges would 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 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. Last week 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 that are 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. 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 23 of this report.

Financial Condition, Liquidity and Capital Resources

Balance Sheet and Working Capital

The following chart shows changes in our total assets, 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 first quarter of fiscal 2015 compared to the fiscal 2014 year end:

| | Balance Sheet and Working Capital | | |
|---|---|---|---|
| | May 4, 2014 | February 2, 2014 | $ Change |
| Total Assets | $158,560 | $155,481 | $3,079 |
| Cash and cash equivalents | $31,686 | $23,882 | $7,804 |

| | | | |
|---|---|---|---|
| Trade Receivables, net | 30,396 | 29,393 | 1,003 |
| Inventories | 43,587 | 49,016 | (5,429) |
| Prepaid Expenses & Other | 3,643 | 4,758 | (1,115) |
| | | | |
| Total Current Assets | $109,312 | $107,050 | $2,263 |
| | | | |
| Trade accounts payable | $8,694 | $7,077 | $1,617 |
| Accrued salaries, wages and benefits | 2,805 | 3,478 | (673) |
| Other accrued expenses | 2,263 | 2,352 | (89) |
| | | | |
| Total current liabilities | $13,762 | $12,907 | $855 |
| | | | |
| Net working capital | $95,551 | $94,142 | $1,409 |
| | | | |
| Working capital ratio | 7.9 to 1 | 8.3 to 1 | |

Table of Contents

As of May 4, 2014, total assets increased compared to February 2, 2014, primarily due to increased cash and cash equivalents (resulting from decreased inventories) 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 payable increased primarily due to the timing of payments.

Cash Flows – Operating, Investing and Financing Activities

| | Thirteen Weeks Ended | |
|---|---|---|
| | May 4, 2014 | May 5, 2013 |
| Net cash provided by operating activities | $ 10,001 | $ 3,993 |
| Net cash used in investing activities | (1,122) | (532) |
| Net cash used in financing activities | (1,075) | (1,075) |
| Net increase in cash and cash equivalents | $ 7,804 | $ 2,386 |

During the three months ended May 4, 2014, cash generated from operations of $10 million helped to fund an increase in cash and cash equivalents of $7.8 million, cash dividends of $1.1 million, capital expenditures of $1 million to enhance our business systems and facilities and to pay premiums of $190,000 on Company-owned life insurance policies.

In comparison, during the three months ended May 5, 2013, cash generated from operations of $4.0 million and $516,000 in proceeds received from Company-owned life insurance policies helped to fund an increase in cash and cash equivalents of $2.4 million, cash dividends of $1.1 million, capital expenditures of $880,000 to enhance our business systems and facilities and to pay premiums of $190,000 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.

As of May 4, 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 May 4, 2014. There were no additional borrowings outstanding under the revolving credit facility on May 4, 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 May 4, 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 shares of, our common stock, subject to complying with the financial covenants under the agreement.

Table of Contents

Factoring Arrangement

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

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

Capital Expenditures

We expect to spend between $2.0 million to $3.0 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 $800,000 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 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. 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.

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 2014 or during the first quarter of fiscal 2015. Approximately $11.8 million remained available for future purchases under the authorization as of the end of the fiscal 2015 first 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.

Table of Contents

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 "antic 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 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;

§ 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, levels of 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.

## 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.

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 May 4, 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 May 4, 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 May 4, 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)

10.1(b)*# Consulting Letter Agreement dated May 21, 2014, between the Company and Alan D. Cole.

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 May 4, 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

*Filed herewith
#Management contract or compensatory plan

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

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|---|---|
| Date: June 12, 2014 | By: /s/Paul A. Huckfeldt |

Paul A. Huckfeldt
Senior Vice President – Finance and
Accounting and Chief Financial Officer