

HOOKER FURNITURE CORP
Form 10-Q
June 08, 2018

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 April 29, 2018

Commission file number 000-25349

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

Virginia 54-0251350
(State or other jurisdiction of incorporation or organization) (IRS employer identification no.)

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

(276) 632-2133
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 No

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

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

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

Emerging growth company

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of June 1, 2018:

Common stock, no par value 11,776,048
(Class of common stock) (Number of shares)

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

| | |
|--|----|
| Item 1. <u>Financial Statements</u> | 3 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 28 |
| Item 4. <u>Controls and Procedures</u> | 29 |

PART II. OTHER INFORMATION

| | |
|-------------------------|----|
| Item 6. <u>Exhibits</u> | 30 |
| <u>Signature</u> | 31 |

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| As of | April 29, 2018 (unaudited) | January 28, 2018 |
|---|----------------------------------|------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 46,558 | \$ 30,915 |
| Trade accounts receivable, net | 74,813 | 92,461 |
| Inventories | 84,203 | 84,459 |
| Prepaid expenses and other current assets | 5,565 | 5,314 |
| Total current assets | 211,139 | 213,149 |
| Property, plant and equipment, net | 28,572 | 29,249 |
| Cash surrender value of life insurance policies | 23,074 | 23,622 |
| Deferred taxes | 1,617 | 3,264 |
| Intangible assets, net | 37,543 | 38,139 |
| Goodwill | 40,058 | 40,058 |
| Other assets | 2,271 | 2,235 |
| Total non-current assets | 133,135 | 136,567 |
| Total assets | \$ 344,274 | \$ 349,716 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Current portion of term loans | \$ 6,942 | \$ 7,528 |
| Trade accounts payable | 34,894 | 32,685 |
| Accrued salaries, wages and benefits | 6,357 | 9,218 |
| Income tax accrual | 4,019 | 3,711 |
| Customer deposits | 4,338 | 3,951 |
| Other accrued expenses | 3,385 | 2,894 |
| Total current liabilities | 59,935 | 59,987 |
| Long term debt | 34,488 | 45,778 |
| Deferred compensation | 11,257 | 11,164 |
| Pension plan | 2,348 | 2,441 |
| Other long-term liabilities | 924 | 886 |
| Total long-term liabilities | 49,017 | 60,269 |
| Total liabilities | 108,952 | 120,256 |
| Shareholders' equity | | |
| Common stock, no par value, 20,000 shares authorized, 11,768 and 11,762 shares issued and outstanding on each date | 49,082 | 48,970 |
| Retained earnings | 185,728 | 180,122 |
| Accumulated other comprehensive income | 512 | 368 |
| Total shareholders' equity | 235,322 | 229,460 |

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

| | | |
|--|------------|------------|
| Total liabilities and shareholders' equity | \$ 344,274 | \$ 349,716 |
|--|------------|------------|

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

3

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

(In thousands, except per share data)

(Unaudited)

| | Thirteen Weeks Ended | |
|--------------------------------------|-------------------------|-------------------|
| | April 29, 2018 | April 30, 2017 |
| Net sales | \$ 142,892 | \$ 130,872 |
| Cost of sales | 110,926 | 102,729 |
| Gross profit | 31,966 | 28,143 |
| Selling and administrative expenses | 21,990 | 20,570 |
| Intangible asset amortization | 596 | 334 |
| Operating income | 9,380 | 7,239 |
| Other income, net | 5 | 92 |
| Interest expense, net | 382 | 251 |
| Income before income taxes | 9,003 | 7,080 |
| Income tax expense | 1,849 | 2,334 |
| Net income | \$7,154 | \$4,746 |
| Earnings per share | | |
| Basic | \$0.61 | \$0.41 |
| Diluted | \$0.61 | \$0.41 |
| Weighted average shares outstanding: | | |
| Basic | 11,750 | 11,543 |
| Diluted | 11,773 | 11,578 |
| Cash dividends declared per share | \$0.14 | \$0.12 |

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
COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

| | For the Thirteen Weeks Ended | |
|--|------------------------------------|----------------------|
| | April 29, 2018 | April 30, 2017 |
| Net Income | \$7,154 | \$4,746 |
| Other comprehensive income (loss): | | |
| Amortization of actuarial gain | 43 | 15 |
| Income tax effect on amortization | (11) | (5) |
| Adjustments to net periodic benefit cost | 32 | 10 |
| Reclassification of tax effects due to the adoption of ASU 2018-02 (see Note 2) | 111 | - |
| Total Comprehensive Income | \$7,297 | \$4,756 |

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 CASH FLOWS

(In thousands)

(Unaudited)

| | Thirteen Weeks Ended | |
|--|-------------------------|----------------------|
| | April 29, 2018 | April 30, 2017 |
| Operating Activities: | | |
| Net income | \$7,154 | \$4,746 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,828 | 1,359 |
| Gain on disposal of assets | (19) | (20) |
| Deferred income tax expense | 1,638 | 2,288 |
| Noncash restricted stock and performance awards | 343 | 646 |
| Benefit from/Provision for doubtful accounts and sales allowances | (1,990) | 13 |
| Gain on life insurance policies | (508) | (150) |
| Changes in assets and liabilities: | | |
| Trade accounts receivable | 20,611 | 23,110 |
| Inventories | (321) | (4,141) |
| Prepaid expenses and other current assets | (190) | 696 |
| Trade accounts payable | 2,042 | (6,897) |
| Accrued salaries, wages, and benefits | (3,005) | (4,138) |
| Accrued income taxes | 189 | 23 |
| Customer deposits | 387 | 520 |
| Other accrued expenses | 424 | (418) |
| Deferred compensation | (43) | (18) |
| Other long-term liabilities | 39 | 223 |
| Net cash provided by operating activities | \$28,579 | \$17,842 |
| Investing Activities: | | |
| Purchases of property and equipment | (370) | (867) |
| Proceeds received on notes from sale of assets | 30 | 30 |
| Proceeds received on life insurance policies | 1,099 | - |
| Premiums paid on life insurance policies | (155) | (163) |
| Net cash provided by/(used in) investing activities | 604 | (1,000) |
| Financing Activities: | | |
| Payments for long-term debt | (11,893) | (1,464) |
| Cash dividends paid | (1,647) | (1,388) |
| Net cash used in financing activities | (13,540) | (2,852) |
| Net increase in cash and cash equivalents | 15,643 | 13,990 |
| Cash and cash equivalents - beginning of year | 30,915 | 39,792 |
| Cash and cash equivalents - end of quarter | \$46,558 | \$53,782 |

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

Supplemental disclosure of cash flow information:

| | | |
|--|------|------|
| Cash paid for income taxes | \$23 | \$23 |
| Cash paid for interest, net | 324 | 243 |
| Non-cash transactions: | | |
| Increase in property and equipment through accrued purchases | 166 | 49 |

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 Thirteen Weeks Ended April 29, 2018

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, except as indicated in Note 2, below. 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. 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 January 28, 2018 (“2018 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. Operating results for the interim periods reported herein may not be indicative of the results expected for the fiscal year.

The Shenandoah acquisition closed during the third quarter in the 2018 fiscal year. Consequently, Shenandoah’s prior year results are not included in the results discussed in this quarterly report.

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 January 29, 2018 and ended April 29, 2018. These financial statements also include the thirteen-week period that began January 30, 2017 and ended April 30, 2017.

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

§ the 2019 fiscal year and comparable terminology mean the fiscal year that began January 29, 2018 and will end February 3, 2019; and

§ the 2018 fiscal year and comparable terminology mean the fiscal year that began January 30, 2017 and ended January 28, 2018.

2. Recently Adopted Accounting Policies

In May 2017, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 was issued to provide clarity and reduce diversity in practice, cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Essentially, an entity will not have to account

for the effects of a modification if: (a) the fair value of the modified award is the same immediately before and after the modification; (b) the vesting conditions of the modified award are the same immediately before and after the modification; and (c) the classification of the modified award as either an equity instrument or liability instrument is the same immediately before and after the modification. We adopted the amendments in ASU 2017-09 as of the beginning of our 2019 fiscal year on January 29, 2018. The adoption of this guidance did not have an impact upon our financial condition or results of operations.

Table of Contents

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (“ASU 2017-07)”. Currently, net benefit cost is reported as an employee cost within operating income. The amendment requires the bifurcation of net benefit cost. The service cost component will be presented with the other employee compensation costs in operating income. The other components will be reported separately outside of operations, and will not be eligible for capitalization. The amendment is effective for public entities for the annual reporting period beginning after December 15, 2017. The guidance is required to be applied on a retrospective basis for the presentation of the service cost component and the other components of net benefit cost (including gains and losses on curtailments and settlements, and termination benefits paid through plans), and on a prospective basis for the capitalization of only the service cost component of net benefit cost. Amounts capitalized into assets prior to the date of adoption should not be adjusted through a cumulative effect adjustment, but should continue to be recognized in the normal course, as for example, inventory is sold or fixed assets are depreciated. We adopted ASU 2017-17 as of the beginning of our 2019 fiscal year on January 29, 2018. Please see Note 9 Employee Benefit Plans for the impact on our financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 provides a screen to determine when an integrated set of assets and activities (collectively referred to as a “set”) does not constitute a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in ASU 2017-01 (a) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (b) remove the evaluation of whether a market participant could replace missing elements. The amendments in ASU 2017-01 apply prospectively and became effective for us at the beginning of our 2019 fiscal year on January 29, 2018. The adoption of this guidance did not impact our financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Its objective is to reduce existing diversity in practice with respect to these items. Among the types of cash flows addressed are payments for costs related to debt prepayments or extinguishments, payments representing accreted interest on discounted debt, payments of contingent consideration after a business combination, proceeds from insurance claims and company-owned life insurance and distributions from equity method investees, among others. We adopted ASU 2016-15 as of the beginning of our 2019 fiscal year on January 29, 2018. The adoption of this guidance did not have a material impact upon our financial condition or results of operations.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The new guidance allows the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-02 was issued in response to concerns regarding current accounting guidance that requires deferred tax assets and liabilities to be adjusted for the effect of a change in tax laws or rates with the effect included in income from continuing operations in the reporting period that includes the enactment date, even in situations in which the related income tax effects of items in accumulated other comprehensive income were originally recognized in other comprehensive income, rather than net income. Consequently, the stranded tax effects would not reflect the appropriate tax rate. The amendments of this ASU allow an entity to make a reclassification from accumulated other comprehensive income to retained earnings for the stranded tax effects, which is the difference between the historical federal corporate income tax rate of 35.0% and the newly enacted corporate income tax rate of 21.0%. We adopted ASU 2018-02 in the first quarter of fiscal 2019. The adoption resulted in the reclassification of \$111,000 from accumulated other comprehensive income to retained earnings.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This new standard replaced most existing revenue recognition guidance in U.S. GAAP and codified guidance under FASB Topic 606. The underlying principle of this new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for those goods or services.

8

Table of Contents

We adopted ASU No. 2014-09 as of January 29, 2018 using the modified retrospective method. As a result of adopting ASC 606, we recorded an increase to retained earnings of approximately \$210,000, net of tax, as of January 29, 2018, due to the cumulative effect related to the change in accounting for shipments with synthetic FOB destination shipping terms. Results for the reporting period beginning after January 29, 2018 are presented under Topic 606, while prior period amounts continue to be reported in accordance with the Company's historic accounting practices under previous guidance. However, given the nature of our products and our sales terms and conditions, with the exception of sales with synthetic FOB destination shipping terms which are immaterial, the timing and amount of revenue recognized based on the underlying principles of ASU No. 2014-09 are consistent with our revenue recognition policy under previous guidance.

In accordance with the new guidance, we recognize revenue at an amount that reflects the consideration we expect to be entitled to receive in exchange for transferring goods or services to our customers. Our policy is to record revenue when control of the goods transfers to the customer. We have a present right to payment at the time of shipment as customers are invoiced at that time. We believe the customer obtains control of goods at the time of shipment, which is typically when title passes. While the customer may not enjoy immediate physical possession of the products, the customers' right to re-direct shipment indicates control.

Net sales are comprised of gross revenues from sales of home furnishings and hospitality furniture products less trade discounts and customer allowances. Other revenues, primarily royalties, are immaterial to our overall results. Payment is typically due within 30-60 days of shipment for customers qualifying for payment terms. Collectability is reasonably assured since we extend credit to customers for whom we have performed credit evaluations and/or from whom we have received a down payment or deposit. Due to the highly-customized nature of our hospitality products, we typically require substantial prepayments on these orders, with the balance due within 30 days of delivery.

We regularly review and revise accounts receivable for doubtful accounts and customer allowances based upon historical bad debts and customer allowances and any agreements with specific customers. If the financial condition of a customer or customers were to deteriorate, resulting in an impairment of their ability to make payments, additional bad debt allowances may be required. Orders are generally non-cancellable once loaded into a shipping trailer or container. Physical product returns are very rare due to the high probability of damages to our products in return transit.

The transaction price for each contract is the stated price of the product, reduced by any stated discounts or allowances at that point in time. We do not engage in sales of products that attach a future material right which could result in a separate performance obligation for the purchase of goods in the future at a material discount. The implicit contract with the customer, as reflected in the order acknowledgement and invoice, states the final terms of the sale, including the description, quantity, and price of each product purchased. The transaction price reflects the amount of estimated consideration to which we expect to be entitled. This amount of variable consideration included in the transaction price, and measurement of net sales, is included in net sales only to the extent that it is probable that there will be no significant reversal in a future period.

In the very limited instances when products are sold under consignment arrangements, we do not recognize revenue until control over such products has transferred to the end consumer.

We record contract liabilities when we receive partial or full payment prior to fulfilling a performance obligation. Contract liabilities related to revenues are recorded in "Customer Deposits" on the accompanying condensed consolidated balance sheets. We had contract liabilities of \$4.3 million as of April 29, 2018.

As part of our adoption of ASC 606, we elected the following practical expedients and policy elections:

§ Sales taxes collected are presented on a net basis, consistent with our policy prior to the adoption of Topic 606.
§ Therefore, this will not affect our financial statements or results of operations;

§ Incremental costs of obtaining a contract, namely sales and designer commissions, are recorded as an expense when incurred in selling, general and administrative expenses, since contracts are on an order to order basis and are
§ therefore short-term in nature. This accounting treatment is consistent with our policy prior to the adoption of Topic 606. Therefore, this will not affect our financial statements or results of operations; and

9

Table of Contents

Shipping and handling activities are accounted for as fulfillment activities whether they occur before or after the § customer obtains control of the goods. This practice is consistent with our policy prior to the adoption of Topic 606. Therefore, this will not affect our financial statements or results of operations.

3. Accounts Receivable

| | April 29, 2018 | January 28, 2018 |
|--------------------------------------|----------------------|------------------------|
| Trade accounts receivable | \$78,944 | \$98,592 |
| Other accounts receivable allowances | (3,230) | (5,117) |
| Allowance for doubtful accounts | (901) | (1,014) |
| Accounts receivable | \$74,813 | \$92,461 |

4. Inventories

| | April 29, 2018 | January 28, 2018 |
|-------------------------|-------------------|------------------------|
| Finished furniture | \$91,687 | \$92,502 |
| Furniture in process | 2,027 | 1,440 |
| Materials and supplies | 8,869 | 8,780 |
| Inventories at FIFO | 102,583 | 102,722 |
| Reduction to LIFO basis | (18,380) | (18,263) |
| Inventories | \$84,203 | \$84,459 |

5. Property, Plant and Equipment

| | Depreciable Lives (In years) | April 29, 2018 | January 28, 2018 |
|------------------------------------|---------------------------------|----------------------|------------------------|
| Buildings and land improvements | 15 - 30 | \$24,345 | \$24,298 |
| Computer software and hardware | 3 - 10 | 18,427 | 18,302 |
| Machinery and equipment | 10 | 8,648 | 8,586 |
| Leasehold improvements | Term of lease | 8,952 | 8,982 |
| Furniture and fixtures | 3 - 10 | 2,190 | 2,186 |
| Other | 5 | 648 | 612 |
| Total depreciable property at cost | | 63,210 | 62,966 |
| Less accumulated depreciation | | 36,314 | 35,100 |
| Total depreciable property, net | | 26,896 | 27,866 |
| Land | | 1,067 | 1,067 |
| Construction-in-progress | | 609 | 316 |
| Property, plant and equipment, net | | \$28,572 | \$29,249 |

Table of Contents

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 April 29, 2018 and January 28, 2018, 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 January 28, 2018, the assets of the Home Meridian segment's legacy Pension Plan (the "Pension Plan") were measured at fair value on a recurring basis based on Level 1 inputs. Pension Plan assets, held in a trust account by the Plan's trustee, primarily consist of a wide-range of mutual fund asset classes, including domestic and international equities, fixed income securities such as corporate bonds, mortgage-backed securities, real estate investments and U.S. Treasuries. As of January 31, 2018, the date of the latest actuarial valuation, Pension Plan assets were netted against the Plan's Projected Benefit Obligation ("PBO") on that date to determine the Pension Plan's funded status. Since the PBO exceeded the market value of the Pension Plan's assets, the funded status is recorded in our condensed consolidated balance sheets as a net liability. As of April 29, 2018, the net liability for this plan was \$2.3 million shown on the "Pension Plan" line of our condensed consolidated balance sheets. The market value of pension plan assets shown below are as of January 31, 2018. See Note 9. Employee Benefit Plans for additional information about the Plan.

Our assets measured at fair value on a recurring basis at April 29, 2018 and January 28, 2018, were as follows:

| Description | Fair value at April 29, 2018 | | | | Fair value at January 28, 2018 | | | |
|-------------------------------|------------------------------|----------|---------|-----------|--------------------------------|----------|---------|----------|
| | 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 | \$- | \$23,074 | \$ - | \$ 23,074 | \$- | \$23,622 | \$ - | \$23,622 |
| Pension Plan assets* | 8,757 | - | - | 8,757 | 8,757 | - | - | 8,757 |

* as of January 28, 2018 for Pension Plan assets.

7. Intangible Assets

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

| | | April 29, 2018 | January 28, 2018 |
|---|---------------|----------------------|------------------------|
| Non-amortizable Intangible Assets | Segment | | |
| Goodwill | Home Meridian | \$23,187 | \$23,187 |
| Goodwill | All Other | 16,871 | 16,871 |
| Total Goodwill | | 40,058 | 40,058 |
| Trademarks and trade names - Home Meridian | Home Meridian | 11,400 | 11,400 |
| Trademarks and trade names - Bradington-Young | All Other | 861 | 861 |
| Trademarks and trade names - Sam Moore | All Other | 396 | 396 |
| Total Trademarks and trade names | | \$12,657 | \$12,657 |
| Total non-amortizable assets | | \$52,715 | \$52,715 |

11

Table of Contents

Our amortizable intangible assets are recorded in our Home Meridian segment and All Other. The carrying amounts and changes therein of those amortizable intangible assets were as follows:

| | Amortizable Intangible Assets | | |
|-----------------------------|-------------------------------|------------|----------|
| | Customer Relationships | Trademarks | Totals |
| Balance at January 28, 2018 | \$24,644 | \$ 838 | \$25,482 |
| Amortization | (587) | (9) | (596) |
| Balance at April 29, 2018 | \$24,057 | \$ 829 | \$24,886 |

For the remainder of fiscal 2019, expected amortization expense will be approximately \$596,000 per quarter.

8. Long-Term Debt

We made an unscheduled \$10 million payment during the first quarter of fiscal 2019 towards the amounts outstanding under the New Unsecured Term Loan. Consequently, we wrote off \$6,000 in capitalized debt issuance costs to interest expense. As of April 29, 2018, there were unamortized loan costs of \$101,000 netted against the carrying value of our term loans on our condensed consolidated balance sheets.

9. Employee Benefit Plans

We maintain three retirement plans for the benefit of certain former and current employees, including a supplemental retirement income plan (“SRIP”) for certain former and current employees of Hooker Furniture Corporation, as well as two plans for the benefit of certain and former employees of Pulaski Furniture Corporation, one of two entities combined to form Home Meridian International. These legacy pension plan obligations include:

- § the Pulaski Furniture Corporation Supplemental Executive Retirement Plan (“SERP”) for certain former executives.
- § The SERP is an unfunded plan and all benefits are paid solely out of our general assets; and
- § the Pulaski Furniture Corporation Pension Plan (the “Pension Plan”) for former Pulaski Furniture Corporation employees.

The SRIP, SERP and Pension Plan are all “frozen” and we do not expect to add additional participants to any of these plans in the future. Pension Plan assets include a range of mutual fund asset classes and are measured at fair value using Level 1 inputs, which are quoted prices in active markets.

| | Thirteen Weeks Ended | |
|--|----------------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| Net periodic benefit costs | | |
| Service cost | 82 | 76 |
| Interest cost | 207 | 280 |
| Actuarial loss | 43 | 15 |
| Expected return on pension plan assets | (144) | (234) |
| Expected administrative expenses | 70 | 70 |

Consolidated net periodic benefit costs \$257 \$207

Table of Contents

We adopted ASU 2017-07 as of the beginning of our 2019 fiscal year on January 29, 2018. Components of net periodic benefit cost other than the Service cost for the SRIP, SERP and the Pension Plan are included in the line item “Other income, net” in our condensed consolidated statements of income. Service cost is included in our condensed consolidated statements of income under selling and administrative expenses. The adoption resulted in the reclassification of \$131,000 in expense from Selling and administrative expenses to Other income, net in our fiscal 2018 first quarter condensed consolidated statements of income.

The expected long-term rate of return on Pension Plan assets is 6.9% as of the Pension Plan’s most recent valuation date of January 28, 2018.

We contributed \$110,000 in required contributions to the Pension Plan in the fiscal 2019 first quarter and expect to contribute an additional total of \$584,000 in required contributions to the Pension Plan during fiscal 2019. The SRIP and SERP plans are unfunded plans. Consequently, we expect to pay a total of approximately \$524,000 in benefit payments from our general assets during the remainder of fiscal 2019 to fund SRIP and SERP payments.

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 2018 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 an 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:

| | April 29, 2018 | January 28, 2018 |
|------------------------|----------------------|------------------------|
| Restricted shares | 12 | 16 |
| Restricted stock units | 14 | 19 |
| | 26 | 35 |

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 | |
|---|-------------------------|----------------------|
| | April 29, 2018 | April 30, 2017 |
| Net income | \$7,154 | \$4,746 |
| Less: Unvested participating restricted stock dividends | 2 | 3 |

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

| | | |
|--|--------|--------|
| Net earnings allocated to unvested participating restricted stock | 9 | 11 |
| Earnings available for common shareholders | 7,143 | 4,732 |
| Weighted average shares outstanding for basic earnings per share | 11,750 | 11,543 |
| Dilutive effect of unvested restricted stock and RSU awards | 23 | 35 |
| Weighted average shares outstanding for diluted earnings per share | 11,773 | 11,578 |
| Basic earnings per share | \$0.61 | \$0.41 |
| Diluted earnings per share | \$0.61 | \$0.41 |

Table of Contents

11. Income Taxes

We recorded income tax expense of \$1.8 million for the fiscal 2019 first quarter compared to \$2.3 million for the comparable prior year period. The effective tax rates for the fiscal 2019 and 2018 first quarters were 20.5% and 33.0%, respectively. Our effective tax rate was lower in the fiscal 2019 first quarter as a result of the Tax Cuts and Job Act. We adopted ASU 2014-09 and 2018-02 in the first quarter of fiscal 2019. The adoptions resulted in the reclassification of \$120,000 from federal tax payable and \$111,000 from accumulated other comprehensive income, both to retained earnings.

The net unrecognized tax benefits as of April 29, 2018 and January 28, 2018, which, if recognized, would affect our effective tax rate are \$80,000.

Tax years ending February 1, 2015 through January 28, 2018 remain subject to examination by federal and state taxing authorities.

12. Segment Information

As a public reporting entity, we are required to present disaggregated information by segment using the management approach. The objective of this approach is to allow users of our financial statements to see our business through the eyes of management based upon the way management reviews performance and makes decisions. The management approach requires segment information to be reported based on how management internally evaluates the operating performance of the company's business units or segments. The objective of this approach is to meet the basic principles of segment reporting as outlined in ASC 280 Segments ("ASC 280"), which are to allow the users of our financial statements to:

- § better understand our performance;
- § better assess our prospects for future net cash flows; and
- § make more informed judgments about us as a whole.

We define our segments as those operations our chief operating decision maker ("CODM") regularly reviews to analyze performance and allocate resources. We measure the results of our segments using, among other measures, each segment's net sales, gross profit and operating income, as determined by the information regularly reviewed by the CODM.

We continually monitor our reportable segments for changes in facts and circumstances to determine whether changes in the identification or aggregation of operating segments are necessary. In the fourth quarter of fiscal 2018, we updated our reportable segments as follows: Hooker Upholstery was aggregated with Hooker Casegoods and reported as the Hooker Branded segment. The domestic upholstery operations of Shenandoah Furniture, Sam Moore and Bradington-Young were moved into All Other with the Company's H Contract business and the remains of the Company's Homeware division, which was shuttered earlier in fiscal 2018. The Home Meridian segment remains unchanged. Therefore, for financial reporting purposes, we are organized into two reportable segments and "All Other", which includes the remainder of our businesses:

§ Hooker Branded, consisting of the operations of our imported Hooker Casegoods and Hooker Upholstery businesses;

§ Home Meridian, a business acquired at the beginning of fiscal 2017, is a stand-alone, mostly autonomous business that serves a different type or class of customer than do our other operating segments and at much lower margins; and

All Other, which includes the domestic upholstery manufacturing operations of Bradington-Young, Sam Moore and Shenandoah Furniture and H Contract and Homeware, two businesses started in 2013. None of these operating § segments met the ASC 280 aggregation criteria nor were individually reportable; therefore, we combined them in “All Other” in accordance with ASC 280. We note that Homeware failed to reach critical mass and its operations were wound down during the fiscal 2018 second quarter.

Table of Contents

The following table presents segment information for the periods, and as of the dates, indicated:

| | Thirteen Weeks Ended | | | | |
|---------------------------------------|----------------------|----------------------------|-------------------|---------------------------------|------------------|
| | April 29, 2018 | | April 30, 2017 | | |
| Net Sales | | % Net Sales | | % Net Sales | |
| Hooker Branded | \$42,772 | 29.9 % | \$37,473 | 28.6 % | |
| Home Meridian | 70,596 | 49.4 % | 73,702 | 56.3 % | |
| All Other | 29,524 | 20.7 % | 19,697 | 15.1 % | |
| Consolidated | \$142,892 | 100.0% | \$130,872 | 100.0% | |
| Gross Profit | | | | | |
| Hooker Branded | \$14,422 | 33.7 % | \$12,535 | 33.4 % | |
| Home Meridian | 10,416 | 14.8 % | 11,006 | 14.9 % | |
| All Other | 7,128 | 24.1 % | 4,602 | 23.4 % | |
| Consolidated | \$31,966 | 22.4 % | \$28,143 | 21.5 % | |
| Operating Income | | | | | |
| Hooker Branded | \$6,726 | 15.7 % | \$4,950 | 13.2 % | |
| Home Meridian | (288) | -0.4 % | 846 | 1.1 % | |
| All Other | 2,942 | 10.0 % | 1,443 | 7.3 % | |
| Consolidated | \$9,380 | 6.6 % | \$7,239 | 5.5 % | |
| Capital Expenditures | | | | | |
| Hooker Branded | \$210 | | \$502 | | |
| Home Meridian | 36 | | 302 | | |
| All Other | 124 | | 63 | | |
| Consolidated | \$370 | | \$867 | | |
| Depreciation & Amortization | | | | | |
| Hooker Branded | \$484 | | \$504 | | |
| Home Meridian | 591 | | 655 | | |
| All Other | 753 | | 200 | | |
| Consolidated | \$1,828 | | \$1,359 | | |
| Identifiable Assets | | As of April 29, 2018 | %Total Assets | As of January 28, 2018 | %Total Assets |
| Hooker Branded | \$141,263 | 53.0 % | \$129,986 | 47.8 % | |
| Home Meridian | 90,076 | 33.8 % | 107,139 | 39.6 % | |
| All Other | 35,334 | 13.2 % | 34,394 | 12.6 % | |
| Consolidated | \$266,673 | 100.0 % | \$271,519 | 100.0 % | |
| Consolidated Goodwill and Intangibles | 77,601 | | 78,197 | | |
| Total Consolidated Assets | \$344,274 | | \$349,716 | | |

Table of Contents

Sales by product type are as follows:

| | Net Sales (in thousands) | | | |
|------------|--------------------------|--------|-------------------|--------|
| | April 29, 2018 | | April 30, 2017 | |
| | | %Total | | %Total |
| Casegoods | \$89,492 | 63 % | \$88,616 | 68 % |
| Upholstery | 53,400 | 37 % | 42,256 | 32 % |
| | \$142,892 | | \$130,872 | |

13. Subsequent EventsDividends

On June 4, 2018, our board of directors declared a quarterly cash dividend of \$0.14 per share, payable on June 29, 2018 to shareholders of record at June 15, 2018.

Casualty Loss

On May 18, 2018, the Martinsville/Henry County, Va. area experienced torrential rains. Two of our warehouse facilities were damaged as a result. Based on current estimates, we believe that the costs associated with the recovery efforts will exceed our insurance deductible of \$500,000. Consequently, we expect to record a casualty loss of \$500,000 during the fiscal 2019 second quarter. We expect that amounts in excess of our deductible will be fully covered by the insurance policy in force at the time of the loss. The casualty loss has caused only a nominal disruption in our ability to fulfill and ship orders.

Table of Contents

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

All references to the “Company,” “we,” “us” and “our” in this document refer to Hooker Furniture Corporation and its consolidated subsidiaries, unless specifically referring to segment information. All references to the “Hooker”, “Hooker Division”, “Hooker Brands” or “traditional Hooker” divisions or companies refer to the current components of our Hooker Branded segment and All Other which includes Bradington-Young, Sam Moore, Shenandoah Furniture and H Contract.

References to the “Shenandoah acquisition” refer to the acquisition of substantially all of the assets of Shenandoah Furniture, Inc. on September 29, 2017. Comparable prior-year information for Shenandoah is not included in the financial statements presented in this report. References to the “HMI acquisition” refer to the acquisition of substantially all of the assets of Home Meridian International, Inc. on February 1, 2016.

Forward-Looking Statements

Certain statements made in this report, including statements under Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in the notes to the 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 “anticipates,” or other variations 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;

§ the risks related to the recent Shenandoah acquisition including integration costs, costs related to acquisition debt, maintaining Shenandoah’s existing customer relationships, debt service costs, interest rate volatility, the use of operating cash flows to service debt to the detriment of other corporate initiatives or strategic opportunities, financial statement charges related to the application of current accounting guidance in accounting for the Shenandoah acquisition, the recognition of significant additional depreciation and amortization expenses by the combined entity, the loss of key employees from Shenandoah, the disruption of ongoing businesses or inconsistencies in standards, controls, procedures and policies across the business which could adversely affect our internal control or information systems and the costs of bringing them into compliance and failure to realize benefits anticipated from the Shenandoah acquisition;

§ the risks specifically related to the concentrations of a material part of our sales and accounts receivable in only a few customers;

§ achieving and managing growth and change, and the risks associated with new business lines, acquisitions, restructurings, strategic alliances and international operations;

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

§

adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products by foreign governments or the U.S. government;

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

changes in actuarial assumptions, the interest rate environment, the return on plan assets and future funding § obligations related to the Home Meridian segment's legacy Pension Plan, which can affect future funding obligations, costs and plan liabilities;

§ the possible impairment of our long-lived assets, which can result in reduced earnings and net worth;

Table of Contents

§ 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 Vietnam and China, including customs issues, labor stoppages, strikes or slowdowns and the availability of shipping containers and cargo ships;

§ the interruption, inadequacy, security breaches or integration failure of our information systems or information technology infrastructure, related service providers or the internet;

§ disruptions affecting our Virginia, North Carolina or California warehouses, our Virginia or North Carolina administrative facilities or our representative offices in Vietnam and China;

§ 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 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, availability of skilled labor, and environmental compliance and remediation costs;

§ risks associated with distribution through third-party retailers, such as non-binding dealership arrangements;

§ capital requirements and costs, including the servicing of our floating-rate term loans;

§ 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 and workers' compensation costs that may increase the cost of our self-insured healthcare and workers compensation plans.

Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. Any forward-looking statement 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 and you should not expect us to do so.

Also, our business is subject to a number of significant risks and uncertainties any of which can adversely affect our business, results of operations, financial condition or future prospects. For a discussion of risks and uncertainties that

we face, see the Forward-Looking Statements detailed above and Item 1A, “Risk Factors” in our 2018 annual report on Form 10-K (the “2018 Annual Report”).

Investors should also be aware that while we occasionally communicate with securities analysts and others, it is against our policy to selectively disclose to them any material nonpublic information or other confidential commercial information. Accordingly, investors should not assume that we agree with any projection, forecast or report issued by any analyst regardless of the content of the statement or report, as we have a policy against confirming information issued by others.

Table of Contents

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 January 29, 2018 and ended April 29, 2018. This report discusses our results of operations for this period compared to the 2018 fiscal year thirteen-week period that began January 30, 2017 and ended April 30, 2017; and our financial condition as of April 29, 2018 compared to January 28, 2018.

References in this report to:

§ the 2019 fiscal year and comparable terminology mean the fiscal year that began January 29, 2018 and will end February 3, 2019; and

§ the 2018 fiscal year and comparable terminology mean the fiscal year that began January 30, 2017 and ended January 28, 2018.

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

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 2018 annual report on Form 10-K (“2018 Annual Report”) filed with the SEC on April 13, 2018. Our 2018 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 condensed consolidated financial statements, as well as a more thorough and detailed discussion of our corporate strategy and new business initiatives.

Our 2018 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>.

Overview

Hooker Furniture Corporation, incorporated in Virginia in 1924, is a designer, marketer and importer of casegoods (wooden and metal furniture), and leather and fabric-upholstered furniture for the residential, hospitality and contract markets. We also domestically manufacture premium residential custom leather and custom fabric-upholstered furniture. Our net sales are derived from the sale of home furnishings, as well as hospitality and contract furniture. We are ranked among the nation’s top five largest publicly traded furniture sources, based on 2017 shipments to U.S. retailers, according to a 2018 survey by a leading trade publication.

We believe that consumer home furnishings purchases are impacted 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. These purchases are also impacted by lifestyle-driven factors such as changes in fashion trends, disposable income, household formation and turnover, as well as competition with other discretionary purchases. Hospitality furniture sales are driven primarily by new hotel construction and hotel remodeling activity, which is linked to the strength of the overall economy, including business and personal spending levels. Contract furniture sales are driven largely by senior living facility construction and remodeling activity, which is linked to the number of consumers entering retirement, which is partially related to the strength of the overall economy, including stock market performance.

Approximately 87% of our fiscal 2018 sales were of imported furniture products, primarily from Asia. Our lower overhead, variable-cost import operations help drive our profitability and provide us with more flexibility to respond

to changing demand by adjusting inventory purchases from suppliers. This import model requires constant vigilance due to a larger investment in inventory and longer production lead times. We constantly evaluate our imported furniture suppliers and when quality concerns, inflationary pressures, or trade barriers, such as duties and tariffs, diminish our value proposition, we transition sourcing to other suppliers, often located in different countries or regions. Our domestic upholstery operations have significantly higher overhead and fixed costs than our import operations, and their profitability can be and has been adversely affected by economic downturns.

Our strategy is to leverage the financial strength afforded us by our slower-growing but highly profitable traditional Hooker divisions in order to boost revenues and earnings both organically and by acquiring businesses selling in faster-growing channels of distribution in which our legacy businesses are under-represented. Consequently, Hooker acquired Home Meridian on February 1, 2016 and Shenandoah Furniture on September 29, 2017.

Table of Contents

Hooker's acquisition of Home Meridian has better positioned us in some of the fastest growing and emerging channels of distribution, including e-commerce, warehouse membership clubs and contract channels of distribution, although at lower margins. This acquisition has provided the Home Meridian segment's current leadership team with greater financial flexibility by virtue of Hooker's strong balance sheet and, consequently, has afforded it greater operational focus.

We believe the acquisition of Shenandoah, a North Carolina-based domestic upholsterer, should better position us in the "lifestyle specialty" retail distribution channel, which we believe is gaining market share and doing well with multiple demographic groups. For that channel, domestically-produced, customizable upholstery is extremely viable and preferred by the end consumers who shop at retailers in that channel.

Executive Summary-Results of Operations

The Shenandoah acquisition closed during the third quarter in fiscal 2018. Consequently, All Other's results only include Shenandoah's results from February 2018 through April 2018. Shenandoah's prior year results are not included in the results discussed below.

Consolidated net sales for fiscal 2019 first quarter increased \$12 million or 9.2% as compared to the prior year period, to approximately \$143 million due primarily to the inclusion of Shenandoah's net sales and 14% net sales increase in the Hooker Branded segment. These increases were partially offset by \$3.1 million or 4.2% net sales shortfall in our Home Meridian segment compared to the prior year period.

Consolidated net income for fiscal 2019 first quarter increased about \$2.4 million or 51% as compared to the prior year. The increase was attributed to higher earnings as well as the tax rate reduction under the recently enacted Tax Cuts and Job Act.

As discussed in greater detail under "Results of Operations" below, the following are the primary factors that affected our consolidated fiscal 2019 first quarter results of operations:

Gross profit. Consolidated gross profit increased both in absolute terms and as a percentage of net sales due to increased profit margin in the Hooker Branded segment and in All Other. Gross profit decreased in absolute terms at § Home Meridian due to lower sales volumes during the quarter, but stayed essentially flat as a percentage of net sales principally due to favorable product costs.

Selling and administrative expenses. Consolidated selling and administrative (S&A) expenses increased in absolute terms due primarily to the addition of Shenandoah's operations as well as higher compensation and benefits expense § in the Home Meridian segment. These increases were partially offset by lower employee benefits expense in the Hooker Branded segment due to \$1 million of life insurance proceeds received in the current year quarter. S&A expenses decreased slightly as a percentage of net sales primarily due to higher net sales.

Intangible asset amortization expense. Intangible amortization expense increased \$262,000 to \$596,000 due to the § addition of amortization expense on Shenandoah acquisition-related intangibles acquired in the fiscal 2018 third quarter.

Operating income. Consolidated operating income increased \$2.1 million or 29.6% to \$9.4 million as the result of § the factors discussed above and in greater detail in the analysis below.

Review

We are pleased to report a \$12 million or 9.2% sales increase in the fiscal 2019 first quarter. All Other led the consolidated net sales increase for the quarter with a 50% net sales increase, primarily due to the inclusion of Shenandoah's net sales.

The Hooker Branded segment contributed \$5.3 million to the consolidated sales increase due to higher incoming orders and shipments in both Hooker Casegoods and Hooker Upholstery. Hooker Casegoods finished the quarter with a 12% net sales increase and a 3% increase in orders, ending the trend of soft sales growth we've seen in the segment since the second half of fiscal 2016. The sales increase is attributed primarily to good inventory in-stock positions on several good-selling collections. Hooker Upholstery, fully recovered from the vendor quality issue in fiscal 2017, has continued to bring new introductions to market and has benefited from new management and additional operational focus in that business. Hooker Upholstery's net sales grew 29.8%, while orders grew 40% and sales backlog grew approximately 10% in the fiscal 2019 first quarter.

Table of Contents

The Home Meridian segment experienced disruptions with its Asian suppliers during the quarter, attributed to slower vendor startups after the Chinese New Year. Home Meridian's sales are usually slower in the first half of the fiscal year anyway, so coupled with these vendor disruptions, net sales were down for the quarter. Sales to mega and target-mega accounts are below the prior year period, while sales at e-commerce and alternate channel accounts partially offset those unfavorable variances. On a more positive note, Home Meridian's year-to-date orders were up over 19% and sales backlog was up over 16% as of quarter-end, both as compared to the prior year period; therefore, we expect to see improved net sales during the second and third quarters as compared to first quarter.

The sales increase in All Other is mostly attributable to the addition of Shenandoah's net sales, the business we acquired in the fiscal 2018 third quarter. Bradington-Young's solid sales growth of approximately 10% also helped the net sales increase. Raw materials inflation was an issue during the period in our domestic upholstery operations, but we are able to offset inflation with price increases and expect to mitigate further inflation with price increases. Improved labor efficiency in our Sam Moore division also contributed to favorable product costs and higher gross margin as a percentage of net sales. Although a small part of All Other and our consolidated results, H Contract continued to grow its sales. Its orders were up 9.6% for the quarter and its backlog up over 25% at quarter-end, all compared to the prior-year period.

Our operating results also benefited from about \$1 million in gains on company-owned life insurance recorded in the quarter, lower bad debt expense due to the absence of a write-off of a customer balance the prior year. In addition to our operating results, we generated nearly \$29 million in cash from operating activities, paid approximately \$12 million towards our term loans, including a \$10 million unscheduled payment, paid \$1.6 million in cash dividends to our shareholders, and increased cash and cash equivalents by \$15.6 million. Profitability, along with inventory management and cautious capital spending, have helped us maintain our strong, stable balance sheets.

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 | |
|-------------------------------------|----------------------|----------------|
| | April 29, 2018 | April 30, 2017 |
| Net sales | 100.0% | 100.0% |
| Cost of sales | 77.6 | 78.5 |
| Gross profit | 22.4 | 21.5 |
| Selling and administrative expenses | 15.4 | 15.7 |
| Intangible asset amortization | 0.4 | 0.3 |
| Operating income | 6.6 | 5.5 |
| Other income, net | - | 0.1 |
| Interest expense, net | 0.3 | 0.2 |
| Income before income taxes | 6.3 | 5.4 |
| Income tax expense | 1.3 | 1.8 |
| Net income | 5.0 | 3.6 |

Table of Contents

Fiscal 2019 First Quarter Compared to Fiscal 2018 First Quarter

| | Net Sales | | Thirteen Weeks Ended | | \$ | % Change | |
|----------------|----------------|----------------|----------------------|-----------|----------|----------|---|
| | April 29, 2018 | April 30, 2017 | | | | | |
| | % | % | % | % | | | |
| | Net Sales | Net Sales | Net Sales | Net Sales | | | |
| Hooker Branded | \$42,772 | 29.9 % | \$37,473 | 28.6 % | \$5,299 | 14.1 | % |
| Home Meridian | 70,596 | 49.4 % | 73,702 | 56.3 % | (3,106) | -4.2 | % |
| All Other | 29,524 | 20.7 % | 19,697 | 15.1 % | 9,827 | 49.9 | % |
| Consolidated | 142,892 | 100 % | 130,872 | 100 % | 12,020 | 9.2 | % |

| | FY19 | | FY19 | |
|----------------|------------------------|----------------|-----------------------------|------------------------|
| | Q1 % Increase vs. FY18 | Q1 | Average Selling Price (ASP) | Q1 % Increase vs. FY18 |
| Hooker Branded | 12.1 % | Hooker Branded | 2.0 % | |
| Home Meridian | -6.6 % | Home Meridian | 1.7 % | |
| All Other* | -5.4 % | All Other* | 8.4 % | |
| Consolidated | -4.1 % | Consolidated | 5.8 % | |

*Shenandoah is excluded from All Other in the table above since they were not a part of our fiscal 2018 first quarter results. Consequently, we believe including their fiscal 2019 first quarter results would skew All Others results and reduce the usefulness of the table above.

Consolidated net sales increased due primarily to the inclusion of Shenandoah net sales as well as higher incoming orders in the Hooker Branded segment, offset by a decline in unit volume at Home Meridian segment. The Hooker Branded segment's unit volume increased primarily due to strong sales and increased shipping as the result of good in stock position. The average selling price at Hooker Branded segment increased due to favorable discounting, partially offset by higher sales allowances. The net sales increase in All Other was attributable to the inclusion of Shenandoah and to a lesser extent, solid sales growth at Bradington-Young, partially offset by a sales decrease in Sam Moore and lower sales unit volume. All Other's average selling price increased due to increased sales of higher-priced luxury motion products. Its unit volume decreased due to the sales decrease at Sam Moore and the lack of Homeware unit volume in the fiscal 2019 first quarter. The sales volume shortfall at Home Meridian segment was the result of the timing of Chinese New Year and vendor shipping delays which negatively affected net sales in the quarter. Home Meridian's average selling price increased 1.7% due to the mix of customers and products shipped, which lowered the segment's sales allowances.

| Gross Income and Margin | | Thirteen Weeks Ended | | \$ | % Change |
|-------------------------|----------------|----------------------|-----|----|----------|
| April 29, 2018 | April 30, 2017 | | | | |
| % | % | % | % | | |
| Net | Net | Net | Net | | |

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

| | | Sales | | Sales | | | |
|----------------|-----------|--------|-----------|--------|----------|------|---|
| Hooker Branded | \$ 14,422 | 33.7 % | \$ 12,535 | 33.4 % | \$ 1,887 | 15.1 | % |
| Home Meridian | 10,416 | 14.8 % | 11,006 | 14.9 % | (590) | -5.4 | % |
| All Other | 7,128 | 24.1 % | 4,602 | 23.4 % | 2,526 | 54.9 | % |
| Consolidated | \$ 31,966 | 22.4 % | \$ 28,143 | 21.5 % | \$ 3,823 | 13.6 | % |

22

Table of Contents

Consolidated gross profit increased both in absolute terms and as a percentage of net sales in the fiscal 2019 first quarter, primarily due to increased profit in Hooker Branded segment and All Other, partially offset by the decreased profit in Home Meridian segment. The Hooker Branded segment benefited from increased sales and favorable discounting, partially offset by the absence in the current fiscal quarter of a one-time vendor price concession due to a vendor quality issue which led to lower product costs in the fiscal 2018 first quarter. Gross profit decreased in absolute terms at Home Meridian due to lower sales volume during the quarter, but stayed essentially flat as a percentage of net sales principally due to favorable product costs, lower sales allowance expense resulting from changes in product mix, and lower variable expenses compared to the prior year period. Increased gross profit in All Other was due primarily to the inclusion of Shenandoah results and to a lesser extent the increased profit margin in our domestic manufacturing divisions due to increased product price and improved labor efficiency.

| Selling and Administrative Expenses | | | | | | | |
|-------------------------------------|----------|--------|----------|--------|----------|--------|---|
| Thirteen Weeks Ended | | | | | | | |
| | April | | April | | \$ | % | |
| | 29, | | 30, | | Change | Change | |
| | 2018 | | 2017 | | | | |
| | | % | | % | | | |
| | | Net | | Net | | | |
| | | Sales | | Sales | | | |
| Hooker Branded | \$7,696 | 18.0 % | \$7,585 | 20.2 % | \$ 111 | 1.5 | % |
| Home Meridian | 10,371 | 14.7 % | 9,826 | 13.3 % | 545 | 5.5 | % |
| All Other | 3,922 | 13.3 % | 3,159 | 16.0 % | 763 | 24.2 | % |
| Consolidated | \$21,989 | 15.4 % | \$20,570 | 15.7 % | \$ 1,419 | 6.9 | % |

Consolidated selling and administrative (S&A) expenses increased in absolute terms due to the addition of Shenandoah's operations and increased S&A expenses in the Home Meridian segment and decreased slightly as a percentage of net sales due to higher net sales.

Hooker Branded segment S&A expenses stayed flat but decreased as a percentage of net sales. In the fiscal 2019 first quarter, lower employee benefits costs and bad debts expense were mostly offset by higher selling costs due to higher net sales. Employee benefits costs were lower due to gains on company-owned life insurance recognized during the quarter. Company-owned life insurance policies are in place to compensate us for the loss of key employees, to facilitate business continuity and to serve as a funding mechanism for certain executive benefits.

Home Meridian segment S&A expenses increased as a percentage of net sales primarily due to lower net sales, and in absolute terms due to increased employee compensation costs due to increased headcount, increased employee benefits expenses due to higher medical claims expense, and increased professional service fees due primarily to higher compliance costs. These increases were partially offset by decreased selling expenses and favorable bad debts expense due to a customer balance written off during the prior year period.

The increased expenses in All Other are due principally to the inclusion of Shenandoah's results. The increases were partially offset by decreased compensation costs at Sam Moore and H Contract.

| Intangible Asset Amortization | | | | | |
|-------------------------------|-------|--|-------|--|--------|
| Thirteen Weeks Ended | | | | | |
| | April | | April | | % |
| | 29, | | 30, | | Change |
| | 2018 | | 2017 | | Change |
| | | | | | |

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

| | | % | | % | | | % |
|-------------------------------|-------|-------|---|-------|-----|---|---------------|
| | | Net | | Net | | | |
| | | Sales | | Sales | | | |
| Intangible asset amortization | \$596 | 0.4 | % | \$334 | 0.3 | % | \$ 262 78.4 % |

Intangible asset amortization expense was higher in the current year quarter due to the addition of Shenandoah acquisition-related amortization expense.

Table of Contents

| Operating Profit and Margin | | | | | | | | |
|-----------------------------|---------|--------|---------|--------|----------|--|--------|---|
| Thirteen Weeks Ended | | | | | | | | |
| | April | | April | | | | | |
| | 29, | | 30, | | \$ | | % | |
| | 2018 | | 2017 | | Change | | Change | |
| | % | | % | | | | | |
| | Net | | Net | | | | | |
| | Sales | | Sales | | | | | |
| Hooker Branded | \$6,726 | 15.7 % | \$4,950 | 13.2 % | \$ 1,776 | | 35.9 | % |
| Home Meridian | (288) | -0.4 % | 846 | 1.1 % | (1,134) | | -134.0 | % |
| All Other | 2,942 | 10.0 % | 1,443 | 7.3 % | 1,499 | | 103.9 | % |
| Consolidated | \$9,380 | 6.6 % | \$7,239 | 5.5 % | \$2,141 | | 29.6 | % |

Operating profitability increased for the fiscal 2019 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.

| Interest Expense, net | | | | | | |
|------------------------------------|-------|-------|-------|-------|--------|--------|
| Thirteen Weeks Ended | | | | | | |
| | April | | April | | | |
| | 29, | | 30, | | \$ | |
| | 2018 | | 2017 | | Change | |
| | % | | % | | | |
| | Net | | Net | | | |
| | Sales | | Sales | | | |
| Consolidated interest expense, net | \$382 | 0.3 % | \$251 | 0.2 % | \$ 131 | 52.2 % |

Consolidated interest expense increased due to increases in the interest rates on our variable-rate term loans and additional interest expense on the Shenandoah acquisition-related term loan.

| Income taxes | | | | | | |
|---------------------------------|---------|-------|---------|-------|-----------|---------|
| Thirteen Weeks Ended | | | | | | |
| | April | | April | | | |
| | 29, | | 30, | | \$ | |
| | 2018 | | 2017 | | Change | |
| | % | | % | | | |
| | Net | | Net | | | |
| | Sales | | Sales | | | |
| Consolidated income tax expense | \$1,849 | 1.3 % | \$2,334 | 1.8 % | \$ (485) | -20.8 % |
| Effective Tax Rate | 20.5 % | | 33.0 % | | | |

We recorded income tax expense of \$1.8 million for the fiscal 2019 first quarter compared to \$2.3 million for the comparable prior year period. The effective tax rates for the fiscal 2019 and 2018 first quarters were 20.5% and 33.0%, respectively. Our effective tax rate was lower in the fiscal 2019 first quarter as a result of the Tax Cuts and Job Act. We adopted ASU 2014-09 and 2018-02 in the first quarter of fiscal 2019. The adoptions resulted in the reclassification of \$120,000 from federal tax payable and \$111,000 from accumulated other comprehensive income, both to retained earnings.

Table of Contents

Outlook

Retail business in the first quarter was uneven. Incoming orders vary by business unit, but generally exceeded shipments. We believe economic trends are generally favorable to the furniture industry and we entered the second quarter with a good bit of momentum. Given the positive economic indicators and the diverse nature of our companies, products, price points and distribution channels, we believe we are well-positioned and expect to continue to outperform our industry.

We face a number of significant risks and uncertainties, as more fully discussed in Item 1A, “Risk Factors” in our 2018 Annual Report.

Financial Condition, Liquidity and Capital Resources

Cash Flows – Operating, Investing and Financing Activities

| | Thirteen Weeks Ended | |
|---|-------------------------|-------------------|
| | April 29, 2018 | April 30, 2017 |
| Net cash provided by operating activities | \$28,579 | \$17,842 |
| Net cash provided by/(used in) investing activities | 604 | (1,000) |
| Net cash used in financing activities | (13,540) | (2,852) |
| Net increase in cash and cash equivalents | \$15,643 | \$13,990 |

During the three months ended April 29, 2018, cash generated from operations of \$28.6 million and \$1.1 million in proceeds received under Company-owned life insurance policies helped to fund an increase in cash and cash equivalents of \$15.6 million and pay approximately \$12 million in long-term debt payments, \$1.6 million in cash dividends and \$370,000 of capital expenditures to enhance our business systems and facilities.

In comparison, during the three months ended April 30, 2017, cash generated from operations of \$17.8 million helped to fund an increase in cash and cash equivalents of \$14.0 million and pay \$1.5 million in long-term debt payments, \$1.4 million in cash dividends and \$867,000 of capital expenditures to enhance our business systems and facilities.

Liquidity, Financial Resources and Capital Expenditures

Our financial resources include:

- § available cash and cash equivalents, which are highly dependent on incoming order rates and our operating performance;
- § expected cash flow from operations; and
- § available lines of credit.

We believe these resources are sufficient to meet our business requirements through fiscal 2019 and for the foreseeable future, including:

- § capital expenditures;
- § working capital, including capital required to fund our Pension Plan, SERP and SRIP plans;

§ the payment of regular quarterly cash dividends on our common stock; and
§ the servicing of our acquisition-related debt.

Loan Agreements and Revolving Credit Facility

We currently have two unsecured term loans and one secured term loan outstanding and a revolving credit facility. The term loans are related to the Home Meridian and Shenandoah acquisitions. Details of our loan agreements and revolving credit facility are detailed below.

25

Table of Contents

Original Loan Agreement

On February 1, 2016, we entered into an amended and restated loan agreement (the “Original Loan Agreement”) with Bank of America, N.A. (“BofA”) in connection with the closing of the Home Meridian acquisition. Also on February 1, 2016, we borrowed in full the amounts available under the Unsecured Term Loan (the “Unsecured Term Loan”) and the Secured Term Loan (the “Secured Term Loan”) in connection with the completion of the Home Meridian acquisition.

Details of the individual credit facilities provided for in the Original Loan Agreement are as follows:

Unsecured revolving credit facility. The Original Loan Agreement increased the amount available under our existing unsecured revolving credit facility from \$15 million to \$30 million and increased the sublimit of the facility available for the issuance of letters of credit from \$3 million to \$4 million. Amounts outstanding under the revolving § facility bear interest at a rate, adjusted monthly, equal to the then-current LIBOR monthly rate plus 1.50%. We must also pay a quarterly unused commitment fee that is based on the average daily amount of the facility utilized during the applicable quarter;

Unsecured Term Loan. The Original Loan Agreement provided us with a \$41 million Unsecured Term Loan. Any amount borrowed under the Unsecured Term Loan bears interest at a rate, adjusted monthly, equal to the § then-current LIBOR monthly rate plus 1.50%. We must repay any principal amount borrowed under the Unsecured Term Loan in monthly installments of approximately \$490,000, together with any accrued interest, until the full amount borrowed is repaid or until February 1, 2021, at which time all amounts outstanding under the Unsecured Term Loan will become due and payable; and

Secured Term Loan. The Original Loan Agreement provided us with a \$19 million term loan secured by a security interest in certain Company-owned life insurance policies granted to BofA under a security agreement, dated as of February 1, 2016 (the “Security Agreement”). Any amount borrowed under the Secured Term Loan bears interest at a § rate, adjusted monthly, equal to the then-current LIBOR monthly rate plus 0.50%. We must pay the interest accrued on any principal amounts borrowed under the Secured Term Loan on a monthly basis until the full principal amount borrowed is repaid or until February 1, 2021, at which time all amounts outstanding under the Secured Term Loan will become due and payable. BofA’s rights under the Security Agreement are enforceable upon the occurrence of an event of default under the Original Loan Agreement.

New Loan Agreement

On September 29, 2017, we entered into a second amended and restated loan agreement (the “New Loan Agreement”) with BofA in connection with the completion of the Shenandoah acquisition. The New Loan Agreement:

amends and restates the Original Loan Agreement detailed above such that our existing \$30 million unsecured § revolving credit facility (the “Existing Revolver”), Unsecured Term Loan, and Secured Term Loan all remain outstanding under the New Loan Agreement; and

§ provided us with a new \$12 million unsecured term loan (the “New Unsecured Term Loan”). Amounts outstanding under the New Unsecured Term Loan bear interest at a rate, adjusted monthly, equal to the then current LIBOR monthly rate plus 1.50%. We must repay the principal amount borrowed under the New Unsecured Term Loan in monthly installments of approximately \$143,000, together with any accrued interest, until the full amount borrowed is repaid or until the earlier of September 30, 2022 or the expiration of the Existing Revolver, at which time all amounts outstanding under the New Unsecured Term Loan will become due and payable. We may prepay the outstanding principal amount under the New Unsecured Term Loan, in full or in part, on any interest payment date without penalty. On September 29, 2017, we borrowed the full \$12 million available under the New Unsecured Term

Loan to partially fund the cash consideration used in the Shenandoah acquisition.

The New Loan Agreement also included customary representations and warranties and requires us to comply with customary covenants, including, among other things, the following financial covenants:

26

Table of Contents

Maintain a ratio of funded debt to EBITDA not exceeding:

- o 2.50:1.0 through August 31, 2018;
- o 2.25:1.0 through August 31, 2019;
- o and
- o 2.00:1.00 thereafter.
- o A basic fixed charge coverage ratio of at least 1.25:1.00; and
- o Limit capital expenditures to no more than \$15.0 million during any fiscal year beginning in fiscal 2019.

The New Loan Agreement also limits our right to incur other indebtedness, make certain investments and create liens upon our assets, subject to certain exceptions, among other restrictions. The New Loan Agreement does not restrict our ability to pay cash dividends on, or repurchase shares of our common stock, subject to our compliance with the financial covenants discussed above, if we are not otherwise in default under the New Loan Agreement.

We were in compliance with each of these financial covenants at April 29, 2018 and expect to remain in compliance with existing covenants for the foreseeable future.

Due to our strong cash position, we made an unscheduled \$10 million payment during the first quarter of fiscal 2019 towards the amounts outstanding under the New Unsecured Term Loan. We believe we will save approximately \$300,000 in interest expense in fiscal 2019 because of this payment.

Revolving Credit Facility Availability

As of April 29, 2018, we had an aggregate \$28.5 million available under our revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.5 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of April 29, 2018. There were no additional borrowings outstanding under the revolving credit facility as of April 29, 2018.

Capital Expenditures

We expect to spend between \$7.0 million to \$9.0 million in capital expenditures fairly evenly during the remainder of the 2019 fiscal year to maintain and enhance our operating systems and facilities. That estimate includes approximately \$5.0 million to expand our Bradington-Young domestic production facility, which is being undertaken to ensure adequate capacity given our growth estimates for Bradington-Young. We expect the expansion to be completed by the end of the current fiscal year.

Share Repurchase Authorization

During fiscal 2013, our Board of Directors authorized the repurchase of up to \$12.5 million of shares of the Company's common stock. 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. Repurchases may be made from time to time in the open market, or through privately negotiated transactions or otherwise, in compliance with applicable laws, rules and regulations, and subject to our cash requirements for other purposes, compliance with the covenants under the Loan Agreement and other factors we deem relevant. No shares have been repurchased since fiscal 2013. Approximately \$11.8 million remained available for future repurchases under the authorization as of April 29, 2018.

Recently Issued Accounting Standards

In February 2016, the FASB issued ASU 2016-02 Leases, which, among other things, requires lessees to recognize a right-of-use asset and a liability on the balance sheet for all leases, with the exception of short-term leases. This change will increase reported assets and liabilities by lessees— in some cases very significantly. The lease liability recognized will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. Leases will continue to be classified as either operating or finance leases in the income statement. Lessor accounting remains substantially similar to current U.S. GAAP. ASU 2016-02 supersedes Topic 840, Leases. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. This standard is effective for public entities for annual and interim periods in fiscal years beginning after December 15, 2018, which will be the first quarter of our 2020 fiscal year. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements and have not made any decision on the method of adoption with respect to the optional practical expedients.

Table of Contents

Subsequent Event- Casualty Loss

Early in the fiscal 2019 second quarter, the Martinsville/Henry County, Va. area experienced torrential rains. Two of our warehouse facilities were damaged as a result. Based on current estimates, we believe that the costs associated with the recovery efforts will exceed our insurance deductible of \$500,000. Consequently, we expect to record a casualty loss of \$500,000 during the fiscal 2019 second quarter. We expect that amounts in excess of our deductible will be fully covered by the insurance policy in force at the time of the loss. The casualty loss has caused only a nominal disruption in our ability to fulfill and ship orders.

Critical Accounting Policies

Except as discussed below, 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 2018 Annual Report.

On the first day of the current fiscal year, we adopted the accounting standards outlined in Part 1, Notes to Condensed Consolidated Financial Statements, "Note 2. Recently Adopted Accounting Policies" ("Note 2"). See Note 2 for additional information related to the impact of adopting these accounting standards.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes, raw materials price risk and 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.

Interest Rate Risk

Borrowings under our revolving credit facility and the Unsecured Term Loan bear interest based on LIBOR plus 1.5% and borrowings under the Secured Term Loan bear interest based on LIBOR plus 0.5%. As such, these debt instruments expose us to market risk for changes in interest rates. There was no outstanding balance under our revolving credit facility as of April 29, 2018, other than standby letters of credit in the amount of \$1.5 million. However, as of April 29, 2018, \$41.4 million was outstanding under our term loans. A 1% increase in the LIBOR rate would result in an annual increase in interest expenses on our term loans of approximately \$376,000.

Raw Materials Price Risk

We are exposed to market risk from changes in the cost of raw materials used in our domestic upholstery manufacturing processes; principally, wood, fabric and foam products. Increases in home construction activity could result in increases in wood and fabric costs. Additionally, the cost of petroleum-based foam products we utilize are sensitive to crude oil prices, which vary due to supply, demand and geo-political factors.

Currency Risk

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 Vietnam and 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.

28

Table of Contents

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 April 29, 2018. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective as of April 29, 2018 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

On September 29, 2017, we acquired the assets and certain liabilities of Shenandoah Furniture, Inc. As permitted by SEC guidance for newly acquired businesses, we excluded the Shenandoah segment's operations from the scope of our Sarbanes-Oxley Section 404 report on internal controls over financial reporting for the year ended January 28, 2018. We are in the process of implementing our internal control in the Shenandoah segment's operations and expect that this effort will be completed in fiscal 2019.

There have been no changes in our internal control over financial reporting during the fiscal quarter ended April 29, 2018, 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)
Amended and Restated Bylaws of the Company, as amended (See Exhibit 3.2)
- 10.1 Form of Performance Share Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on May 11, 2018)
- 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 April 29, 2018, 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

** Furnished 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: June 8, 2018 By: /s/ Paul A. Huckfeldt
Paul A. Huckfeldt
Chief Financial Officer and
Senior Vice President – Finance and
Accounting