

# Resilience in Disrupted Times

## 2020 Annual Report



HOOKER®  
— FURNITURE —

## Resilience in Disrupted Times

Fiscal 2020 began and ended amid global economic disruption.

Following the best year in our 95-year history, in which we reported record sales and earnings, we knew fiscal 2020 would present many challenges. Much of the early and sustained disruption resulted from tariffs on finished goods and component parts imported from China, which created a chain reaction of higher product costs, followed by higher selling prices to our customers and inventory disruptions. Also, as a result of the tariffs, we experienced increased costs and had to divert management resources to shift production to factories in non-tariff countries. Sales at the beginning of the fiscal year were also subdued by a stock market downturn in December 2018 and a 35-day US government shutdown lasting until late January 2019, which contributed to weak furniture retail conditions for much of the first half of 2019. In addition, retailers were in an over-inventoried position in an effort to get ahead of a threatened increase in tariffs originally scheduled for January 1, 2019, but later delayed. Late in calendar 2018, we also encountered an unexpected quality-related issue with a single large Home Meridian customer that had a significant adverse impact on our sales and earnings for fiscal 2020.

As we prepare to report our Fiscal 2020 earnings, the COVID-19 Pandemic is causing economic storms including significant stock market declines and a surge in unemployment, supply chain disruptions and the cancellation of business, social, sporting and academic gatherings, including the High Point Premarket in March and the April High Point Market. In addition, some of our customers have closed temporarily as many communities across the country are under temporary stay-at-home orders from state and local authorities. At this time, we are unsure how long we will face the considerable health and financial impacts of the virus.

It is impossible to overstate how significant the many external disruptions were for our company in fiscal 2020. But to dwell on negatives is not what our shareholders expect from us, nor what we expect of ourselves. We were forced to perform under adverse conditions, both as a team and as individuals. While we knew our financial results would suffer in the short-term, we are deeply gratified at how our team worked together to adapt and to navigate many external challenges. We made significant progress in our tariff mitigation and re-sourcing strategies. We began to experience financial improvements from these mitigation strategies in the fourth quarter and expect to benefit more from these strategies as we move forward. By fiscal year end, we reduced our reliance on Chinese factories by half, thanks to the efforts of our teams in the US and Asia and our manufacturing partners.

External disruption forced us to examine our business and work together to overcome challenges on multiple fronts, leaving us a stronger, more resilient company for the future.

## Fiscal 2020 Results

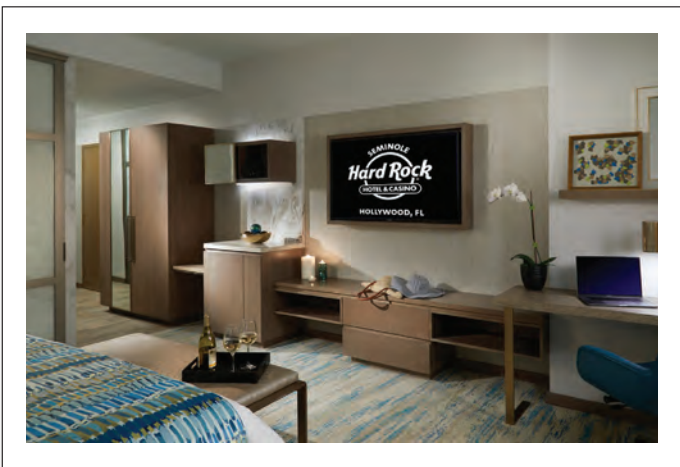
Fiscal 2020 net sales decreased 11% from the prior year, with similar declines in each of our segments.

Net income was 57% below the prior year, with declines in all three reportable segments. However, much of the shortfall was centered in Home Meridian which, in addition to lower net sales, was more adversely impacted by tariffs and inventory-related issues.

Gross margins were negatively affected by lower sales volumes, unrecovered tariff costs and quality-related chargebacks from a single large Home Meridian customer. While we had begun implementing tariff mitigation strategies prior to Q1 fiscal 2020, these initiatives are not quick fixes. Customer price increases must be implemented appropriately, and in line with customer agreements. In addition, there was the comprehensive and time-consuming task of securing new manufacturing resources for most divisions.



**Inspired by the Hill Country Region of Texas, Hooker Casegoods' LaGrange Collection of bedroom, dining, living room and kitchen furnishings like the Hostyn Hill Island and counter-height chairs, has an authentic American character and the inviting look of reclaimed wood.**



**SLH provided furnishings for approximately 1,000 rooms in the iconic Hard Rock Hotel in Hollywood, Fla. Furniture from SLH shown includes a wardrobe, cubby, minibar, desk and bed bench.**



**HMI's newest division, HMidea, was launched this year, offering easy-to-assemble furnishings in stylish designs that ship flat and can be assembled in 30 minutes or less, catering to the e-commerce market.**

Home Meridian faced greater profitability challenges: with less ability to pass tariffs along to its larger customers due to agreements with those customers as well as competitive factors; greater impact of the slow start to the year in the form of excess inventory costs as well as almost \$5 million in excess chargebacks; and, other costs related to several large returns from the single large customer referred to earlier. Home Meridian sales for the year declined about 12% from the prior year, after years of solid sales growth, which also had a negative impact on profitability. We were disappointed, but believe many of these excess costs will be greatly reduced or will not recur next year.

We were relatively satisfied with the profitability of most of our traditional Hooker business units, given the lower sales and higher costs faced this year.

## Standout Performers in Challenging Times

Even in a challenging year, several divisions performed at a high level, particularly those serving our advantaged distribution channels of hospitality and contract furnishings. Our non-residential businesses, Samuel Lawrence Hospitality (SLH) and H Contract, both experienced double-digit sales growth, affirming our strategy of diversification and focus on growing channels of distribution. SLH is continuing to build on its recent successes with larger furnishings projects with such high-profile customers as Disney Resorts and the recently completed Hard Rock Hotel in Florida.

Taking a long-range view for strategic growth, we launched several promising new product lines and programs this year. Off to a strong start is HMidea, a high-quality easy-to-assemble casegoods line featuring innovative designs and upscale materials targeted for the ecommerce and mass merchant channels. Our Samuel Lawrence Furniture (SLF) division introduced a line of quality, durable dining, bedroom and youth furniture constructed with synthetic wood that is exceeding our sales expectations and allowing us to expand our business with top retail furniture trade partners.

With an eye to strengthening business in the advantaged channel of interior design, we continued to expand our Design Pro membership program, which provides a dedicated portal for designers to manage their accounts, order sales aids and conduct business with us. Another standout division this year was Hooker Upholstery,



**SLF Performance Furniture, a new category from HMI, utilizes laminate surfaces for character, texture and durability, and is especially suited to second homes, rental properties and youth rooms.**



**HMI created the Accentrics “Pop-Up Shop” vignette display program for top 100 retailers. The accents, upholstery and casual dining displays of fashion-forward items are frequently refreshed, helping retailers achieve high turns and sales per square foot.**



**Sam Moore Furniture has developed a Loft Living line of trend-forward upholstery merchandised with point-of-purchase materials to allow extensive product customization and to educate consumers about seating cushion options, with the goal to help retailers maximize sales in a small retail footprint while engaging consumers with the Sam Moore brand.**



which showed solid growth in sales and profitability. We believe the division has gained market share as it has diversified its product line, focusing on the fast-growing motion upholstery and reclining chair categories.

Our flagship Hooker Casegoods Division has experienced much success with collections introduced in the last several market cycles. Collections such as Ciao Bella and La Grange have quickly made their way into our top 10 selling collections. This year, we celebrated the 10th anniversary of our top-selling Sanctuary Collection with the introduction of Sanctuary II, a fresh take on this long running favorite.

## Expanding our Businesses with Strategic Launches

In our HMI, Hooker Branded and domestic upholstery segments, we continue to develop new products and sales programs to support traditional furniture retailers, helping them succeed in a more competitive multichannel environment.

At HMI, we teamed with NFL legend Terry Bradshaw to introduce a licensed line of motion upholstery and occasional furniture through our PRI division, a venture with exciting branding possibilities that we believe will resonate with the mid-priced, casually styled motion upholstery consumer. We believe licensing can be an important differentiator at HMI’s price points, and will continue to pursue meaningful licensing opportunities as we move forward.

At SLF, we implemented a mixing warehouse program in Vietnam to offer small and mid-sized retailers the opportunity to buy manageable amounts of inventory at container-direct pricing. Initial results of this program are promising, and we may implement similar programs in other countries in the future. HMI also created the “Accentrics Pop-up Shop,” a dedicated retail footprint program for top 100 retailers. The

Accentrics accents, upholstery and casual dining line is being merchandised for brick and mortar retailers in vignettes of fashion-forward items that are frequently refreshed to deliver high turns and sales per square foot.

In a similar vein, Sam Moore has developed a Loft Living line of on-trend upholstery merchandised with extensive point-of-purchase materials

to allow extensive product customization options and education for consumers, to help retailers maximize sales in a small retail footprint.

## Strengthening our Team in Disrupted Times

Throughout the organization and at all levels, many long-tenured employees, along with new members of our teams, contribute to every aspect of our success. Steady leadership, along with new hires in key roles, will strengthen our team for the future. Important changes in our leadership over the past year include the promotion of Jeremy Hoff to the role of President of all the traditional Hooker business units, and Anne Jacobsen Smith's increased involvement with our domestic upholstery operations. Important

other additions to the traditional Hooker brands leadership team include Tim O'Hare, an industry veteran leading the Hooker Casegoods merchandising team, and Alex Reeves joining Sam Moore as its president. At Home Meridian, Jay Jordan brought his experience with ready-to-assemble furniture to the new HMidea division and filled out the leadership team with others from the RTA industry.

In addition to leading this new division, Jay has also assumed responsibility for the Clubs channel, one of the channels we see as advantaged, bringing the Clubs Channel under HMidea in the organizational structure. Our Prime Resources division also has new leadership with the promotion of Beth Dixon from VP - Sales to business unit president.

Of course, some changes are bittersweet. This year we also note the retirement of Michael Delgatti, former president of Hooker Domestic Upholstery and Emerging Channels. We thank Mike for his many contributions over the 11 years he was with us and wish him a long and happy retirement.

## Corporate Social Responsibility

As Hooker Furniture enters the new decade, we're mindful of a growing expectation by the public that corporations act in an ethical and responsible manner, as well as a mandate to stay connected to the values of our consumers and employees. Corporate Social Responsibility and sustainability include many factors important to our stakeholders. We believe our culture has long encouraged responsible stewardship in our community and of the environment, even before this was an area of public focus. We



**HMI Senior Management Team:**  
**Seated:** Lee Boone: Co-President of HMI; Jay Jordan: President of HMidea; Doug Townsend: Co-President of HMI; Page Wilson: President of Pulaski; Rick Evans: President of SLH. **Standing:** Beth Dixon: President of PRI; David Gusler: Senior Vice President of Far East Operations; Scott Smith: President of SLF; Kevin Walker: President of Accentrics Home; Rebecca Colyn: Senior Vice President of US Operations. **Not pictured:** Sheila Mullins, Division Controller.



**Jay Jordan, far left, president of HMidea; Cory Neudeck, Vice President of Product Development and Doug Townsend, co-president of HMI.**

are nonetheless determined to strive even more proactively to be outstanding corporate citizens through various social and environmental initiatives. For example, where possible, we recycle office and manufacturing waste; in our factories and warehouses we have moved to LED lighting and cleaner-operating electric forklifts in many locations and we've replaced Styrofoam packing with recyclable materials. We believe we offer all our employees competitive pay and benefits packages and attempt to foster a sense of community at all our locations. We support local charities with both money and volunteers, including many employee-initiated projects to raise money for important causes such as the United Way, a local arts association, Boy's and Girl's Club, SPCA, American Cancer Society and the Alzheimer's Association, as well as caring for one another in times of personal crisis. Also related to social responsibility, we're also proud of our commitment to complying with legal and industry safety standards. In the area of product safety, we have adopted voluntary stability standards and have committed to becoming a Product Safety Advocate as part of the American Home Furnishings Alliance 20+20 Project, to help raise consumer and industry awareness of the importance of choosing products that comply with high safety standards and promote the use of tip restraints.

## Looking forward

We believe many of the issues that affected our fiscal 2020 results were unique to the year. Many, but not all of them, were tariff related. Those tariff-related issues will have diminished impact as we continue our sourcing transitions and offer our customers the products and value they expect from each of our divisions. Long term, we believe demographics and mid-to-long-term economic trends favor our industry and will for some time, save typical market fluctuations. Generation X is entering peak earnings years and Millennials, the largest generation in US history, are beginning to reach the age and career stability where we expect they will become home and home furnishings buyers. Notwithstanding the adverse effects of the COVID-19 Pandemic, we continue to believe in our ability to adapt to new challenges and opportunities, as we have throughout the Company's history, thanks to the efforts of so many employees over the years. While we cannot foresee all events such as trade wars or global health crises, we have confidence that our team will adapt, find solutions and remain resilient as issues arise.



Paul Huckfeldt (left) and Paul Toms

*Paul B. Toms Jr.*

Paul B. Toms Jr.  
Chairman and Chief Executive Officer, Hooker Furniture Corporation

*Paul A. Huckfeldt*

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

**HOOKER**<sup>®</sup>  
— FURNITURE —

## Board of Directors & Named Executive Officers

**Paul Toms Jr.**  
Director, Chief Executive Officer  
and Chairman of the Board

**W. Christopher Beeler Jr.**  
Director; Chairman—Virginia  
Mirror Company and Virginia  
Glass Products

**Paulette Garafalo**  
Director; CEO and President -  
Paul Stuart

**John Gregory III**  
Director; Shareholder, Officer  
and Director—Young, Haskins,  
Mann, Gregory, McGarry &  
Wall P.C.

**Tonya H. Jackson**  
Director; Senior Vice-President  
and Chief Supply Chain Officer  
- Lexmark

**E. Larry Ryder**  
Director; Retired Executive Vice  
President and Chief Financial  
Officer—Hooker Furniture

**Ellen C. Taaffe**  
Director; Founder & CEO Ellen  
Taaffe Consulting

**Henry Williamson Jr.**  
Lead Director; Retired Chief  
Operating Officer-BB& T  
Corporation and Branch Banking  
and Trust Company of North  
Carolina, South Carolina  
and Virginia



Hooker Furniture Board of Directors.

Left to right, back row: Larry Ryder, Christopher Beeler, Tonya Jackson, Paul Toms, John Gregory, Henry Williamson.

Seated, left to right: Paulette Garafalo and Ellen Taaffe.



Hooker Furniture Named Executive Officers.

Left to right front row: Lee Boone, Anne Jacobsen Smith, Doug Townsend.

Back Row: Paul Huckfeldt, Paul Toms, Jeremy Hoff.

**CORPORATE OFFICES**  
Hooker Furniture Corporation  
440 East Commonwealth Boulevard  
Martinsville, VA 24112 or  
P.O. Box 4708  
Martinsville, VA 24115  
276-632-2133

**STOCK TRANSFER AGENT AND DIVIDEND  
DISBURSING AGENT:**  
American Stock Transfer & Trust Co., LLC  
6201 15th Avenue  
Brooklyn, NY 11219  
Toll free: 800-937-5449  
Website: amstock.com  
Email: info@amstock.com

**LEGAL COUNSEL**  
McGuireWoods LLP  
Gateway Plaza  
800 East Canal Street  
Richmond, VA 23219

**INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**  
KPMG LLP  
Suite 850  
4242 Six Forks Road  
Raleigh, NC 27609

**ANNUAL MEETING**  
The Annual Meeting of Shareholders of Hooker Furniture Corporation will be held on Thursday, June 11, 2020 at the Hooker Furniture Corporate Offices, 440 East Commonwealth Blvd. Martinsville, VA 24112.

**ANNUAL REPORT ON FORM 10-K**  
Hooker Furniture Corporation's Annual Report on Form 10-K, included herein, is also available on our website at hookerfurniture.com. A free copy of our Form 10-K may also be obtained by contacting C. Earl Armstrong III, Corporate Controller and Secretary at the corporate offices of the Company.

**QUARTERLY FINANCIAL INFORMATION**  
Quarterly Financial results are announced by press releases that are available at hookerfurniture.com in the "Investor Relations" section. The Company's quarterly reports on Form 10-Q are also available at hookerfurniture.com.

This 2020 Annual Report contains forward-looking statements, including discussions about our strategy and expectations regarding our future performance, which are subject to various risks and uncertainties. Factors that could cause actual results to differ materially from management's projections, forecasts, estimates and expectations include, but are not limited to, the factors described in our annual report on Form 10-K, which is included as part of this report, including under "Item 1- Business—Forward-Looking Statements" and "Item 1A. Risk Factors." 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.



**Shenandoah**

Curved silhouettes in soft modern styling and trend-forward color schemes continue to be popular in the Shenandoah Furniture line up.



**Bradington-Young**

Showcasing its expansive custom-order capabilities, Bradington-Young has developed a new product category, Luxury Accents, that includes club chairs, swivel chairs, settees and an expanded decorative ottoman program.



**H-Contract**

H Contract this year entered the important dining chair category, launching a well-received, complete collection of caster-ready chairs featuring timeless design and craftsmanship.



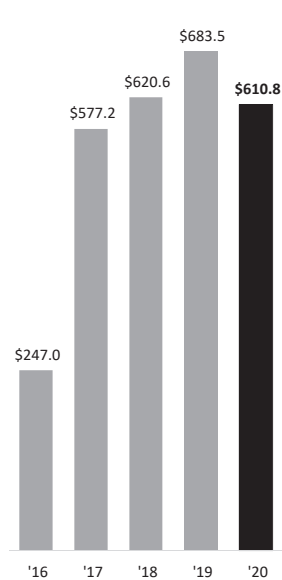
## Financial Highlights\*

*(in thousands, except per share data)*

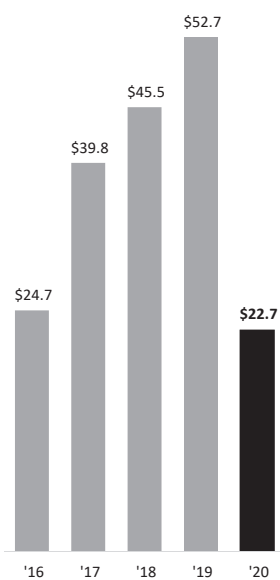
For the:	Fifty-two Weeks Ended February 2, 2020	Fifty-three Weeks Ended February 3, 2019	Fifty-two Weeks Ended January 28, 2018	Fifty-two Weeks Ended January 29, 2017	Fifty-two Weeks Ended January 31, 2016
<b>INCOME STATEMENT DATA</b>					
Net sales	\$ 610,824	\$ 683,501	\$ 620,632	\$ 577,219	\$ 246,999
Operating income	22,707	52,675	45,454	39,801	24,729
Net income	17,083	39,873	28,250	25,287	16,185
<b>PER SHARE DATA</b>					
Basic earnings per share	\$ 1.44	\$ 3.38	\$ 2.42	\$ 2.19	\$ 1.50
Diluted earnings per share	\$ 1.44	\$ 3.38	\$ 2.42	\$ 2.18	\$ 1.49
Weighted average shares outstanding- basic	11,784	11,759	11,633	11,531	10,779
Weighted average shares outstanding- diluted	11,838	11,783	11,663	11,563	10,807
Cash dividends per share	\$ 0.61	\$ 0.57	\$ 0.50	\$ 0.42	\$ 0.40

\* These financial highlights should be read in conjunction with the Selected Financial Data, Consolidated Financial Statements, including the related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report on Form 10-K included in this report.

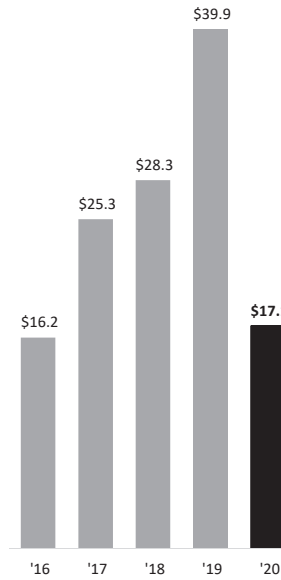
**NET SALES**  
(\$ in millions)



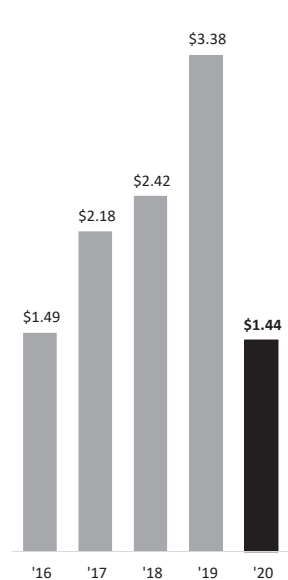
**OPERATING INCOME**  
(\$ in millions)



**NET INCOME**  
(\$ in millions)



**DILUTED EARNINGS PER SHARE**



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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended February 2, 2020

Commission file number 000-25349



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

**Virginia**

(State or other jurisdiction of incorporation or organization)

**54-0251350**

(I.R.S. Employer Identification Number)

**440 East Commonwealth Boulevard, Martinsville, VA 24112**

(Address of principal executive offices, Zip Code)

**(276) 632-2133**

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, no par value	HOFT	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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, every Interactive Data File required to be submitted 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 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 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

Smaller reporting company

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 Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: \$229.4 million.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of April 13, 2020:

**Common stock, no par value**

*(Class of common stock)*

**11,872,461**

*(Number of shares)*

Documents incorporated by reference: Portions of the registrant’s definitive Proxy Statement for its Annual Meeting of Shareholders scheduled to be held June 11, 2020 are incorporated by reference into Part III.

# Hooker Furniture Corporation

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*All references to 2020, 2019, 2018, 2017 and 2016 or other years are referring to our fiscal years, unless otherwise stated. Our fiscal years end on the Sunday closest to January 31, with fiscal 2020 ending on February 2, 2020. Our quarterly periods are based on thirteen-week “reporting periods” (which end on a Sunday) rather than quarterly periods consisting of three calendar months. As a result, each quarterly period generally is thirteen weeks, or 91 days, long, except as noted below. In some years (generally once every six years) the fourth quarter will be fourteen weeks long and the fiscal year will consist of fifty-three weeks. The 2019 fiscal year that ended on February 3, 2019 was a 53-week fiscal year.*

*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 Legacy Brands” or “traditional Hooker” divisions or companies refer to the current components of our Hooker Branded segment, the Domestic Upholstery Segment including Bradington-Young, Sam Moore, and Shenandoah Furniture, and All Other which includes H Contract and Lifestyle Brands.*

*During fiscal 2018, we acquired substantially all of the assets and assumed certain liabilities of Shenandoah Furniture, Inc. The results of operations of Shenandoah are included in our results beginning on September 29, 2017 (the date of the acquisition). Consequently, prior-year information before September 29, 2017 for Shenandoah is not included in the financial statements presented in this report. References in this document to “SFI” refer to the counterparties to the asset purchase agreement, Shenandoah Furniture, Inc. and its two former shareholders, entered into on September 6, 2017. References in this document to “Shenandoah” or “Shenandoah Furniture” refer to the business operations of SFI acquired by us on September 29, 2017.*

### **Forward-Looking Statements**

Certain statements made in this report, including statements under Part II, Item 7. “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 the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Those risks and uncertainties include but are not limited to:

- The effect and consequences of the coronavirus (COVID-19) pandemic or future pandemics on matters including U.S. and local economies; our business operations and continuity; the health and productivity of our employees; and the impact on our supply chain and customer base;
- 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;
- 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, such as the current U.S. administration imposing a 25% tariff on certain goods imported into the United States from China, including almost all furniture and furniture components manufactured in China, with the potential for additional or increased tariffs in the future;
- sourcing transitions away from China, including the lack of adequate manufacturing capacity and skilled labor and longer lead times, due to competition and increased demand for resources in those countries;
- risks associated with our reliance on offshore sourcing and the cost of imported goods, including fluctuation in the prices of purchased finished goods, ocean freight costs and warehousing costs and the risk that a disruption in our offshore suppliers could adversely affect our ability to timely fill customer orders;
- changes in U.S. and foreign government regulations and in the political, social and economic climates of the countries from which we source our products;

- 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;
- difficulties in forecasting demand for our imported products;
- risks associated with product defects, including higher than expected costs associated with product quality and safety, and regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products, including product liability claims and costs to recall defective products;
- disruptions and damage (including due to weather) affecting our Virginia, North Carolina or California warehouses, our Virginia or North Carolina administrative facilities or our representative offices or warehouses in Vietnam and China;
- 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;
- the risks specifically related to the concentrations of a material part of our sales and accounts receivable in only a few customers;
- our inability to collect amounts owed to us;
- the interruption, inadequacy, security breaches or integration failure of our information systems or information technology infrastructure, related service providers or the internet or other related issues including unauthorized disclosures of confidential information or inadequate levels of cyber-insurance or risks not covered by cyber insurance;
- achieving and managing growth and change, and the risks associated with new business lines, acquisitions, restructurings, strategic alliances and international operations;
- higher than expected employee medical and workers' compensation costs that may increase the cost of our high-deductible healthcare and workers compensation plans;
- product liability claims;
- risks related to our other defined benefit plans;
- the possible impairment of our long-lived assets, which can result in reduced earnings and net worth;
- capital requirements and costs, including the servicing of our floating-rate term loans;
- risks associated with distribution through third-party retailers, such as non-binding dealership arrangements;
- the cost and difficulty of marketing and selling our products in foreign markets;
- 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;
- price competition in the furniture industry;

- competition from non-traditional outlets, such as internet and catalog retailers; and
- changes in consumer preferences, including increased demand for lower-quality, lower-priced furniture due to, among other things, fluctuating consumer confidence, amounts of discretionary income available for furniture purchases and the availability of consumer credit.

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” below.

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.



## **Hooker Furniture Corporation**

### **Part I**

#### **ITEM 1. BUSINESS**

Hooker Furniture Corporation, incorporated in Virginia in 1924, is a designer, marketer and importer of casegoods (wooden and metal furniture), leather furniture and fabric-upholstered furniture for the residential, hospitality and contract markets. We also domestically manufacture premium residential custom leather and custom fabric-upholstered furniture. We are ranked among the nation's top five largest publicly traded furniture sources, based on 2018 shipments to U.S. retailers, according to a 2019 survey by a leading trade publication.

We believe that consumer tastes and channels in which they shop for furniture are evolving at a rapid pace and we continue to change to meet these demands.

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

We believe our acquisition of Home Meridian has better positioned us in some of the fastest growing and advantaged channels of distribution, including e-commerce, warehouse membership clubs and contract furniture. While growing faster than industry average, these channels tend to operate at lower margins.

We also believe our acquisition of Shenandoah Furniture, a North Carolina-based domestic upholsterer, has better positioned us in the "lifestyle specialty" retail distribution channel. For that channel, domestically-produced, customizable upholstery is extremely viable and preferred by the end consumers who shop at retailers in that channel.

#### **Reportable Segments**

Furniture sales account for all of our net sales. For financial reporting purposes and as described further below, we are organized into three reportable segments, Hooker Branded, Home Meridian and Domestic Upholstery. Our other businesses are aggregated into "All Other". See Note 18 to our consolidated financial statements for additional financial information regarding our operating segments.

#### **Products**

Our product lines cover the design spectrum of residential furniture: traditional, contemporary and transitional. Further, our product lines are in the "good", "better" and "best" product categories, which carry medium and upper price points and consist of:

- The Hooker Branded segment which includes two businesses:
  - Hooker Casegoods, which covers a wide range of design categories and includes home entertainment, home office, accent, dining and bedroom furniture in the upper-medium price points sold under the Hooker Furniture brand; and
  - Hooker Upholstery, imported upholstered furniture targeted at the upper-medium price-range.
  
- The Home Meridian segment which includes the following brands/marketing units:
  - Accentrics Home, home furnishings centered around an eclectic mix of unique pieces and materials that offer a fresh take on home fashion;
  - Pulaski Furniture, casegoods covering the complete design spectrum in a wide range of bedroom, dining room, accent and display cabinets at medium price points;
  - Samuel Lawrence Furniture, value-conscious offerings in bedroom, dining room, home office and youth furnishings;
  - Prime Resources International, value-conscious imported leather motion upholstery;
  - Samuel Lawrence Hospitality, a designer and supplier of hotel furnishings targeted toward four and five-star hotels, and
  - HMidea, 2019 start-up that provides better-quality, ready-to-assemble furniture to mass marketers and e-commerce customers.

- The Domestic Upholstery segment which includes the following operations:
  - Bradington-Young, a seating specialist in upscale motion and stationary leather furniture;
  - Sam Moore Furniture, a specialist in upscale occasional chairs, settees, sofas and sectional seating with an emphasis on cover-to-frame customization; and
  - Shenandoah Furniture, an upscale upholstered furniture business specializing in private label sectionals, modulars, sofas, chairs, ottomans, benches, beds and dining chairs in the upper-medium price points for lifestyle specialty retailers.
  
- All Other consisting of:
  - The H Contract product line which supplies upholstered seating and casegoods to upscale senior living and assisted living facilities through designers, design firms, industry dealers and distributors that service that market; and
  - Lifestyle Brands, a business started in fiscal 2019 targeted at the interior designer channel.

## Sourcing

### *Imported Products*

We have sourced products from foreign manufacturers for nearly thirty years, predominantly from Asia. Imported casegoods and upholstered furniture together accounted for approximately 83% of our net sales in fiscal 2020, 84% of our net sales in fiscal 2019, and 87% of our net sales in fiscal 2018.

Our imported furniture business is subject to inherent risks in importing products manufactured abroad, including, but not limited to, supply disruptions and delays due to a variety of reasons, including due to the coronavirus (COVID-19) pandemic and possible similar health-related issues, currency exchange rate fluctuations, transportation-related issues, economic and political developments and instability, as well as the laws, policies and actions of foreign governments and the United States. These laws, policies and actions may include regulations affecting trade or the application of tariffs, much like the current U.S. administration's imposition of an initial 10% tariff in September 2018 that increased to 25% in May 2019 on certain goods imported into the United States from China, including almost all furniture and furniture components manufactured in China during fiscal 2019 and 2020. In response to these tariffs, we began re-sourcing products from non-tariff countries, primarily Vietnam, and reduced our Chinese imports by about half by the end of fiscal 2020.

Because of the large number and diverse nature of the foreign suppliers from which we source our imported products, we have flexibility in the sourcing of products among any particular supplier or country. However, a disruption in our supply chain from a major supplier or from Vietnam or China in general, could significantly compromise our ability to fill customer orders for products manufactured at that factory or in that country. Supply disruptions and delays on selected items could occur for six months or longer. If we were to be unsuccessful in obtaining those products from other sources or at a comparable cost, then a disruption in our supply chain from a major furniture supplier, or from Vietnam or China in general, could decrease our sales, earnings and liquidity. In early fiscal 2021 because of plant closures in China due to COVID-19, many of our Chinese suppliers were closed or operating at reduced capacity and we experienced some out of stocks on better selling items. We offered and sold available goods on hand and in transit but were unable to fully mitigate the entire sales loss from these out-of-stocks. These suppliers were in the process of returning to full capacity when the COVID-19 crisis hit the U.S. Consequently, some of these supplier locations are closing temporarily or reducing capacity. We expect outages in select products as a result.

Given the sourcing capacity available in China, Vietnam and other low-cost producing countries, we currently believe the risks from these potential supply disruptions are manageable, however, we have limited insight into the extent to which our business could be further impacted by COVID-19 and there are many unknowns including, how long we will be impacted, the severity of the impacts and the probability of a recurrence of COVID-19 or similar regional or global pandemics. See Item 1A, "Risk Factors" for additional information on our risks related to imported products.

For imported products, we generally negotiate firm pricing with foreign suppliers in U.S. Dollars, typically for a term 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. Since we transact our imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar compared to the currencies from which we obtain our imported products could increase the price we pay for imported products beyond the negotiated periods. We generally expect to reflect substantially all of the effects of any price increases from suppliers in the prices we charge for imported products. However, these price changes could adversely impact sales volume and profit margin during affected periods. Conversely, a relative increase in the value of the U.S. Dollar compared to the currencies from which we obtain our imported products could decrease the cost of imported products and favorably impact net sales and profit margins during affected period. However, due to other factors, such as inflationary pressure in China and other countries, we may not fully realize savings when exchange rates fall. Therefore, lower exchange rates may only have a tempering effect on future price increases by merely delaying cost increases on imported products. See also Item 7A. “Quantitative and Qualitative Disclosures About Market Risk.”

### *Raw Materials*

Significant materials used in manufacturing our domestic upholstered furniture products include leather, fabric, foam, wooden and metal frames and electronic mechanisms. Most of the leather is imported from Italy, South America and China, and is purchased as full hides and cut and sewn in our facilities or is purchased as pre-cut and sewn kits processed by our vendors to our pattern specifications. We believe our sources for raw materials are adequate and that we are not dependent on any one supplier. However, we have seen some delays in some pre-cut and sewn kits imported from China as a result of COVID-19. Our five largest domestic upholstery suppliers accounted for 28% of our raw materials purchases for domestic upholstered furniture manufacturing operations in fiscal 2020. Should disruptions with this supplier occur, we believe we could successfully source these products from other suppliers without significant disruption to our operations.

### **Customers**

Our home furnishings products are sold through a variety of retailers including independent furniture stores, department stores, mass merchants, national chains, warehouse clubs, catalog merchants, interior designers and e-commerce retailers. One customer accounted for approximately 11% of our consolidated sales in fiscal 2020. Our top five customers accounted for approximately 30% of our fiscal 2020 consolidated sales. The loss of any one or more of these customers would have a material adverse impact on our business. 1.6% of our sales in fiscal 2020 were to international customers, which we define as sales outside of the United States and Canada.

### **Competition**

The furniture industry is highly competitive and includes a large number of foreign and domestic manufacturers and importers, none of which dominates the market in our price points. While the markets in which we compete include a large number of relatively small and medium-sized manufacturers, certain competitors have substantially greater sales volumes and financial resources than we do. U.S. imports of furniture produced overseas, such as from Vietnam and China, have stabilized in recent years. The primary competitive factors for home furnishings in our price points include price, style, availability, service, quality and durability. Competitive factors in the hospitality and contract furniture markets include product value and utility, lead times, on-time delivery and the ability to respond to requests for special and non-standard products. We believe our design capabilities, ability to import and/or manufacture upholstered furniture, product value, longstanding customer and supplier relationships, significant sales, distribution and inventory capabilities, ease of ordering, financial strength, experienced management and customer support are significant competitive advantages.

### **Warehousing and Distribution**

We distribute furniture to retailers directly from factories and warehouses in Asia via our container direct programs and from our distribution centers in Virginia, North Carolina and California, and in limited cases, from customer operated warehouses in strategic locations. It is our policy and industry practice to allow order cancellation for casegoods up to the time of shipment or, in the case of container direct orders, up until the time the container is booked with the ocean freight carrier, therefore, customer orders for casegoods are not firm. However, domestically produced upholstered products are predominantly custom-built and consequently, cannot be cancelled once the leather or fabric has been cut. Additionally, our hospitality products are highly customized and are generally not cancellable.

## Working Capital Practices

*Inventory:* We generally import casegoods inventory and certain upholstery items in amounts that enable us to meet the delivery requirements of our customers, our internal in-stock goals and minimum purchase requirements from our sourcing partners. However, during fiscal 2019 and 2020 we accelerated the delivery and subsequently increased inventory levels of some imported products from China due to the threat of tariffs on those products and the threat of subsequent increased tariffs. However, a large percentage of products sold are not warehoused by us but ship directly to our customers and thus not included as inventory. We do not carry significant amounts of domestically produced upholstery inventory or hospitality products, as most of these products are built to order and are shipped shortly after their manufacture.

*Accounts receivable:* Substantially all of our trade accounts receivable are due from retailers and dealers that sell residential home furnishings or commercial purchasers of our hospitality and senior living products, which consist of a large number of entities with a broad geographic dispersion. We perform credit evaluations of our customers and generally do not require collateral. For qualified customers, we offer payment terms, generally requiring payment 30 days from shipment. However, we may offer extended payment terms in certain circumstances, including to promote sales of our product. Due to the COVID-19 crisis in the U.S. and the related decline in demand for home furnishings that began in the first quarter of fiscal 2021, some customers have informed us that they intend to take extended credit terms of 60-120 days. We purchase accounts receivable insurance on certain customers or factor their receivables if their risk profile warrants it and the insurance is available. Due to the highly-customized nature of our hospitality products, we typically require a 50% deposit with order, a 40% deposit before goods reach a U.S. port and the remaining 10% balance due within 30 days of the receipt of goods by the customer.

*Accounts payable:* Payment for our imported products warehoused first in Asia is due ten to fourteen days after our quality audit inspections are complete and the vendor invoice is presented. Payment for goods which are shipped to our US warehouses or container direct to our customers FOB Origin is generally due upon proof of lading onto a US-bound vessel and invoice presentation; however, payment terms, depending on the supplier, can stretch up to 45 days from invoice date. Payment terms for domestic raw materials and non-inventory related charges vary but are generally 30 days from invoice date.

## Order Backlog

At February 2, 2020, our backlog of unshipped orders was as follows:

Reporting Entity	February 2, 2020		February 3, 2019	
	Dollars	Weeks	Dollars	Weeks
Hooker Branded	\$ 10,979	3.5	\$ 11,259	3.3
Home Meridian	85,556	13.1	79,024	10.8
Domestic Upholstery	14,705	8.0	11,700	5.8
All Other	2,520	10.5	1,977	10.1
Consolidated	<u>\$ 113,760</u>	<u>9.7</u>	<u>\$ 103,960</u>	<u>8.1</u>

Order backlog increased \$9.8 million or 9.4% as compared to the prior-year due to orders in the Home Meridian segment during the 2020 fiscal fourth quarter and due to the timing of orders received in the Domestic Upholstery segment for two major customers near the end of fiscal 2020.

For the Hooker Branded segment, Domestic Upholstery segment and All Other, we consider unshipped order backlogs to be one helpful indicator of sales for the upcoming 30-day period, but because of our relatively quick delivery and our cancellation policies (discussed under Warehousing and Distribution, above), we do not consider order backlogs to be a reliable indicator of expected long-term sales. We consider the Home Meridian segment's backlog to be one helpful indicator of that segment's sales for the upcoming 90-day period. Due to (i) Home Meridian's sales volume, (ii) the average sales order sizes of its mass, club and mega account channels of distribution, (iii) the proprietary nature of many of its products and (iv) the project nature of its hospitality business, that segment's average order sizes tend to be larger and consequently, its order backlog tends to be larger. However, due to the order and supply disruptions caused by COVID-19, a spike in order cancellations in early fiscal 2021 has decreased the usefulness of order backlog at February 2, 2020 as an indicator of future sales.

## **Seasonality**

Generally, sales in our fiscal first quarter are lower than our other fiscal quarters due to the post-Chinese New Year shipping lag and sales in our fiscal fourth quarter are generally stronger due to the pre-Chinese New Year surge in shipments from Asia and the product introduction schedule of a major customer.

## **Environmental Matters**

As a part of our business operations, our manufacturing sites generate both non-hazardous and hazardous wastes; the treatment, storage, transportation and disposal of which are subject to various local, state and national laws relating to environmental protection. Our policy is to record monitoring commitments and environmental liabilities when expenses are probable and can be reasonably estimated. The costs associated with our environmental responsibilities, compliance with federal, state and local laws regulating the discharge of materials into the environment, or costs otherwise relating to the protection of the environment, have not had and are not expected to have a material effect on our financial position, results of operations, capital expenditures or competitive position.

## **Employees**

As of February 2, 2020, we had 1,251 full-time employees, of which 236 were employed in our Hooker Branded segment, 377 were employed in our Home Meridian segment, 630 were employed in our Domestic Upholstery segment and 8 were employed in All Other. None of our employees are represented by a labor union. We consider our relations with our employees to be good.

## **Patents and Trademarks**

The Hooker Furniture, Bradington-Young, Sam Moore, Pulaski Furniture, Samuel Lawrence Furniture, Samuel Lawrence Hospitality, Room Gear, Right2Home, Home Meridian International, Prime Resources International, Accentrics Home, HMidea, Shenandoah, H Contract, Homeware and MARQ trade names represent many years of continued business. We believe these trade names are well-recognized and associated with quality and service in the furniture industry. We also own a number of patents and trademarks, both domestically and internationally, none of which is considered to be material.

## **Governmental Regulations**

Our company is subject to U.S. federal, state and local laws and regulations in the areas of safety, health, employment and environmental pollution controls, as well as U.S. and international trade laws and regulations. We are also subject to foreign laws and regulations. In the past, compliance with these laws and regulations has not had any material effect on our earnings, capital expenditures, or competitive position in excess of those affecting others in our industry; however, the effect of compliance in the future cannot be predicted. We believe we are in material compliance with applicable U.S. and international laws and regulations.

## **Additional Information**

You may visit us online at [hookerfurniture.com](http://hookerfurniture.com), [bradington-young.com](http://bradington-young.com), [sammoore.com](http://sammoore.com), [homemeridian.com](http://homemeridian.com), [pulaskifurniture.com](http://pulaskifurniture.com), [slh-co.com](http://slh-co.com) and [hcontractfurniture.com](http://hcontractfurniture.com). We make available, free of charge through our Hooker Furniture website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports, and other documents as soon as practical after they are filed with or furnished to the Securities and Exchange Commission. A free copy of our annual report on Form 10-K may also be obtained by contacting Earl Armstrong, Corporate Controller and Secretary at [Earmstrong@hookerfurniture.com](mailto:Earmstrong@hookerfurniture.com) or by calling 276-632-2133.

## **ITEM 1A. RISK FACTORS**

Our business is subject to a variety of risks. The risk factors discussed below should be considered in conjunction with the other information contained in this annual report on Form 10-K. If any of these risks actually materialize, our business, results of operations, financial condition or future prospects could be negatively impacted. These risks are not the only ones we face. There may be additional risks that are presently unknown to us or that we currently believe to be immaterial that could affect us.

**We expect the impact of COVID-19 to adversely affect our sales, earnings, financial condition and liquidity.**

The COVID-19 pandemic is a serious threat to health and economic wellbeing affecting our customers, our associates and our suppliers. Federal, state and local authorities have recommended social distancing and have imposed or are considering quarantine and isolation measures on large portions of the population, including mandatory business closures for all non-essential businesses in certain jurisdictions. As home furnishings purchases are largely postponable and most of our customer's businesses are classified as non-essential, traffic to our customers' stores and demand for our products have decreased and our sales have deteriorated, therefore we expect our earnings and liquidity to be negatively impacted as a result. COVID-19 also impacted and continues to impact our Asian supply chain, particularly as a result of mandatory shutdowns in locations where our products are manufactured, we have experienced out-of-stocks and lost sales as a result. Due to decreased demand and stay-at-home orders issued by the state government, our domestic manufacturing and warehouse associates are working fewer hours and most of our administrative associates are tele-commuting. However, we may be forced to close locations for reasons such as the health of our associates, because of disruptions in the continued operation of our domestic or Asian supply chain or due to further federal, state or local orders impacting our operations.

The extent of the impact of COVID-19 on our business and financial results will also depend on future developments, including the duration and spread of the outbreak within the markets in which we operate and the related impact on consumer confidence and spending, all of which are highly uncertain and ever-changing. The sweeping nature of the COVID-19 pandemic makes it extremely difficult to predict how our business and operations will be affected in the longer run. However, the likely overall economic impact of the pandemic is viewed as highly negative to the general economy. Any of the foregoing factors, or other cascading effects of the coronavirus pandemic, could materially increase our costs, negatively impact our sales and damage the company's results of operations and its liquidity, possibly to a significant degree. The duration of any such impacts cannot be predicted.

**We rely on offshore sourcing from Vietnam and China for most of our sales. Consequently:**

- **Recently enacted tariffs and potential future increases in tariffs on manufactured goods imported from China could adversely affect our business.**

Effective September 24, 2018, the current U.S. administration imposed a 10% tariff on certain goods imported into the United States from China, including all furniture and furniture components manufactured in China, which increased to 25% in May 2019. Inability to reduce product costs, pass through price increases or find other suitable manufacturing sources outside of China may have a material adverse impact on sales volume, earnings and liquidity. In addition, the tariffs, and our responses to the tariffs, may cause our products to become less competitive due to price increases or less profitable due to lower margins. Our inability to effectively manage the negative impacts of changing U.S. and foreign trade policies could adversely affect our business and financial results.

- **We are subject to changes in U.S. and foreign government regulations and in the political, social and economic climates of the countries from which we source our products.**

Changes in political, economic and social conditions, as well as in the laws and regulations in the foreign countries from which we source our products could adversely affect our sales, earnings, financial condition and liquidity. These changes could make it more difficult to provide products and service to our customers or could increase the cost of those products. International trade regulations and policies of the United States and the countries from which we source finished products could adversely affect us. Imposition of trade sanctions relating to imports, taxes, import duties and other charges on imports affecting our products could increase our costs and decrease our earnings. For example, the U.S. Department of Commerce imposes tariffs on wooden bedroom furniture coming into the United States from China. In this case, none of the rates imposed have been of sufficient magnitude to alter our import strategy in any meaningful way; however, these and other tariffs are subject to review and could be increased or new tariffs implemented in the future.

- **A disruption in supply from Vietnam or China or from our most significant Vietnamese or Chinese suppliers could adversely affect our ability to timely fill customer orders for these products and decrease our sales, earnings and liquidity.**

In fiscal 2020, imported products sourced from Vietnam and China accounted for nearly all of our import purchases and our top five suppliers in Vietnam and China account for approximately half of our fiscal 2020 import purchases. A disruption in our supply chain, or from Vietnam or China in general, could significantly impact our ability to fill customer orders for products manufactured in those countries. Our supply chain could be adversely impacted by the uncertainties of health concerns and governmental restrictions. In early 2020, the COVID-19 outbreak in China resulted in the temporary shutdown or reduced capacity of our vendors' factories and significantly slowed the post-Chinese New Year production recovery. Consequently, we experienced some out-of-stocks, but we in some cases were able to provide substitutions out of inventory on hand, in-transit and from our domestic warehouses, but not enough to entirely mitigate the lost sales. Many of our vendors' factories are back online and others have closed temporarily because of low demand due to the effects of COVID-19 in the U.S. and elsewhere. Consequently, we expect shortages of certain products. If such disruptions were to occur again, we believe that we would have sufficient inventory on hand and in transit to our U.S. warehouses in Virginia, North Carolina and California to adequately meet demand for several months or slightly longer with an additional month's worth of demand available for immediate shipment from our warehouses in Asia. We believe we could, most likely at higher cost, source most of the products currently sourced in Vietnam or China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for six months or longer before the impact of remedial measures would be reflected in our results. Additionally, we have limited insight into how our supply chain could be further impacted by COVID-19 and there are many unknowns including how long we will be impacted, the severity of the impacts and the probability of a recurrence of COVID-19 or similar regional or global pandemics. If we were to be unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain from our largest import furniture suppliers, or from Vietnam or China in general, could adversely affect our sales, earnings, financial condition and liquidity.

- **Increased freight costs on imported products could decrease earnings and liquidity.**

Ocean freight costs on imported products currently represent a significant portion of the cost of our imported products. Ocean freight rates on our imported products are affected by a myriad of factors including the global economy, petroleum prices and ocean freight carrier capacity. Increased ocean freight rates in the future would likely adversely affect earnings, financial condition and liquidity.

- **Our dependence on suppliers could, over time, adversely affect our ability to service customers.**

We rely heavily on suppliers we do not own or control, including a large number of non-US suppliers. All of our suppliers may not provide goods that meet our quality, design or other specifications in a timely manner and at a competitive price. If our suppliers do not meet our specifications, we may need to find alternative suppliers, potentially at a higher cost, or may be forced to discontinue products. Also, delivery of goods from non-U.S. suppliers may be delayed for reasons not typically encountered for domestically manufactured furniture, such as shipment delays caused by customs issues, labor issues, port-related issues such as weather, congestion or port equipment, decreased availability of shipping containers and/or the inability to secure space aboard shipping vessels to transport our products. Our failure to timely fill customer orders due to an extended business interruption for a major supplier, or due to transportation issues, could negatively impact existing customer relationships and adversely affect our sales, earnings, financial condition and liquidity.

- **Our inability to accurately forecast demand for our imported products could cause us to purchase too much, too little or the wrong mix of inventory.**

Manufacturing and delivery lead times for our imported products necessitate that we make forecasts and assumptions regarding current and future demand for these products. If our forecasts and assumptions are inaccurate, we may purchase excess or insufficient amounts of inventory. If we purchase too much or the wrong mix of inventory, we may be forced to sell it at lower margins, which could adversely affect our sales, earnings, financial condition and liquidity. If we purchase too little or the wrong mix of inventory, we may not be able to fill customer orders and may lose market share and weaken or damage customer relationships, which also could adversely affect our sales, earnings, financial condition and liquidity.

- **Changes in the value of the U.S. Dollar compared to the currencies for the countries from which we obtain our imported products could adversely affect our sales, earnings, financial condition and liquidity.**

For imported products, we generally negotiate firm pricing with our foreign suppliers in U.S. Dollars, 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. 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 must pay for imported products beyond the negotiated periods. These price changes could decrease our sales, earnings, financial condition and liquidity during affected periods.

- **Supplier transitions, including cost or quality issues, could result in longer lead times and shipping delays.**

In the past, inflation concerns, and to a lesser extent quality and supplier viability concerns, affecting some of our imported product suppliers located in China prompted us to source more of our products from lower cost suppliers located in other countries, such as Vietnam. As discussed above, during fiscal 2020 we transitioned a significant portion of our imported product purchases from China to Vietnam due to the imposition of tariffs on most furniture and component parts imported from China. As conditions dictate, we could be forced to make similar transitions in the future. When undertaken, transitions of this type involve significant planning and coordination by and between us and our new suppliers in these countries. Despite our best efforts and those of our new sourcing partners, these transition efforts are likely to result in longer lead times and shipping delays over the short term. Risks associated with product defects, including higher than expected costs associated with product quality and safety, and regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products, including product liability claims and costs to recall defective products. One or a combination of these issues could adversely affect our sales, earnings, financial condition and liquidity.

#### **A disruption affecting our domestic facilities could disrupt our business.**

The warehouses in which we store our inventory in Virginia, North Carolina and California are critical to our success. Our corporate and divisional headquarters, which house our administration, sourcing, sales, finance, merchandising, customer service and logistics functions for our imported and domestic products are located in Virginia and North Carolina. Our domestic upholstery manufacturing facilities are located in Virginia and North Carolina. Furniture manufacturing creates large amounts of highly flammable wood dust and utilizes other highly flammable materials such as varnishes and solvents in its manufacturing processes and is therefore subject to the risk of losses arising from explosions and fires. Additionally, our domestic operations have been negatively affected recently by COVID-19. We enacted business continuity plans and most administrative employees are telecommuting given recommendations for social distancing and stay-at-home orders from state and local governments. We instituted increased cleaning regimens and have instituted social distancing for manufacturing and warehousing associates. Additionally, due to the adverse effect on our sales, some domestic associates have been furloughed or laid off. Any disruption affecting our domestic facilities, for even a relatively short period of time, could adversely affect our ability to ship our furniture products and disrupt our business, which could adversely affect our sales, earnings, financial condition and liquidity.

#### **Fluctuations in the price, availability or quality of raw materials for our domestically manufactured upholstered furniture could cause manufacturing delays, adversely affect our ability to provide goods to our customers or increase our costs.**

We use various types of wood, leather, fabric, foam and other filling material, high carbon spring steel, bar and wire stock and other raw materials in manufacturing upholstered furniture. We depend on outside suppliers for raw materials and must obtain sufficient quantities of quality raw materials from these suppliers at acceptable prices and in a timely manner. We do not have long-term supply contracts with our suppliers. Unfavorable fluctuations in the price, quality or availability of required raw materials could negatively affect our ability to meet the demands of our customers. We may not always be able to pass price increases in raw materials through to our customers due to competition and other market pressures. The inability to meet customers' demands or recover higher costs could adversely affect our sales, earnings, financial condition and liquidity.

#### **If demand for our domestically manufactured upholstered furniture declines, we may respond by realigning manufacturing.**

Our domestic manufacturing operations make only upholstered furniture. A decline in demand for our domestically produced upholstered furniture could result in the realignment of our domestic manufacturing operations and capabilities and the implementation of cost-saving measures. These programs could include the consolidation and integration of facilities, functions, systems and procedures. We may decide to source certain products from other suppliers instead of continuing to manufacture them. These realignments and cost-saving measures typically involve initial upfront costs and could result in decreases in our near-term earnings before the expected cost savings are realized, if they are realized at all. We may not always accomplish these actions as quickly as anticipated and may not achieve the expected cost savings, which could adversely affect our sales, earnings, financial condition and liquidity.



**The interruption, inadequacy or security failure of our information systems or information technology infrastructure or the internet or inadequate levels of cyber-insurance could adversely impact our business, sales, earnings, financial condition and liquidity.**

Our information systems (software) and information technology (hardware) infrastructure platforms and those of third parties who provide these services to us, including internet service providers and third-parties who store data for us on their servers (“the cloud”), facilitate and support every facet of our business, including the sourcing of raw materials and finished goods, planning, manufacturing, warehousing, customer service, shipping, accounting, payroll and human resources. Our systems, and those of third parties who provide services to us, are vulnerable to disruption or damage caused by a variety of factors including, but not limited to: power disruptions or outages; natural disasters or other so-called “Acts of God”; computer system or network failures; viruses or malware; physical or electronic break-ins; the theft of computers, tablets and smart phones utilized by our employees or contractors; unauthorized access, phishing and cyber-attacks. The risk of cyberattacks also includes attempted breaches of contractors, business partners, vendors and other third parties. We have a cybersecurity program designed to protect and preserve the integrity of our information systems. We have experienced and expect to continue to experience actual or attempted cyber-attacks of our information systems or networks; however, none of these actual or attempted cyber-attacks had a material impact on our operations or financial condition. Additionally, while we carry cyber insurance, including insurance for social engineering fraud, the amounts of insurance we carry may be inadequate due either to inadequate limits available from the insurance markets or inadequate coverage purchased. Because cyber threat scenarios are inherently difficult to predict and can take many forms, cyber insurance may not cover certain risks. Further, legislative or regulatory action in these areas is evolving, and we may be unable to adapt our information systems or to manage the information systems of third parties to accommodate these changes. If these information systems or technologies are interrupted or fail, or we are unable to adapt our systems or those of third parties as a result of legislative or regulatory actions, our operations and reputation may be adversely affected, we may be subject to legal proceedings, including regulatory investigations and actions, which could diminish investor and customer confidence which could adversely affect our sales, earnings, financial condition and liquidity.

**A material part of our sales and accounts receivable are concentrated in a few customers. The loss of several large customers through business consolidations, failures or other reasons, including the adverse economic effects of the COVID-19 pandemic or similar events, could adversely affect our business.**

One customer accounted for approximately 11% of our consolidated sales in fiscal 2020, our top five customers accounted for about 30% of our fiscal 2020 consolidated sales. 35% of our consolidated accounts receivable is concentrated in our top five customers. Should any one of these receivables become uncollectible, it would have an immediate and material adverse impact on our financial condition and liquidity. The loss of any one or more of these customers could adversely affect our sales, earnings, financial condition and liquidity. The loss of several of our major customers through business consolidations, failures or otherwise, could adversely affect our sales, earnings, financial condition and liquidity and the resulting loss in sales may be difficult or impossible to replace. Should the negative economic effects of COVID-19 persist or another similar event or events occur, the negative developments described in this paragraph would be more likely to occur. Amounts owed to us by a customer whose business fails, or is failing, may become uncollectible, and we could lose future sales, any of which could adversely affect our sales, earnings, financial condition and liquidity.

**We may not be able to collect amounts owed to us.**

We grant payment terms to most customers ranging from 30 to 60 days and do not generally require collateral. However, in some instances we provide longer payment terms. As a result of the COVID-19 pandemic, during the fiscal 2021 first quarter some customers have requested extended payment terms or informed us they will not pay amounts within agreed upon terms. We also purchase credit insurance on certain customers’ receivables and factor certain other customer accounts. Some of our customers have experienced, and may in the future experience, credit-related issues. Were the negative economic effects of COVID-19 to persist or a similar pandemic or another major, unexpected event with negative economic effects occur, we may not be able to collect amounts owed to us or such payment may only occur after significant delay. While we perform credit evaluations of our customers, those evaluations may not prevent uncollectible trade accounts receivable. Credit evaluations involve significant management diligence and judgment, especially in the current environment. We may be unable to obtain sufficient credit insurance on certain customers’ receivable balances. Should more customers than we anticipate experience liquidity issues, if payment is not received on a timely basis, or if a customer declares bankruptcy or closes stores, we may have difficulty collecting amounts owed to us by these customers, which could adversely affect our sales, earnings, financial condition and liquidity.

**Unauthorized disclosure of confidential information provided to us by our customers, employees, or third parties could harm our business.**

We rely on the internet and other electronic methods to transmit confidential information and we store confidential information on our networks. If there was a disclosure of confidential information by our employees or contractors, including accidental loss, inadvertent disclosure or unapproved dissemination of information, or if a third party were to gain access to the confidential information we possess, our reputation could be harmed, and we could be subject to civil or criminal liability and regulatory actions. A claim that is brought against us, successful or unsuccessful, that is uninsured or under-insured could harm our business, result in substantial costs, divert management attention and adversely affect our sales, earnings, financial condition and liquidity.

**Our sales and operating results could be adversely affected by product safety concerns.**

If our product offerings do not meet applicable safety standards or consumers' expectations regarding safety, we could experience decreased sales, increased costs and/or be exposed to legal and reputational risk. Events that give rise to actual, potential or perceived product safety concerns could expose us to regulatory enforcement action and/or private litigation. While we carry general and umbrella liability insurance for such events, settlements or jury awards could exceed our policy limits. Reputational damage caused by real or perceived product safety concerns or failure to prevail in private litigation against us could adversely affect our business, sales, earnings, financial condition and liquidity.

**We incurred significant debt to provide permanent financing for recent acquisitions.**

We currently owe \$30.1 million on term loans for recent acquisitions. Principal and interest payments on the borrowed funds were \$6.4 million in fiscal 2020. We are subject to interest rate volatility due to the variable interest rates on these term loans. Among other risks, our debt:

- may limit our flexibility to pursue other strategic opportunities or react to changes in our business and the industry in which we operate and, consequently, place us at a competitive disadvantage to competitors with less debt;
- will require a portion of our cash flows from operations to be used for debt service payments, thereby reducing the availability of cash flows to fund working capital, capital expenditures, dividend payments and other general corporate purposes;
- may result in higher interest expense in the event of increases in market interest rates for both long-term debt as well as any borrowings under our line of credit at variable rates; and
- may require that additional terms, conditions or covenants be placed on us.

Additionally, all balances under these term loans are due and payable on February 1, 2021, the first day of fiscal 2022. We intend to refinance these loans during fiscal 2021. If we are unsuccessful in refinancing these loans, it would have a material adverse impact on our liquidity. If the negative economic effects of COVID-19 persist, it would likely have a material adverse effect on our sales, earnings and liquidity. Consequently, our credit rating may decrease and refinancing our debt may be more difficult and any new loans more costly.

**We may engage in acquisitions and investments in companies, form strategic alliances and pursue new business lines. These activities could disrupt our business, dilute our earnings per share, decrease the value of our common stock and decrease our earnings and liquidity.**

We may acquire or invest in businesses such as those that offer complementary products and that we believe offer competitive advantages. However, we may fail to identify significant liabilities or risks that could negatively affect us or result in our paying more for the acquired company or assets than they are worth. We may also have difficulty assimilating and integrating the operations and personnel of an acquired business into our current operations. Acquisitions may disrupt or distract management from our ongoing business. We may pay for future acquisitions using cash, stock, the assumption of debt, or a combination of these. Future acquisitions could result in dilution to existing shareholders and to earnings per share and decrease the value of our common stock. We may pursue new business lines in which we have limited or no prior experience or expertise. These pursuits may require substantial investment of capital and personnel. New business initiatives may fail outright or fail to produce an adequate return, which could adversely affect our earnings, financial condition and liquidity.

**We may experience impairment of our long-lived assets, which would decrease our earnings and net worth.**

At February 2, 2020, we had \$103.3 million in net long-lived assets, consisting primarily of property, plant and equipment, trademarks, trade names and goodwill. Our goodwill, some trademarks and tradenames have indefinite useful lives and, consequently, are not subject to amortization for financial reporting purposes, but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Our definite-lived assets consist of property, plant and equipment and certain intangible assets related to our recent acquisitions and are tested for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. The outcome of impairment testing could result in the write-down of all or a portion of the value of these assets. A write-down of our assets would, in turn, reduce our earnings and net worth. See Notes 9 and 10 for additional information.

**We may not be able to maintain or raise prices in response to inflation and increasing costs.**

Competitive and market forces could prohibit future successful price increases for our products in order to offset increased costs of finished goods, raw materials, freight and other product-related costs, which could adversely affect our sales, earnings, financial condition and liquidity.

**Economic downturns could result in decreased sales, earnings and liquidity.**

The furniture industry is particularly sensitive to cyclical variations in the general economy and to uncertainty regarding future economic prospects, including the current and evolving negative economic effects of the COVID-19 pandemic. Home furnishings are generally considered a postponable purchase by most consumers. Economic downturns could affect consumer spending habits by decreasing the overall demand for home furnishings. Changes in interest rates, consumer confidence, new housing starts, existing home sales, the availability of consumer credit and broader national or geopolitical factors have particularly significant effects on our business. We have seen negative effects on all of these measures due to the COVID-19 pandemic. A recovery in our sales could lag significantly behind a general recovery in the economy after an economic downturn, due to, among other things, the postponable nature and relatively significant cost of home furnishings purchases. These events could also impact retailers, our primary customers, possibly adversely affecting our sales, earnings, financial condition and liquidity.

**We may lose market share due to furniture retailers by-passing us and sourcing directly from non-U.S. furniture sources.**

Some large furniture retailers are sourcing directly from non-U.S. furniture factories. Over time, this practice may expand to smaller retailers. As a result, we are continually subject to the risk of losing market share, which could adversely affect our sales, earnings, financial condition and liquidity.

**Failure to anticipate or timely respond to changes in fashion and consumer tastes could adversely impact our business.**

Furniture is a styled product and is subject to rapidly changing fashion trends and consumer tastes, as well as to increasingly shorter product life cycles. If we fail to anticipate or promptly respond to these changes we may lose market share or be faced with the decision of whether to sell excess inventory at reduced prices. This could adversely affect our sales, earnings, financial condition and liquidity.

**We may incur higher employee costs in the future.**

We maintain self-insured healthcare and workers compensation plans for our employees. We have insurance coverage in place for aggregate claims above specified amounts in any year for both plans. Our healthcare costs in recent years have generally increased at the same rate or greater than the national average, and healthcare costs have increased more rapidly than general inflation in the U.S. economy. Continued inflation in healthcare costs, as well as additional costs we may incur as a result of current or future federal or state healthcare legislation and regulations, could significantly increase our employee healthcare costs in the future. Our workers compensation claims costs have had only a modest impact on our overall results of operations for quite some time; however, these costs may increase in the future without warning. Continued increases in our healthcare costs and increased workers compensation claims costs could adversely affect our earnings, financial condition and liquidity.

**Our results of operations for any quarter are not necessarily indicative of our results of operations for a full year.**

Home furnishings sales fluctuate from quarter to quarter due to factors such as changes in economic and competitive conditions, seasonality, weather conditions and changes in consumer order patterns. From time to time, we have experienced, and may continue to experience, volatility with respect to demand for our home furnishing products. Accordingly, our results of operations for any quarter are not necessarily indicative of the results of operations to be expected for a full year.

## Future costs of complying with various laws and regulations may adversely impact future operating results.

Our business is subject to various domestic and international laws and regulations that could have a significant impact on our operations and the cost to comply with such laws and regulations could adversely impact our sales, earnings, financial condition and liquidity. In addition, failure to comply with such laws and regulations, even inadvertently, could produce negative consequences which could adversely impact our operations and reputation.

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

Set forth below is information with respect to our principal properties at April 17, 2020. We believe all of these properties are well-maintained and in good condition. During fiscal 2020, we estimate our upholstery plants operated at approximately 78% of capacity on a one-shift basis. All our production facilities are equipped with automatic sprinkler systems. All facilities maintain modern fire and spark detection systems, which we believe are adequate. We have leased certain warehouse facilities for our distribution and import operations, typically on a short or medium-term basis. We expect that we will be able to renew or extend these leases or find alternative facilities to meet our warehousing and distribution needs at a reasonable cost. All facilities set forth below are active and operational, representing approximately 4.0 million square feet of owned space, leased space or properties utilized under third-party operating agreements.

<u>Location</u>	<u>Segment Use</u>	<u>Primary Use</u>	<u>Approximate Size in Square Feet</u>	<u>Owned or Leased</u>
Martinsville, Va.	All segments	Corporate Headquarters, Distribution, Manufacturing and Warehousing	1,489,766	Owned / Leased
High Point, N.C.	All segments	Office, Showroom and Warehouse	225,292	Leased
Madison / Mayodan, NC	HM	Warehouse	935,144	Leased
Redlands, CA.	HM	Warehouse	327,790	Leased
Bedford, Va.	DU	Manufacturing and Offices	327,000	Owned
Hickory, N.C.	DU	Manufacturing and Offices	166,000	Leased
Mt. Airy, N.C.	DU	Manufacturing and warehousing	104,150	Leased
Valdese, N.C.	DU	Manufacturing and warehousing	102,905	Leased
Cherryville, N.C.	DU	Manufacturing Supply Plant	53,000	Owned
Dongguan, China	HB, HM	Office, Warehouse and Distribution	213,426	Leased
Haining, China	HM	Office	1,690	Leased
Ho Chi Minh City, VN	HB, HM	Office, Warehouse and Distribution	57,893	Leased
Thu Dau Mot, VN	HB	Office	1,722	Leased

HB=Hooker Branded, HM=Home Meridian, DU=Domestic Upholstery

### ITEM 3. LEGAL PROCEEDINGS

None.

### ITEM 4. MINE SAFETY DISCLOSURES

None.

## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Hooker Furniture’s executive officers and their ages as of April 17, 2020 and the calendar year each joined the Company are as follows:

Name	Age	Position	Year Joined Company
Paul B. Toms, Jr.	65	Chairman and Chief Executive Officer	1983
Paul A. Huckfeldt	62	Chief Financial Officer and Senior Vice President - Finance and Accounting	2004
Anne Jacobsen Smith	58	Chief Administration Officer	2008
D. Lee Boone	57	Co-President - Home Meridian Segment	2016
Jeremy R. Hoff	46	President - Hooker Legacy Brands	2017
Douglas Townsend	53	Co-President - Home Meridian Segment	2016

**Paul B. Toms, Jr.** has been Chairman and Chief Executive Officer since December 2000 and also served as President for most of the period from November 2006 to August 2011. Mr. Toms was President and Chief Operating Officer from December 1999 to December 2000, Executive Vice President - Marketing from 1994 to December 1999, Senior Vice President - Sales and Marketing from 1993 to 1994, and Vice President - Sales from 1987 to 1993. Mr. Toms joined the Company in 1983 and has been a Director since 1993.

**Paul A. Huckfeldt** has been Senior Vice President - Finance and Accounting since September 2013 and Chief Financial Officer since January 2011. Mr. Huckfeldt served as Vice President – Finance and Accounting from December 2010 to September 2013, Corporate Controller and Chief Accounting Officer from January 2010 to January 2011, Manager of Operations Accounting from March 2006 to December 2009 and led the Company’s Sarbanes-Oxley implementation and subsequent compliance efforts from April 2004 to March 2006.

**Anne Jacobsen Smith** has been Chief Administration Officer since July 2018. Ms. Smith served as Senior Vice President – Administration from January 2014 to June 2018, Vice President- HR and Administration from January 2011 to January 2014 and Vice President-Human Resources from November 2008 to January 2011. Ms. Smith joined the Company in January of 2008 as Director of Human Resources.

**D. Lee Boone** has been Co-President of the Home Meridian Segment since June 2018. Mr. Boone joined the Company upon the acquisition of Home Meridian’s assets by the Company in February 2016 as President of Samuel Lawrence Furniture, a division of Home Meridian International. Prior to that, Mr. Boone served as President of Legacy Classic Furniture from 2006 to 2012.

**Jeremy R. Hoff** has been President of Hooker Legacy Brands since February 2020. Mr. Hoff served as President of the Hooker Branded Segment from April 2018 to January 2020. Mr. Hoff joined the Company in August of 2017 as President of Hooker Upholstery. Prior to that, Mr. Hoff served as President of Theodore Alexander USA from December 2015 to August 2017 and Senior Vice President of sales at A.R.T. Furniture Inc. from April 2015 to November 2015 and Vice-President of Sales from March 2011 to April 2015.

**Douglas Townsend** has been Co-President of the Home Meridian Segment since June 2018. Mr. Townsend joined the Company upon the acquisition of Home Meridian’s assets by the Company in February 2016 as Senior Vice President of U.S. Operations and Chief Operating Officer of both Samuel Lawrence Hospitality and the Clubs Division. Prior to the acquisition, he was Executive Vice President of Home Meridian International from October 2011 to February 2016.

**Hooker Furniture Corporation  
Part II**

**ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our stock is traded on the NASDAQ Global Select Market under the symbol “HOFT”. As of February 2, 2020, we had approximately 7,000 beneficial shareholders. We currently expect that future regular quarterly dividends will be declared and paid in the months of March, June, September and December. Although we presently intend to continue to declare regular cash dividends on a quarterly basis for the foreseeable future, the determination as to the payment and the amount of any future dividends will be made by the Board of Directors on a quarterly basis and will depend on our then-current financial condition, capital requirements, results of operations and any other factors then deemed relevant by the Board of Directors.

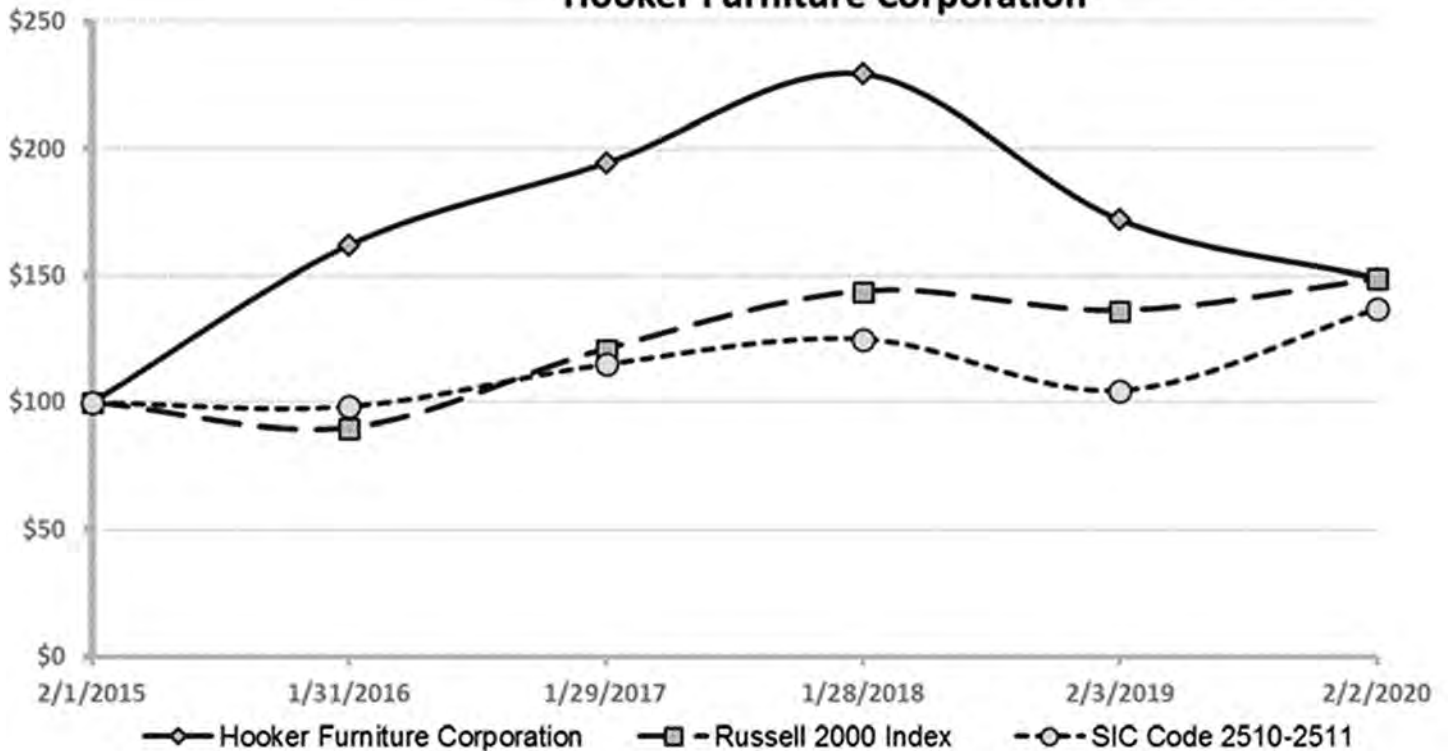
**Purchase of Equity Securities by the Issuer and Affiliated Purchasers**

During the fiscal 2013 first quarter, our Board of Directors authorized the repurchase of up to \$12.5 million of the Company’s common shares. No shares have been repurchased since fiscal 2013. Approximately \$11.8 million remained available under the board’s authorization as of February 2, 2020. In April 2020 (fiscal 2021), our Board of Directors terminated this repurchase authorization after several years of inactivity. For additional information regarding this repurchase authorization, see the “Share Repurchase Authorization” section in Management’s Discussion and Analysis of Financial Condition and Results of Operations.

**Performance Graph**

The following graph compares cumulative total shareholder return for the Company with a broad performance indicator, the Russell 2000® Index, and a published industry index, the Household Furniture Index, for the period from February 1, 2015 to February 2, 2020.

**Comparison of Cumulative Total Return  
Hooker Furniture Corporation**



(1) The graph shows the cumulative total return on \$100 invested at the beginning of the measurement period in our common stock or the specified index, including reinvestment of dividends.

- (2) The Russell 2000® Index, prepared by Frank Russell Company, measures the performance of the 2,000 smallest companies out of the 3,000 largest U.S. companies based on total market capitalization and includes the Company.
- (3) Household Furniture Index as prepared by Zacks Investment Research, Inc. consists of companies under Standard Industrial Classification (SIC) Codes 2510 and 2511, which includes home furnishings companies that are publicly traded in the United States or Canada. At February 2, 2020, Zacks Investment Research, Inc. reported that these two SIC Codes consisted of Nova Lifestyle, Inc., La-Z-Boy, Inc., Leggett & Platt, Inc., Flexsteel Industries, Inc., Hooker Furniture Corporation, Sleep Number Corp., Kimball International, Inc., Luvu Brands, Inc., Tempur Sealy International, Inc., Compass Diversified Holdings, Natuzzi Spa, Purple Innovation, Inc., Bassett Furniture Industries, Inc., Ethan Allen Interiors, Inc., Horrison Resources, Inc., The Rowe Companies, and Dorel Industries.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for each of our last five fiscal years has been derived from our audited, consolidated financial statements. The selected financial data should be read in conjunction with the consolidated financial statements, including the related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report. Additionally, we face a number of significant risks and uncertainties, as more fully discussed in Item 1A, "Risk Factors", above. If any or a combination of these risks and uncertainties were to occur, the information below may not be fully indicative of our future financial condition or results of operations.

	Fiscal Year Ended (1)				
	February 2, 2020	February 3, 2019	January 28, 2018	January 29, 2017	January 31, 2016
	(In thousands, except per share data)				
<b>Income Statement Data:</b>					
Net sales	\$ 610,824	\$ 683,501	\$ 620,632	\$ 577,219	\$ 246,999
Cost of sales	496,866	536,014	485,815	451,098	178,311
Casualty loss (2)	-	500	-	-	-
Gross profit	113,958	146,987	134,817	126,121	68,688
Selling and administrative expenses (3)	88,867	91,928	87,279	83,186	43,959
Intangible asset amortization (4)	2,384	2,384	2,084	3,134	-
Operating income (3)	22,707	52,675	45,454	39,801	24,729
Other income (expense), net (3)	458	369	1,566	349	(206)
Interest Expense, net	1,238	1,454	1,248	954	64
Income before income taxes	21,927	51,590	45,772	39,196	24,459
Income taxes	4,844	11,717	17,522	13,909	8,274
Net income	17,083	39,873	28,250	25,287	16,185
<b>Per Share Data:</b>					
Basic earnings per share	\$ 1.44	\$ 3.38	\$ 2.42	\$ 2.19	\$ 1.50
Diluted earnings per share	\$ 1.44	\$ 3.38	\$ 2.42	\$ 2.18	\$ 1.49
Cash dividends per share	0.61	0.57	0.50	0.42	0.40
Net book value per share (5)	23.25	22.37	19.53	17.16	14.46
Weighted average shares outstanding (basic) (6)	11,784	11,759	11,633	11,531	10,779
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 36,031	\$ 11,435	\$ 30,915	\$ 39,792	\$ 53,922
Trade accounts receivable	87,653	112,557	92,803	92,578	28,176
Inventories	92,813	105,204	84,459	75,303	43,713
Working capital	171,838	170,516	153,162	147,856	111,462
Total assets	393,708	369,716	350,058	318,696	181,653
Long-term debt (including current maturities) (7)	30,138	35,508	53,425	47,710	-
Shareholders' equity	274,121	263,176	229,460	197,927	156,061

- (1) Our fiscal years end on the Sunday closest to January 31. The fiscal years presented above all had 52 weeks, except for the prior fiscal year ended February 3, 2019, which had 53 weeks.

- (2) Represents the insurance deductible for a casualty loss experienced at one of our Hooker Branded segment facilities in fiscal 2019.
- (3) Amounts for fiscal 2018, 2017 and 2016 have been adjusted to reflect the reclassifications from Selling and administrative expenses (“S&A”) to Other income (expense), net of certain benefits costs as a result of adopting ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This accounting standard requires bifurcation of net benefit cost such that all benefit costs except service cost are reported outside of operating costs. Amounts reclassified from S&A to Other income (expense), net were (\$30,000), \$581,000 and \$467,000 for fiscal 2018, 2017 and 2016, respectively.
- (4) Represents amortization expense on acquisition-related intangibles. The Home Meridian acquisition occurred on February 1, 2016 and the Shenandoah acquisition occurred on September 29, 2017. See note 10 for additional information on our intangible assets.
- (5) Net book value per share is derived by dividing “shareholders’ equity” by the number of common shares issued and outstanding, excluding unvested restricted shares, all determined as of the end of each fiscal period.
- (6) Weighted average outstanding shares outstanding changed materially as a result of issuing 716,910 shares of common stock to the designees of HMI as partial consideration for the Home Meridian acquisition and 176,018 shares of common stock to the shareholders of SFI as partial consideration for the Shenandoah acquisition.
- (7) Long-term debt (including current maturities) consists of term loans incurred to fund a portion of the Home Meridian and Shenandoah acquisitions.

## **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

As you read Management’s Discussion and Analysis, please refer to the selected financial data and the consolidated financial statements, including the related notes, contained elsewhere in this annual report. We especially encourage you to familiarize yourself with:

- All of our recent public filings made with the Securities and Exchange Commission (“SEC”) which are available, without charge, at [www.sec.gov](http://www.sec.gov) and at <http://investors.hookerfurniture.com>;
- The forward-looking statements disclaimer contained prior to Item 1 of this report, which describe the significant risks and uncertainties that could cause actual results to differ materially from those forward-looking statements made in this report, including those contained in this section of our annual report on Form 10-K;
- The company-specific risks found in Item 1A. “Risk Factors” of this report. This section contains critical information regarding significant risks and uncertainties that we face. If any of these risks materialize, our business, financial condition and future prospects could be adversely impacted; and
- Our commitments and contractual obligations and off-balance sheet arrangements described on page 35-36 and in Note 19 on page F-39 of this report. These sections describe commitments, contractual obligations and off-balance sheet arrangements, some of which are not reflected in our consolidated financial statements.

In Management’s Discussion and Analysis, we analyze and explain the annual changes in some specific line items in the consolidated financial statements for fiscal 2020 compared to fiscal 2019 and for fiscal 2019 compared to fiscal 2018. We also provide information regarding the performance of each of our operating segments and All Other.

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

References to the “Shenandoah acquisition” refer to our acquisition of substantially all of the assets of Shenandoah Furniture, Inc. on September 29, 2017.



Furniture sales account for all of our net sales. For financial reporting purposes, we are organized into three reportable segments- Hooker Branded, Home Meridian and Domestic Upholstery, with our other businesses included in All Other. 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 2020, we updated our reportable segments as follows: Domestic upholstery producers Bradington-Young, Sam Moore and Shenandoah Furniture were moved from All Other and aggregated into a new reportable segment called “Domestic Upholstery.” All Other now consists of H Contract and Lifestyle Brands. Lifestyle Brands is a business in its start-up phase targeted at the interior designer channel. The Hooker Branded and Home Meridian segments were unchanged. Fiscal 2020, 2019 and 2018 results discussed below have been recast based on the re-composition of our operating segments during the 2020 fourth quarter. See Note 18 to our consolidated financial statements for additional financial information regarding our segments.

## Overview

Hooker Furniture Corporation, incorporated in Virginia in 1924, is a designer, marketer and importer of casegoods (wooden and metal furniture), leather furniture and fabric-upholstered furniture for the residential, hospitality and contract markets. We also domestically manufacture premium residential custom leather and custom fabric-upholstered furniture. We are ranked among the nation’s top five largest publicly traded furniture sources, based on 2018 shipments to U.S. retailers, according to a 2019 survey by a leading trade publication.

We believe that consumer tastes and channels in which they shop for furniture are evolving at a rapid pace and we continue to change to meet these demands.

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

We believe our acquisition of Home Meridian has better positioned us in some of the fastest growing and advantaged channels of distribution, including e-commerce, warehouse membership clubs and contract furniture. While growing faster than industry average, these channels tend to operate at lower margins.

We also believe our acquisition of Shenandoah Furniture, a North Carolina-based domestic upholsterer has better positioned us in the “lifestyle specialty” retail distribution channel. 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- Fiscal 2020 Results of Operations

Consolidated net sales for fiscal 2020 decreased by 10.6% or \$72.7 million as compared to fiscal 2019, from \$683.5 million to \$610.8 million due primarily to \$47.2 million or 12.2% sales decreases in the Home Meridian segment, and to a lesser extent in the Hooker Branded segment and Domestic Upholstery of \$16.7 million and \$10.9 million decreases respectively, partially offset by \$2.1 million net sales increase in All Other. Sales volume loss in all three segments as well as one week less of sales compared to fiscal 2019 led to the net sales decreases. The shorter fiscal year accounted for approximately 18% of the 10% net sales decline.

Consolidated net income for fiscal 2020 decreased by \$22.8 million or 57.2% as compared to the prior year, due to lower earnings on sales decline.

As discussed in greater detail under “Results of Operations” below, the following are the primary factors that affected our consolidated fiscal 2020 operations:

- **Gross profit.** Consolidated gross profit decreased in absolute terms and as a percentage of net sales due primarily to decreased gross profit in the Home Meridian segment and to a lesser extent in the Hooker Branded segment as the result of lower net sales and higher product costs in both segments as well as increased customer chargebacks and inventory storage and handling costs in our Home Meridian segment. Domestic Upholstery segment gross profit decreased in absolute terms but increased as a percentage of net sales. Consolidated gross profit decrease was partially offset by increased gross profit in All Other and the absence of \$500,000 casualty loss related to the damage caused by torrential rains at one of our warehouse facilities recorded in the fiscal 2019.
- **Selling and administrative expenses.** Consolidated selling and administrative (S&A) expenses decreased in absolute terms due to decreased selling expenses and compensation costs resulting from lower net sales and profitability in all three segments, partially offset by increased salaries and wages in the Home Meridian segment incurred during the sourcing transition in Asia and increased selling expenses in All Other on higher net sales. S&A expenses increased as a percentage of net sales due to lower sales.

- **Intangible asset amortization expense.** Consolidated intangible amortization expense on the Home Meridian and Shenandoah acquisition-related intangible assets was unchanged compared to fiscal 2019.
- **Operating income.** In fiscal 2020, consolidated operating income decreased by \$30.0 million as compared to fiscal 2019, from \$52.7 million to \$22.7 million, or from 7.7% to 3.7% as a percentage of net sales due to the factors discussed above and in greater detail in the analysis below.

## Review

Fiscal 2020 marked a difficult year in our 95-year history. Sales were soft going into fiscal 2020 (which began on February 4, 2019) due to a stock-market downturn in late 2018 and a 35-day US government shutdown which lasted until January 2019. These soft sales were exacerbated by the fact that many of our customers were already in an over-inventoried position in an effort to get ahead of the threatened increase in tariffs on January 1, 2019. Tariffs on finished goods and component parts imported from China created a chain reaction of higher product costs, higher selling prices to our customers, inventory disruptions and the increased costs and management resources needed to shift production to factories in non-tariff countries. Also in late 2018, we encountered an unexpected quality issue with the Home Meridian segment's largest customer which had an adverse impact on sales and earnings for much of fiscal 2020.

Hooker Branded segment net sales decreased by \$16.7 million or 9.4% in fiscal 2020, due to a net sales decrease in the Hooker Caseloads division while partially offset by a moderate net sales increase in the Hooker Upholstery division. We increased prices by about 10% on products imported from China to help offset the 25% tariff which was enacted in May 2019 as well as higher freight costs. However, reduced incoming orders and lower sales volume driven by lower consumer demand and softness in home furnishings sales at retail diminished the effect of pricing adjustment and led to a 11% net sales decrease in the Hooker Caseloads division. In an effort to grow sales and support our traditional business as well as our competence in advantaged distribution channels, we continued to bring new introductions and expanded some of our best-selling collections. Given the soft sales in the Hooker Branded segment, we were relatively pleased to maintain Hooker Caseloads profitability close to the same level as compared to prior year. Hooker Upholstery division had a low single-digit net sales increase due to broader and well-received product offerings which led to a 9% increase of incoming orders, as well as favorable product mix with more higher-priced sofas and sectionals sold.

Home Meridian segment net sales decreased by \$47.2 million or 12.2% in fiscal 2020. The sales decline with one single major customer represented nearly 80% of the Home Meridian segment's sales decrease, along with about \$4 million in unexpected chargebacks from the same customer. Sales declines with traditional furniture chains represented the remaining sales decrease. Profitability was impacted by the sales decline as well as a write-down of excess inventory, related to the quality issue, to market value (a \$1 million charge) and higher demurrage and warehousing costs to store surplus inventory. The segment was more impacted by the imposition of tariffs, with an approximately \$7 million negative impact to its gross margin. The majority of Home Meridian's sales are shipped from our Asian manufacturing partners directly to our retailers rather than stocked in our US warehouses. This fact prevented us from building inventory levels before the 25% tariff became effective. Additionally, due to their size and the price points at which they operate, many of the Home Meridian segment's customers are more sensitive to price and we were not able to recover enough of the excess tariffs by raising prices.

On a more positive note, Home Meridian's hospitality and e-commerce sales continued to grow. Samuel Lawrence Hospitality's ("SLH") net sales increased over 40% in fiscal 2020. However, excess tariffs and higher freight costs adversely impacted its profitability in this year. Samuel Lawrence Furniture ("SLF") implemented a mixing warehouse program in Vietnam and offered more options for sourcing products. Its incoming orders increased 9.7% in the fourth quarter of fiscal 2020 and finished the year with backlog 25% higher than prior year end. Prime Resources International ("PRI") had a difficult year with the majority of Home Meridian's operating loss coming from this division. Consequently, new division leadership is in the process of rebuilding PRI's business. Its incoming orders picked up by \$3 million in January and it finished the year with backlog 5.5% higher than prior year end. Additionally, Home Meridian has also launched a new division, HMidea, which offers better-quality, ready-to-assemble furniture to mass marketers and e-commerce customers. About \$500,000 in start-up costs were incurred for HMidea during the year. These costs were partially offset by a \$520,000 gain on the settlement of our pension plan in the third quarter of fiscal 2020, recorded in other income.

Domestic Upholstery segment net sales decreased by \$10.9 million or 10.2% due to sales decline in all three domestic upholstery manufacturing divisions driven by decreased unit volume. Bradington-Young and Sam Moore experienced reduced incoming orders throughout fiscal 2020, while Shenandoah's incoming orders picked up in the fourth quarter and finished the year with backlog nearly 40% higher than prior year end. Our domestic manufacturing divisions benefitted from lower material costs, lower employee benefits expense, and cost reductions implemented by management. However, favorable material costs have leveled out and we do not expect additional decreases in the near future. These positives were partially offset by higher direct labor costs and operating inefficiencies due to lower production volume. Despite decreased net sales, Domestic Upholstery segment reported a solid operating income margin of 6.9% for fiscal 2020, compared to 7.1% in the prior year.

All Other reported \$2.1 million or 20.7% net sales increase due to strong sales in the H Contract division. H Contract incoming orders increased approximately 15% in fiscal 2020 and finished the year with backlog 28% higher than the prior year end. Growing business in the senior living facilities and contract markets, broader product offerings and favorable product mix with heavier weighting of imported casegoods significantly improved H Contract net sales and profitability.

Despite the imposition of 25% tariffs on goods imported from China and soft retail demand that continued through the year, we were pleased that our Hooker Branded segment, Domestic Upholstery segment and All Other all reported solid operating income to mitigate the \$7.2 million operating loss in the Home Meridian segment. Although our overall results were down significantly, some business units showed improvement, or flat performance, which helped mitigate particularly poor performance in other business units.

Our cash and cash equivalents increased approximately \$25 million to \$36 million as of February 2, 2020 principally due to the collection of accounts receivable and reduced inventory levels for lower than expected sales. Despite disappointing operating results in fiscal 2020, we generated \$41.4 million in cash from operating activities and \$1.4 million from proceeds received on a note receivable from the sale of a former distribution facility. In addition, in the third quarter of fiscal 2020, our Board of Directors approved the increase of our quarterly dividend to \$0.16 per share, an increase of 6.7% or \$0.01 per share, for a total of \$0.61 per share or about \$7.2 million paid in fiscal 2020, an increase of 7.0% or \$0.04 per share, compared to the prior year. We also paid \$6.4 million in term loan principal and interest and \$5.1 million for capital expenditures to expand our manufacturing facilities.

Our total assets and liabilities as of February 2, 2020 each increased approximately \$40 million due to the adoption of Topic 842, Leases on the first day of the current fiscal year. With an aggregate \$25.7 million available under our Existing Revolver to fund working capital, strategic inventory management and cautious capital expenditures, we are confident in our current financial condition. We believe we have financial resources to weather the expected short-term impacts of COVID-19; however, we have limited insight into the extent to which our business may be impacted by COVID-19, and there are many unknowns including how long and how severely we'll be impacted. An extended and severe impact may materially and adversely affect our sales, earnings and liquidity.

## Results of Operations

The following table sets forth the percentage relationship to net sales of certain items for the annual periods included in the consolidated statements of income:

	<b>Fifty-two weeks ended February 2, 2020</b>	Fifty-three weeks ended February 3, 2019	Fifty-two weeks ended January 28, 2018
Net sales	<b>100.0%</b>	100.0%	100.0%
Cost of sales	<b>81.3</b>	78.5	78.3
Gross profit	<b>18.7</b>	21.5	21.7
Selling and administrative expenses	<b>14.5</b>	13.4	14.1
Intangible asset amortization	<b>0.4</b>	0.3	0.3
Operating income	<b>3.7</b>	7.7	7.3
Other income (expense), net	<b>0.1</b>	0.1	0.3
Interest expense, net	<b>0.2</b>	0.2	0.2
Income before income taxes	<b>3.6</b>	7.5	7.4
Income taxes	<b>0.8</b>	1.7	2.8
Net income	<b>2.8</b>	5.8	4.6

## Fiscal 2020 Compared to Fiscal 2019

Fiscal 2020 and 2019 results have been recast based on the re-composition of our operating segments during the fiscal 2020 fourth quarter.

### Net Sales

	Fifty-two weeks ended			Fifty-three weeks ended		
	February 2, 2020			February 3, 2019	\$ Change	% Change
		% Net Sales		% Net Sales		
Hooker Branded	\$ 161,990	26.4%	\$ 178,710	26.2%	\$ (16,720)	-9.4%
Home Meridian	340,630	55.8%	387,825	56.7%	(47,195)	-12.2%
Domestic Upholstery	95,670	15.7%	106,580	15.6%	(10,910)	-10.2%
All Other	12,534	2.1%	10,386	1.5%	2,148	20.7%
Consolidated	<u>\$ 610,824</u>	100%	<u>\$ 683,501</u>	100%	<u>\$ (72,677)</u>	-10.6%

### Unit Volume and Average Selling Price ("ASP")

Unit Volume	FY20 % Increase/ -Decrease vs. FY19	Average Selling Price	FY20 % Increase/ -Decrease vs. FY19
Hooker Branded	-16.6%	Hooker Branded	9.7%
Home Meridian	-12.2%	Home Meridian	-1.9%
Domestic Upholstery	-13.8%	Domestic Upholstery	3.8%
All Other	14.9%	All Other	2.8%
Consolidated	-12.7%	Consolidated	1.3%

Consolidated net sales decreased \$72.7 million or 10.6% compared to fiscal 2019 due primarily to \$47.2 million or 12.2% net sales decrease in the Home Meridian segment, and to a lesser extent the decreases in the Hooker Branded segment and Domestic Upholstery, partially offset by a net sales increase in All Other. Fiscal 2020 had 52 weeks while fiscal 2019 had 53 weeks. The additional week in fiscal 2019 contributed approximately \$13.4 million to consolidated net sales based on the average net sales per shipping day in the table below.

- Hooker Branded segment net sales decreased \$16.7 million or 9.4% due to decreased net sales in the Hooker Casegoods division, partially offset by a single-digit net sales increase in the Hooker Upholstery division. Decreased unit volume was attributable to lower incoming orders due to the soft retail environment. ASP increased due to price increases and lower discounting in response to the imposition of tariffs on goods imported from China and higher freight costs, as well as increased sales of higher-priced products at Hooker Upholstery. Net sales were negatively impacted by higher than expected quality, sales and advertising allowances.
- Home Meridian segment net sales decreased \$47.2 million or 12.2% driven by sales volume loss with one major customer and with traditional furniture chains, as well as higher than expected chargebacks from the same major customer, partially offset by continued net sales growth in the Samuel Lawrence Hospitality business and the absence of a large quality-related return in the fourth quarter of fiscal 2019. ASP decreased due to customer mix in the traditional channels.
- Domestic Upholstery net sales decreased \$10.9 million or 10.2% due to unit volume loss in all three domestic upholstery manufacturing divisions as the result of continued low incoming orders through fiscal 2020. ASP increased in all three divisions, especially with increased sales of higher-priced Bradington-Young and Shenandoah products, however, it was not sufficient to mitigate the volume loss.
- All Other net sales increased \$2.1 million or 20.7% due to a double-digit net sales increase at H Contract.

Because we report on a fiscal year that ends on the Sunday closest to January 31st of each year, the 2019 fiscal year was one week longer than the comparable 2020 fiscal year. The following table presents average net sales per shipping day in thousands for the 2020 and 2019 fiscal years:

	Average Net Sales Per Shipping Day		
	Fifty-two weeks ended	Fifty-three weeks ended	%
	February 2, 2020	February 3, 2019	Change
Hooker Branded	\$ 645	\$ 698	-7.6%
Home Meridian	1,357	1,515	-10.4%
Domestic Upholstery	381	416	-8.4%
All Other	50	41	22.0%
Consolidated	\$ 2,433	\$ 2,670	-8.9%
Shipping Days	251	256	

#### Gross Profit

	Fifty-two weeks ended			Fifty-three weeks ended		
	February 2, 2020		February 3, 2019		\$ Change	% Change
		%		%		
		Segment Net Sales		Segment Net Sales		
Hooker Branded	\$ 51,462	31.8%	\$ 58,122	32.5%	\$ (6,660)	-11.5%
Home Meridian	36,936	10.8%	62,850	16.2%	(25,914)	-41.2%
Domestic Upholstery	21,120	22.1%	22,503	21.1%	(1,383)	-6.1%
All Other	4,440	35.4%	3,512	33.8%	928	26.4%
Consolidated	\$ 113,958	18.7%	\$ 146,987	21.5%	\$ (33,029)	-22.5%

Consolidated gross profit decreased in absolute terms by \$33.0 million and decreased as a percentage of net sales from 21.5% to 18.7% as compared to fiscal 2019.

- Hooker Branded segment gross profit decreased both in absolute terms and as a percentage of net sales due to lower net sales and increased product costs, which were attributable to excess tariffs and higher freight costs, partially offset by price increases which helped mitigate the tariff impact as well as the absence of a \$500,000 casualty loss we recognized in fiscal 2019.
- Home Meridian segment gross profit decreased both in absolute terms and as a percentage of net sales due primarily to net sales decline and increased product costs and was exacerbated by higher quality-related expenses. Excess tariff costs and write-down of inventory with quality issues to market price had nearly \$12 million adverse impact to gross profit. Increased warehousing and distribution costs to handle the inventory related to quality issues and higher freight costs incurred in hospitality projects also negatively impacted gross margin.
- Domestic Upholstery segment gross profit decreased in absolute terms driven by lower net sales but increased as a percentage of net sales. Bradington Young and Shenandoah reported improved gross profit as a percentage of net sales, while Sam Moore gross profit stayed essentially flat as a percentage of its net sales. Our domestic upholstery manufacturing divisions gross margin benefitted from lower material costs and decreased benefits expenses due to lower medical claims, while negatively impacted by labor and manufacturing inefficiencies due to reduced production volume and sales of obsolete inventory.
- Although a small part of our business, All Other contributed nearly \$1.0 million increase to consolidated gross profit, which was attributable to strong sales and favorable product mix at H Contract.

### Selling and Administrative Expenses

	<u>Fifty-two weeks ended</u> <u>February 2, 2020</u>	%	<u>Fifty-three weeks ended</u> <u>February 3, 2019</u>	%	<u>\$ Change</u>	<u>% Change</u>
		<u>Segment Net Sales</u>		<u>Segment Net Sales</u>		
Hooker Branded	\$ 29,949	18.5%	\$ 32,854	18.4%	\$ (2,905)	-8.8%
Home Meridian	42,771	12.6%	42,688	11.0%	83	0.2%
Domestic Upholstery	13,433	14.0%	13,845	13.0%	(412)	-3.0%
All Other	2,714	21.7%	2,541	24.5%	173	6.8%
Consolidated	<u>\$ 88,867</u>	<u>14.5%</u>	<u>\$ 91,928</u>	<u>13.4%</u>	<u>\$ (3,061)</u>	<u>-3.3%</u>

Consolidated selling and administrative expenses decreased in absolute terms but increased as a percentage of net sales in fiscal 2020.

- Hooker Branded segment S&A expenses decreased in absolute terms due principally to decreased selling expenses and compensation costs as the result of lower net sales and profitability, decreased benefits expense due to lower employee medical costs and a gain on company-owned life insurance, and the recognition of a deferred gain related to the sale of a former distribution facility which we had owner-financed and was paid off during the first quarter. These decreases were partially offset by higher salaries and wages due to increased headcount and the absence of a \$1.0 million life insurance gain recorded in fiscal 2019. Hooker Branded segment S&A expenses stayed essentially flat as a percentage of net sales due to lower net sales.
- Home Meridian segment S&A expenses stayed flat in absolute terms and increased as a percentage of net sales. Increased labor costs related to the sourcing transition in Asia and the start-up costs for the new HMidea division were nearly offset by decreased selling expenses and compensation costs as the result of lower net sales and profitability as well as lower employee benefits expense. Home Meridian segment S&A expenses increased as a percentage of net sales due to lower net sales and higher S&A expenses.
- Domestic Upholstery segment expenses decreased in absolute terms driven by lower selling expense and compensation costs due to lower net sales and earnings, as well as better spending control, partially offset by higher salaries and wages, and higher benefits expenses due to medical claims. Domestic Upholstery S&A expenses increased as a percentage of net sales due to lower net sales.
- All Other S&A expenses increased in absolute terms due to higher selling expense as the result of increased H Contract net sales and earnings, and increased advertising supplies expenses to support the launch of Lifestyle Brands.

### Intangible Asset Amortization

	<u>Fifty-two Weeks Ended</u> <u>February 2, 2020</u>	%	<u>Fifty-three Weeks Ended</u> <u>February 3, 2019</u>	%	<u>\$ Change</u>	<u>% Change</u>
		<u>% Net Sales</u>		<u>% Net Sales</u>		
Intangible asset amortization	\$ 2,384	0.4%	\$ 2,384	0.3%	\$ -	0.0%

Intangible asset amortization expense was unchanged compared to the prior year period. See Note 10. Intangible Assets and Goodwill for additional information about our amortizable intangible assets.

### Operating Income

	<u>Fifty-two weeks ended</u> <u>February 2, 2020</u>	<u>Fifty-three weeks ended</u> <u>February 3, 2019</u>		<u>\$ Change</u>	<u>% Change</u>
			% Segment Net Sales		% Segment Net Sales
Hooker Branded	\$ 21,512	\$ 25,269	13.3%	(3,757)	-14.9%
Home Meridian	(7,169)	18,828	-2.1%	(25,997)	-138.1%
Domestic Upholstery	6,637	7,607	6.9%	(970)	-12.8%
All Other	1,727	971	13.8%	756	77.9%
Consolidated	<u>\$ 22,707</u>	<u>\$ 52,675</u>	3.7%	<u>\$ (29,968)</u>	-56.9%

Operating profitability decreased both in absolute terms and as a percentage of net sales in fiscal 2020 compared to the same prior-year period due to the factors discussed above.

### Interest Expense, net

	<u>Fifty-two Weeks Ended</u> <u>February 2, 2020</u>	<u>Fifty-three Weeks Ended</u> <u>February 3, 2019</u>		<u>\$ Change</u>	<u>% Change</u>
			% Net Sales		% Net Sales
Interest expense, net	\$ 1,238	\$ 1,454	0.2%	(216)	-14.9%

Consolidated interest expense in fiscal 2020 decreased due to lower balances on our term loans.

### Income Taxes

	<u>Fifty-two weeks ended</u> <u>February 2, 2020</u>	<u>Fifty-three weeks ended</u> <u>February 3, 2019</u>		<u>\$ Change</u>	<u>% Change</u>
			% Net Sales		% Net Sales
Consolidated income tax expense	\$ 4,844	\$ 11,717	0.8%	(6,873)	-58.7%
Effective Tax Rate	22.1%	22.7%			

We recorded income tax expense of \$4.8 million for fiscal 2020 compared to \$11.7 million for the same prior year period. The effective tax rates for the fiscal 2020 and 2019 were 22.1% and 22.7%, respectively. Our effective tax rate was lower in fiscal 2020 due primarily to decreased state income taxes. We adopted ASU 2014-09 and ASU 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. See Note 17 "Income Taxes" for additional information about our income taxes.

### Net Income and Earnings Per Share

	<u>Fifty-two weeks ended</u>		<u>Fifty-three weeks ended</u>			
	<u>February 2, 2020</u>		<u>February 3, 2019</u>			
<b>Net Income</b>		<u>% Net Sales</u>		<u>% Net Sales</u>		
Consolidated	\$ 17,083	2.8%	\$ 39,873	5.8%	\$ (22,790)	-57.2%
<b>Diluted earnings per share</b>	\$ 1.44		\$ 3.38			

### Fiscal 2019 Compared to Fiscal 2018

The Shenandoah acquisition closed during the third quarter of fiscal 2018. Consequently, Domestic Upholstery segment's fiscal 2018 results only included four-months of Shenandoah's results beginning on September 29, 2017 through the end of our fiscal 2018 which ended on January 28, 2018.

Fiscal 2019 and 2018 results have been recast based on the re-composition of our operating segments during the fiscal 2020 fourth quarter.

### Net Sales

	<u>Fifty-three weeks ended</u>		<u>Fifty-two weeks ended</u>			
	<u>February 3, 2019</u>		<u>January 28, 2018</u>			
		<u>% Net Sales</u>		<u>% Net Sales</u>		
Hooker Branded	\$ 178,710	26.2%	\$ 166,754	26.9%	\$ 11,956	7.2%
Home Meridian	387,825	56.7%	365,472	58.9%	22,353	6.1%
Domestic Upholstery	106,580	15.6%	78,392	12.6%	28,188	36.0%
All Other	10,386	1.5%	10,014	1.6%	372	3.7%
Consolidated	<u>\$ 683,501</u>	<u>100.0%</u>	<u>\$ 620,632</u>	<u>100.0%</u>	<u>\$ 62,869</u>	<u>10.1%</u>

### Unit Volume and Average Selling Price ("ASP")

<u>Unit Volume</u>	<u>FY19 % Increase/ -Decrease vs. FY18</u>	<u>Average Selling Price</u>	<u>FY19 % Increase/ -Decrease vs. FY18</u>
Hooker Branded	6.5%	Hooker Branded	0.2%
Home Meridian	3.5%	Home Meridian	3.7%
Domestic Upholstery	-3.8%	Domestic Upholstery	6.1%
All Other	-5.0%	All Other	10.7%
Consolidated	3.5%	Consolidated	2.9%

\*Shenandoah is excluded from Domestic Upholstery segment in the Unit Volume and ASP tables above since only four months of its results was included in fiscal 2018. Consequently, we believe including its fiscal 2019 results would skew the segment's results and reduce the usefulness of the table above.



Consolidated net sales increased \$62.9 million or 10.1% compared to fiscal 2018. Fiscal 2019 had 53 weeks while fiscal 2018 and 2017 had 52 weeks. The additional week in fiscal 2019 increased consolidated net sales by \$13.4 million based on the average net sales per shipping day in the table below.

- Hooker Branded segment net sales increased \$12.0 million or 7.2% primarily due to higher sales volume as the result of strong orders and expanded channels of distribution. Good in-stock positions on best-sellers supported steady shipments. Net sales also benefitted from favorable advertising costs, product mix, and increased sales of Hooker Upholstery sectionals, which had higher ASP.
- Home Meridian segment net sales increased \$22.4 million or 6.1% driven by higher unit volumes and ASP. We raised our selling prices in response to the previously mentioned tariff and increased product costs. Sales volume increased in four out of five business units due to increased sales into emerging channels. The net sales increase was partially offset by a sales decline in traditional channels and unfavorable returns and allowances in the fourth quarter of fiscal 2019.
- Domestic Upholstery segment net sales increased \$28.2 million or 36.0% compared to fiscal 2018. Most of the increase was attributable to a full year of Shenandoah's net sales being included in fiscal 2019 (as compared to only four months in the prior year) and to a lesser extent, strong sales at Bradington-Young, partially offset by a sales decrease at Sam Moore. ASP increased due to increased sales of higher-priced Bradington-Young luxury motion products. Domestic Upholstery's unit volume decreased due to the volume decline at Sam Moore.
- All Other net sales increased due primarily to an upper single digit net sales increase at H Contract. Decreased unit volume and higher ASP was attributable to the absence of Homeware closeout in 2018.

Because we report on a fiscal year that ends on the Sunday closest to January 31st of each year, the 2019 fiscal year was one week longer than the comparable 2018 fiscal year. The following table presents average net sales per shipping day in thousands for the 2019 and 2018 fiscal years:

	Average Net Sales Per Shipping Day		
	Fifty-three weeks ended	Fifty-two weeks ended	%
	February 3, 2019	January 28, 2018	Change
Hooker Branded	\$ 698	\$ 664	5.1%
Home Meridian	1,515	1,456	4.0%
Domestic Upholstery	416	312	33.3%
All Other	41	40	2.5%
Consolidated	\$ 2,670	\$ 2,472	8.0%
Shipping Days	256	251	

#### Gross Profit

	Fifty-three weeks ended		Fifty-two weeks ended		\$ Change	% Change
	February 3, 2019	% Segment Net Sales	January 28, 2018	% Segment Net Sales		
Hooker Branded	\$ 58,122	32.5%	\$ 53,007	31.8%	\$ 5,115	9.6%
Home Meridian	62,850	16.2%	62,325	17.1%	525	0.8%
Domestic Upholstery	22,503	21.1%	16,228	20.7%	6,275	38.7%
All Other	3,512	33.8%	3,257	32.5%	255	7.8%
Consolidated	\$ 146,987	21.5%	\$ 134,817	21.7%	\$ 12,170	9.0%

Consolidated gross profit increased in absolute terms by \$12.2 million and decreased slightly as a percentage of net sales in fiscal 2019.

- Hooker Branded segment gross profit increased in absolute terms and as a percentage of net sales due to higher sales and lower product costs. Hooker Branded gross profit also benefited from favorable customer mix, driven by growth of ecommerce sales. The improved margin was negatively impacted by higher product costs, increased warehousing and freight costs due to increased inventory levels and a \$500,000 casualty loss we recognized early this year.
- Home Meridian segment gross profit increased slightly in absolute terms due to additional sales, but decreased as a percentage of net sales. Lower-margin orders due to unfavorable customer mix, inflation of product cost due to the implementation of the 10% tariff and higher product costs negatively impacted Home Meridian's gross profit.
- Domestic Upholstery segment gross profit increased in absolute terms and as a percentage of net sales primarily due to the addition of a full year of Shenandoah's results in fiscal 2019, and to a lesser extent solid gross profit increase at Bradington Young due to strong sales in this division, as well as moderately lower direct labor and material costs. Despite a sales decline at Sam Moore, its gross profit stayed essentially flat in absolute terms and increased as a percentage of net sales.
- All Other gross profit increased in absolute terms and as a percentage of net sales due to increased gross profit at H Contract and the absence of Homeware closeout sales at lower margin in 2018.

### Selling and Administrative Expenses

	<u>Fifty-three weeks ended</u> <u>February 3, 2019</u>	<u>% Segment Net Sales</u>	<u>Fifty-two weeks ended</u> <u>January 28, 2018</u>	<u>% Segment Net Sales</u>	<u>\$ Change</u>	<u>% Change</u>
Hooker Branded	\$ 32,854	18.4%	\$ 30,868	18.5%	\$ 1,986	6.4%
Home Meridian	42,688	11.0%	43,164	11.8%	(476)	-1.1%
Domestic Upholstery	13,845	13.0%	11,015	14.1%	2,830	25.7%
All Other	2,541	24.5%	2,232	22.3%	309	13.8%
Consolidated	<u>\$ 91,928</u>	13.4%	<u>\$ 87,279</u>	14.1%	<u>\$ 4,649</u>	5.3%

Consolidated selling and administrative expenses increased in absolute terms but decreased as a percentage of net sales in fiscal 2019.

- Hooker Branded segment S&A expenses increased in absolute terms and was primarily driven by higher compensation costs due to increased headcount, higher employee medical costs, and higher bonus and selling expenses due to increased sales and increased income. These increases were partially offset by a \$1.0 million gain on company-owned life insurance recognized during the fiscal 2019 first quarter and the absence of \$700,000 Shenandoah-acquisition related costs recorded in prior year period. Hooker Branded segment S&A expenses decreased as a percentage of net sales due to higher net sales.
- Home Meridian segment S&A expenses decreased in absolute terms and as a percentage of net sales due to decreased bonus expense due to lower sales and earnings as compared to budget, decreased selling expenses on lower-margin orders, and lower bad debt expense in the current year due to the absence of a customer balance written off during the prior year period. These decreases were partially offset by increased employee compensation and benefits expenses.
- Domestic Upholstery S&A expenses increased in absolute terms due primarily to the inclusion of a full year of Shenandoah's operations in fiscal 2019. The increase was also driven by higher compensation, higher employee medical costs and higher professional services due to increased compliance costs, while partially offset by decreased S&A expenses at Sam Moore due to lower selling expenses and better spending control.
- All Other S&A expenses increased in absolute terms and as a percentage of net sales due to increased selling expenses and compensation costs as the result of higher net sales, as well as increased salaries due to increased headcount at H Contract.

### Intangible Asset Amortization

	<u>Fifty-three Weeks Ended</u> February 3, 2019	<u>% Net Sales</u>	<u>Fifty-two Weeks Ended</u> January 28, 2018	<u>% Net Sales</u>	<u>\$ Change</u>	<u>% Change</u>
Intangible asset amortization	\$ 2,384	0.3%	\$ 2,084	0.3%	\$ 300	14.4%

Intangible asset amortization expense was higher in the fiscal 2019 due to the addition of Shenandoah acquisition-related amortization expense for the full year. The increase was partially offset by the short amortization period of certain short-lived Shenandoah acquisition-related intangible assets which was recorded in the fiscal 2018. See Note 10. Intangible Assets and Goodwill for additional information about our amortizable intangible assets.

### Operating Income

	<u>Fifty-three weeks ended</u> February 3, 2019	<u>% Segment Net Sales</u>	<u>Fifty-two weeks ended</u> January 28, 2018	<u>% Segment Net Sales</u>	<u>\$ Change</u>	<u>% Change</u>
Hooker Branded	\$ 25,269	14.1%	\$ 22,139	13.3%	\$ 3,130	14.1%
Home Meridian	18,828	4.9%	17,828	4.9%	1,000	5.6%
Domestic Upholstery	7,607	7.1%	4,463	5.7%	3,144	70.4%
All Other	971	9.4%	1,024	10.2%	(53)	-5.2%
Consolidated	<u>\$ 52,675</u>	7.7%	<u>\$ 45,454</u>	7.3%	<u>\$ 7,221</u>	15.9%

Operating profitability increased both in absolute terms and as a percentage of net sales in fiscal 2019 compared to the same prior-year period due to the factors discussed above.

### Interest Expense, net

	<u>Fifty-three Weeks Ended</u> February 3, 2019	<u>% Net Sales</u>	<u>Fifty-two Weeks Ended</u> January 28, 2018	<u>% Net Sales</u>	<u>\$ Change</u>	<u>% Change</u>
Interest expense, net	\$ 1,454	0.2%	\$ 1,248	0.2%	\$ 206	16.5%

Consolidated interest expense in fiscal 2019 increased primarily due to higher interest rates on our variable-rate term loans, partially offset by the \$10 million unscheduled loan payment made on the New Unsecured Term Loan in the first quarter of fiscal 2019.

## Income Taxes

	<u>Fifty-three weeks ended February 3, 2019</u>	<u>% Net Sales</u>	<u>Fifty-two weeks ended January 28, 2018</u>	<u>% Net Sales</u>	<u>\$ Change</u>	<u>% Change</u>
Consolidated income tax expense	\$ 11,717	1.7%	\$ 17,522	2.8%	\$ (5,805)	-33.1%
Effective Tax Rate	22.7%		38.3%			

We recorded income tax expense of \$11.7 million for fiscal 2019 compared to \$17.5 million for the same prior year period. The effective tax rates for the fiscal 2019 and 2018 were 22.7% and 38.3%, respectively. Our effective tax rate was lower in fiscal 2019 as a result of the recently enacted Tax Cuts and Jobs Act of 2017 as well as the absence of \$1.8 million for the re-measurement of deferred tax assets and liabilities recorded in the fourth quarter of fiscal 2018, partially offset by increased state income taxes. We adopted ASU 2014-09 and ASU 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. See Note 2 “Summary of Significant Accounting Policies” for additional information on the adoptions of these accounting standards.

## Net Income and Earnings Per Share

	<u>Fifty-three weeks ended February 3, 2019</u>	<u>% Net Sales</u>	<u>Fifty-two weeks ended January 28, 2018</u>	<u>% Net Sales</u>	<u>\$ Change</u>	<u>% Change</u>
<b>Net Income</b>						
Consolidated	\$ 39,873	5.8%	\$ 28,250	4.6%	\$ 11,623	41.1%
<b>Diluted earnings per share</b>	<b>\$ 3.38</b>		<b>\$ 2.42</b>			

## Financial Condition, Liquidity and Capital Resources

### Summary Cash Flow Information – Operating, Investing and Financing Activities

	<u>Fifty-Two Weeks Ended February 2, 2020</u>	<u>Fifty-Three Weeks Ended February 3, 2019</u>	<u>Fifty-Two Weeks Ended January 28, 2018</u>
Net cash provided by operating activities	\$ 41,429	\$ 9,662	\$ 27,746
Net cash used in investing activities	(4,254)	(4,511)	(36,483)
Net cash used in financing activities	(12,579)	(24,631)	(140)
Net increase (decrease) in cash and cash equivalents	<u>\$ 24,596</u>	<u>\$ (19,480)</u>	<u>\$ (8,877)</u>

During fiscal 2020, we used some of the \$41.4 million generated from operations and \$1.4 million proceeds received from a note receivable to pay \$7.2 million cash dividends, \$6.4 million principal payments and interest towards our term loans, \$5.1 million in capital expenditures to expand our domestic manufacturing capacities and to enhance our business systems and facilities and \$590,000 insurance premiums on Company-owned life insurance policies. 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.

During fiscal 2019, \$9.7 million generated from operations, \$1.2 million life insurance proceeds and cash on hand helped make \$17.9 million in principal payments on our term loans, \$6.7 million in cash dividends, \$5.2 million capital expenditures, and \$652,000 insurance premiums on Company-owned life insurance policies.

During fiscal 2018, \$27.7 million generated from operations, cash on hand, and \$12.0 million term-loan proceeds helped partially fund the Shenandoah acquisition, make \$6.3 million long-term debt payments, \$5.8 million in cash dividends, fund \$3.2 million capital expenditures to enhance our business systems and facilities and pay \$673,000 insurance premiums on Company-owned life insurance policies.

#### 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;
- available lines of credit; and
- cash surrender value of Company-owned life-insurance.

We believe these resources are sufficient to meet our business requirements through fiscal 2021 and for the foreseeable future, including:

- limited capital expenditures;
- working capital; and
- the servicing of our acquisition-related debt.

#### *Loan Agreements and Revolving Credit Facility*

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

#### 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 were 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 will bear 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 amounts borrowed under the Secured Term Loan will bear 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:

- amended and restated 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”) , which we subsequently paid off in full in fiscal 2019.

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:

- Maintain a ratio of funded debt to EBITDA not exceeding:
  - 2.50:1.0 through August 31, 2018;
  - 2.25:1.0 through August 31, 2019; and
  - 2.00:1.00 thereafter.
- A basic fixed charge coverage ratio of at least 1.25:1.00; and
- Limit capital expenditures to no more than \$15.0 million during any fiscal year beginning in fiscal 2020.

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 February 2, 2020 and expect to remain in compliance with existing covenants for the foreseeable future. We believe we have financial resources to weather the expected short-term impacts of COVID-19; however, an extended impact may materially and adversely affect our sales, earnings and liquidity.

### *Revolving Credit Facility Availability*

As of February 2, 2020, we had an aggregate \$25.7 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of \$4.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of February 2, 2020. There were no additional borrowings outstanding under the Existing Revolver as of February 2, 2020.

### *Expected Refinancing in Fiscal 2021*

All amounts outstanding on our terms loans and revolving credit facility are due and payable on the first day of fiscal 2022, February 1, 2021. We expect to refinance any amounts outstanding under these loans and credit facility during fiscal 2021. However, if the negative economic effects of COVID-19 persist, it would likely have a material adverse effect on our sales, earnings and liquidity. Consequently, our credit rating may decrease and refinancing our debt may be more difficult and loans more costly.

### *Capital Expenditures*

Prior to the COVID-19 crisis, we expected to spend between \$2.5 million to \$4.5 million in capital expenditures in fiscal 2021 to maintain and enhance our operating systems and facilities. However, due to the negative economic effects of COVID-19, we have delayed indefinitely about \$3 million in non-critical capital spending.

## COVID-19 Cost Cutting and Cash Preservation Measures

In early fiscal 2021, we initiated certain measures to reduce operating expenses and preserve cash which include temporary fee reductions for our Board of Directors, temporary salary reductions for officers and certain other managers, strategic staff reductions, the temporary closure of our domestic manufacturing plants and the furlough of manufacturing, warehouse and administrative associates, delaying all non-critical capital spending, rationalizing current import purchase orders, working with our vendors to cut costs and extend payment terms where we can.

During fiscal 2020, our cash position increased by nearly \$25 million over the prior-year and we added an additional \$17 million in cash through mid-April 2020.

### Share Repurchase Authorization

During fiscal 2013, our Board of Directors authorized the repurchase of up to \$12.5 million of the Company's common shares. The authorization did not obligate us to acquire a specific number of shares during any period and did not have an expiration date, but it could have been modified, suspended or discontinued at any time at the discretion of our Board of Directors. Repurchases may have been 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 were subject to our cash requirements for other purposes, compliance with the covenants under the loan agreement for our revolving credit facility and other factors we deemed relevant. No shares were purchased during fiscal 2020. Approximately \$11.8 million remained available for future purchases under the authorization as of February 2, 2020. In April 2020 (fiscal 2021), our Board of Directors terminated this repurchase authorization after several years of inactivity.

### Dividends

We declared and paid dividends of \$0.61 per share or approximately \$7.2 million in fiscal 2020, an increase of 7.0% or \$0.04 per share compared to \$0.57 per share in fiscal 2019. On March 2, 2020 our Board of Directors declared a quarterly cash dividend of \$0.16 per share, payable on March 31, 2020 to shareholders of record at March 17, 2020.

### **Commitments and Contractual Obligations**

As of February 2, 2020, our commitments and contractual obligations were as follows:

	<b>Cash Payments Due by Period (In thousands)</b>				
	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 years</b>	<b>Total</b>
Long Term Debt (1)	\$ 5,856	\$ 24,282	\$ -	\$ -	\$ 30,138
Deferred compensation payments (2)	728	2,067	2,220	4,853	9,868
Operating leases (3)	7,934	12,769	10,609	15,205	46,517
Total contractual cash obligations	<u>\$ 14,518</u>	<u>\$ 39,118</u>	<u>\$ 12,829</u>	<u>\$ 20,058</u>	<u>\$ 86,523</u>

- (1) These amounts represent obligations due under the Unsecured Term Loan and the Secured Term Loan. See Note 13 to the consolidated financial statements beginning on page F-25 for additional information about our long-term debt obligations.
- (2) These amounts represent estimated cash payments to be paid to participants in our SRIP through fiscal year 2043, which is 15 years after the last current SRIP plan participant is assumed to have retired. SERP benefits are paid over the lifetimes of plan participants, so the year of final payment is unknown. The present value of these benefits (the actuarially derived projected benefit obligation for the SRIP and SERP) were approximately \$10.3 million and \$1.9 million, respectively, at February 2, 2020, and are shown on our consolidated balance sheets, with \$729,000 recorded in current liabilities and \$11.4 million recorded in long-term liabilities. Under the SRIP, the monthly retirement benefit for each participant, regardless of age, would become fully vested and the present value of that benefit would be paid to each participant in a lump sum upon a change in control of the Company as defined in the plan. See Note 14 to the consolidated financial statements beginning on page F-26 for additional information about the SRIP and SERP.
- (3) These amounts represent estimated cash payments due under operating leases for real estate utilized in our operations and warehouse and office equipment, as well as short term leases with remaining terms less than 12 months. See Note 12 for additional information and disclosures about our leases.

## Off-Balance Sheet Arrangements

Standby letters of credit in the aggregate amount of \$4.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of February 2, 2020. See the “Commitments and Contractual Obligations” table above and Note 19 to the consolidated financial statements included in this annual report on Form 10-K for additional information on our off-balance sheet arrangements.

Substantially all of the cash value of our company owned life insurance is pledged as collateral for our secured term loan.

## Recently Issued Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans* (“ASU 2018-14”). The amendments in this update change the disclosure requirements for employers that sponsor defined benefit pension and/or other post-retirement benefit plans. It eliminates requirements for certain disclosures that are no longer considered cost beneficial and requires new disclosures that the FASB considers pertinent. The guidance is effective for fiscal years ending after December 15, 2020. Early adoption is permitted. We do not expect the adoption of ASU 2018-14 will have a material impact on our consolidated financial statements or disclosures.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. This update seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including trade receivables, and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require an entity to replace the incurred loss impairment methodology in current GAAP with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which guidance is effective, which is a modified-retrospective approach. We have finalized our analysis of the standard and do not believe the adoption of the standard will have a material effect on our consolidated financial statements and results of operations.

## COVID-19

As discussed under "Item 1A. Risk Factors," an outbreak of COVID-19 was identified in China and has subsequently been recognized as a global pandemic by the World Health Organization. Federal, state and local governments in the U.S and elsewhere have imposed restrictions on travel and business operations and are advising or requiring individuals to limit or eliminate time outside of their homes. Temporary closures of businesses have also been ordered in certain jurisdictions and other businesses have temporarily closed voluntarily. These actions have expanded significantly over the past month throughout the United States. Consequently, the COVID-19 outbreak has severely restricted the level of economic activity in the U.S. and around the world.

We monitor information on COVID-19 from the CDC and believe we are adhering to their recommendations regarding the health and safety of our personnel. To address the potential human impact of the virus, most of our administrative staff are telecommuting. For those administrative staff not telecommuting and our warehouse and domestic manufacturing employees, we have implemented appropriate social distancing policies and have stepped-up facility cleaning at each location. Non-essential domestic travel for our employees has ceased and international travel has been prohibited out-right. Testing and treatment for COVID-19 is covered 100% under our medical plan and counseling is available through our employee assistance plan to assist employees with financial, mental and emotional stress related to the virus and other issues. In addition, we are offering temporary paid leave to employees diagnosed with the virus (and those associates with another diagnosed person or persons in their household) and are working to accommodate associates with child-care issues related to school or day-care closures.

To begin to address the financial impact of the virus, we have delayed non-essential capital spending and have implemented other cost-cutting measures, including abbreviated shifts, furloughs, the temporary closure of our domestic manufacturing plants, staff reductions, temporary fee reductions for our Board of Directors, temporary salary reductions for officers and other managers, rationalizing current import purchase orders and working with our vendors to cut costs and extend payment terms where we can.



## Outlook

The COVID-19 pandemic presents an economic challenge of unprecedented proportions with an uncertain time frame. Due to these aforementioned effects of COVID-19, we have seen decreased demand for home furnishings in our industry and for our company. We have also seen a spike in order cancellations over the last few weeks prior to filing this Annual Report, which has blunted some of the strong backlog we had at fiscal year-end. While we built significant cash last year and have enhanced our cash position further in fiscal 2021, some customers have taken or are expected to take extended payment terms and we expect cash collections to slow. Lower earnings will also have a negative impact on our cash position.

Because of these factors, we are preparing for a significant downturn lasting anywhere from four to six months. We expect sales and earnings to be down materially in the fiscal 2021 first quarter and for fiscal 2021, both as compared to prior-year periods, but we are unable to reasonably estimate the extent of those decreases. Additionally, we have limited insight into the extent to which our business may be impacted by the COVID-19 pandemic and there are many unknowns including the severity and duration of the current crisis.

Further delays in the receipt of goods and other unanticipated impacts to our supply chain, including on direct imports or goods purchased domestically, or our customers, could have a more significant impact on our future business (including sales). The extent of the impact will depend on future developments, which are highly uncertain and cannot be predicted. We continue to monitor the situation closely and may implement further measures to provide additional financial flexibility as we work to protect our cash position and liquidity.

## Critical Accounting Policies and Estimates

Our significant accounting policies are described in “Note 2 – Summary of Significant Accounting Policies” to the consolidated financial statements beginning at page F-10 in this report. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe that actual results will deviate materially from our estimates related to our accounting policies described below. However, because application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties, actual results could differ materially from these estimates.

**Purchase Price Allocation.** For the Shenandoah acquisition, we allocated the purchase price to the various tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. Determining the fair value of certain assets and liabilities acquired is subjective in nature and often involves the use of significant estimates and assumptions, which are inherently uncertain. Many of the estimates and assumptions used to determine fair values, such as those used for intangible assets, are made based on forecasted information and discount rates. To assist in the purchase price allocation process, as well as the estimate of remaining useful lives of acquired assets, we engaged a third-party appraisal firm. In addition, the judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.

**Revenue Recognition.** We recognize revenue pursuant to Accounting Standards Codification 606, which requires revenue to be recognized 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. 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. Orders are generally non-cancellable once loaded into a shipping trailer or container.

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.

Net sales are comprised of gross revenues from sales of home furnishings and hospitality furniture products and are recorded net of allowances for trade promotions, estimated product returns, rebate advertising programs and other discounts. Physical product returns are very rare due to the high probability of damages to our products in return transit. 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.

**Leases.** Our lease assets are composed of real estate and equipment. Real estate leases consist primarily of warehouses, showrooms and offices, while equipment leases consist of vehicles, office and warehouse equipment. At the inception of a contract, we assess whether the contract is, or contains, a lease. Our assessment is based on: (a) whether there is an identified asset in the contract that is land or a depreciable asset – i.e. property, plant or equipment; (b) whether we have the right to control the use of the identified asset throughout the period of use, which may be different from the overall contract term; and (c) whether we have the right to direct the use of an identified asset if it can direct (and change) how and for what purpose the asset will be used throughout the period of use.

Leases are classified as either finance leases or operating leases based on criteria in Topic 842. All of our leases are classified as operating leases. We do not currently have finance leases but could in the future.

Operating lease right-of-use ("ROU") assets and liabilities are recognized on the adoption date based on the present value of lease payments over the remaining lease term. As interest rates are not explicitly stated or implicit in any of our leases, we utilized our incremental borrowing rate at the adoption date of February 4, 2019, which was one-month LIBOR plus 1.5%. For leases without explicitly stated or implicit interest rates that commenced after the adoption date, we used our incremental borrowing rate which was one-month LIBOR at the lease commencement date plus 1.5%. ROU assets also include any lease payments made and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

At the inception of a lease, we allocate the consideration in the contract to each lease and non-lease component based on the component's relative stand-alone price to determine the lease payments. Lease and non-lease components are accounted for separately. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Included in lease expense are any variable lease payments incurred in the period that were not included in the initial lease liability. Some of our real estate leases contain variable lease payments, including payments based on the percentage increase in the Consumer Price Index for Urban Consumers ("CPI-U"). We used February 2019 CPI-U issued by the US Department of Labor's Bureau of Labor Statistics to measure lease payments and calculate lease liabilities upon adoption of this standard. Additional payments based on the change in an index or rate, or payments based on a change in our portion of the operating expenses, including real estate taxes and insurance, are recorded when incurred.

We have a sub-lease at one of our warehouses. In accordance with the provisions of Topic 842, since we have not been relieved as the primary obligor of the warehouse lease, we cannot net the sublease income against our lease payment to calculate the lease liability and ROU asset. Our practice has been, and we will continue to, straight-line the sub-lease income over the term of the sublease.

Our leases have remaining lease terms of less than one year to seven years, some of which include options to extend the leases for up to seven years. We have elected not to recognize ROU assets and lease liabilities that arise from short term leases for any class of underlying asset. Short term leases are leases with lease terms of 12 months or less with either (a) no renewal option or (b) a renewal option which we are not reasonably certain to exercise.

## Impairment of Long-Lived Assets

### *Tangible and Definite Lived Intangible Assets*

We regularly review our property, plant and equipment and definite lived intangible assets for indicators of impairment, as specified in the Accounting Standards Codification. Although not exhaustive, this accounting guidance lists potential indicators of impairment, which we use to facilitate our review. These potential indicators of impairment include:

- A significant decrease in the market value of the long-lived asset;
- A significant adverse change in the extent or manner in which a long-lived asset group is being used, or in its physical condition;
- A significant adverse change in the legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected to acquire or construct a long-lived asset;
- A current period operating or cash flow loss or a projection or forecast that demonstrates continuing losses associated with the long-lived asset's use; and
- A current expectation that more-likely-than-not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

When an indicator of impairment is present, the impairment test for our property, plant and equipment requires us to assess the recoverability of the value of the assets by comparing their net carrying value to the sum of undiscounted estimated future cash flows directly associated with and arising from use and eventual disposition of the assets. We principally use our internal forecasts to estimate the undiscounted future cash flows used in our impairment analyses. These forecasts are subjective and are largely based on management's judgment, primarily due to the changing industry in which we compete, changing consumer tastes, trends and demographics and the current economic environment. We monitor changes in these factors as part of the quarter-end review of these assets. While our forecasts have been reasonably accurate in the past, during periods of economic instability, uncertainty, or rapid change within our industry, we may not be able to accurately forecast future cash flows from our long-lived assets and our future cash flows may be diminished. Therefore, our estimates and assumptions related to the viability of our long-lived assets may change and are reasonably likely to change in future periods. These changes could adversely affect our consolidated statements of income and consolidated balance sheets.

When we conclude that any of these assets are impaired, the asset is written down to its fair value. Any impaired assets that we expect to dispose of by sale are measured at the lower of their carrying amount or fair value, less estimated cost to sell; are no longer depreciated; and are reported separately as "assets held for sale" in the consolidated balance sheets, if we expect to dispose of the assets in one year or less.

### *Intangible Assets and Goodwill*

We own both definite-lived (amortizable) assets and indefinite-lived intangible assets. Our amortizable intangible assets are related to the Home Meridian and Shenandoah acquisitions and include customer relationships, backlog and trademarks. Our indefinite lived assets include goodwill, trademarks and tradenames related to the Home Meridian and Shenandoah acquisitions, as well as the Bradington-Young and Sam Moore tradenames. We may acquire additional amortizable assets and/or indefinite lived intangible assets in the future. Our indefinite-lived intangible assets are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired.

Our goodwill, trademarks and trade names are tested for impairment annually as of the first day of our fourth quarter or more frequently if events or changes in circumstances indicate that the asset might be impaired. Circumstances that could indicate a potential impairment include, but are not limited to:

- a significant adverse change in the economic or business climate either within the furniture industry or the national or global economy;
- significant changes in demand for our products;
- loss of key personnel; and
- the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise subject to disposal.

The fair value of our trademarks and tradenames is determined based on the estimated earnings and cash flow capacity of those assets. The impairment test consists of a comparison of the fair value of the indefinite-lived intangible assets with their carrying amount. If the carrying amount of the indefinite-lived intangible assets exceeds their fair value, an impairment loss is recognized in an amount equal to that excess.

At February 2, 2020, the fair values of our Bradington-Young, Home Meridian, Sam Moore and Shenandoah non-amortizable trademarks and trade names exceeded their carrying values. Based on an independent valuation conducted at the 2020 fiscal year-end the fair values of the Pulaski Furniture, Samuel Lawrence Furniture and Prime Resources International trademarks exceeded their carrying values by \$130,000, \$10,000 and \$10,000, respectively.

The goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test outlined in ASC Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing quantitative assessment. The quantitative assessment involves estimating the implied fair value of our goodwill using projected future cash flows that are discounted using a weighted average cost of capital analysis that reflects current market conditions. Management judgment is a significant factor in the goodwill impairment evaluation process. The computations require management to make estimates and assumptions, the most critical of which are potential future cash flows and the appropriate discount rate. In addition to our qualitative assessment, management performed a quantitative analysis on the Home Meridian reporting unit's goodwill in the fiscal 2020 fourth quarter. Based on our qualitative assessment and quantitative analysis, we have concluded that our goodwill is not impaired as of February 2, 2020.

The assumptions used to determine the fair value of our intangible assets are highly subjective and judgmental and include long-term growth rates, sales volumes, projected revenues, assumed royalty rates and factors used to develop an applied discount rate. If the assumptions that we use in these calculations differ from actual results, we may realize impairment on our intangible assets that may have a material-adverse effect on our results of operations and financial condition.

### **Concentrations of Sourcing Risk**

In fiscal 2020, imported products sourced from Vietnam and China accounted for nearly all of our import purchases and our top five suppliers in Vietnam and China account for approximately half of our fiscal 2020 import purchases. A disruption in our supply chain, or from Vietnam or China in general, could significantly impact our ability to fill customer orders for products manufactured in those countries. If such a disruption were to occur, we believe that we would have sufficient inventory on hand and in transit to our U.S. warehouses in Virginia, North Carolina and California to adequately meet demand for several months or slightly longer with an additional month's worth of demand available for immediate shipment from our warehouses in Asia. We believe that we could, most likely at higher cost, source most of the products currently sourced in Vietnam or China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for up to six months before the impact of remedial measures would be reflected in our results. If we were to be unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain from our largest import furniture suppliers, or from Vietnam or China in general, could adversely affect our sales, earnings, financial condition and liquidity.

## **ITEM 7A. 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**

In conjunction with the Shenandoah acquisition, we entered into new financing arrangements as described in "Note 13 Long-Term Debt" included in Part II, Item 8. "Financial Statements" of this Form 10-K. Borrowings under the 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 February 2, 2020, other than standby letters of credit in the amount of \$4.3 million. However, as of February 2, 2020, \$30.1 million was outstanding under our term loans. A 1% increase in the LIBOR rate would result in an annual increase in interest expense on our term loans of approximately \$270,000.

### **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.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements listed in Item 15(a), and which begin on page F-5, of this report are incorporated herein by reference and are filed as a part of this report.

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

None.

## **ITEM 9A. 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 February 2, 2020. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of February 2, 2020, the end of the period covered by this annual report, 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.

### **Management's Report on Internal Control over Financial Reporting**

In accordance with Section 404 of the Sarbanes-Oxley Act and SEC rules thereunder, management has conducted an assessment of our internal control over financial reporting as of February 2, 2020, based on the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's report regarding that assessment is included on page F-2 of this report, with our consolidated financial statements, and is incorporated herein by reference.

### **Report of Registered Public Accounting Firm**

Our independent registered public accounting firm, KPMG LLP, audited the consolidated financial statements included in this annual report on Form 10-K and has issued an audit report on the effectiveness of our internal control over financial reporting. KPMG's report is included on page F-3 and F-4 of this report, with our consolidated financial statements, and is incorporated herein by reference.

### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the fiscal quarter ended February 2, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **ITEM 9B. OTHER INFORMATION**

None.

**Hooker Furniture Corporation**  
**Part III**

In accordance with General Instruction G (3) of Form 10-K, most of the information called for by Items 10, 11, 12, 13 and 14 of Part III will be incorporated by reference to the Company's definitive Proxy Statement for its Annual Meeting of Shareholders scheduled to be held June 11, 2020 (the "2020 Proxy Statement"), as set forth below.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information relating to our directors will be set forth under the caption "Proposal One-Election of Directors" in the 2020 Proxy Statement and is incorporated herein by reference.

Information relating to our executive officers is included in Part I of this report under the caption "Information about our Executive Officers" and is incorporated herein by reference.

Information relating to compliance with Section 16(a) of the Exchange Act will be set forth under the caption "Delinquent Section 16(a) Reports" in the 2020 Proxy Statement and is incorporated herein by reference.

Information relating to the code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions will be set forth under the caption "Code of Business Conduct and Ethics" in the 2020 Proxy Statement and is incorporated herein by reference.

Information relating to material changes, if any, in the procedures by which shareholders may recommend nominees for our Board of Directors will be set forth under the caption "Procedures for Shareholder Recommendations of Director Nominees" in the 2020 Proxy Statement and is incorporated herein by reference.

Information relating to the Audit Committee of our Board of Directors, including the composition of the Audit Committee and the Board's determinations concerning whether certain members of the Audit Committee are "financial experts" as that term is defined under Item 407(d)(5) of Regulation S-K will be set forth under the captions "Corporate Governance" and "Audit Committee" in the 2020 Proxy Statement and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

Information relating to this item will be set forth under the captions "Report of the Compensation Committee," "Executive Compensation" and "Director Compensation" in the 2020 Proxy Statement and is incorporated herein by reference.

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

Information relating to this item will be set forth under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" in the 2020 Proxy Statement and is incorporated herein by reference.

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

Information relating to this item will be set forth in the last two paragraphs under the caption "Audit Committee" and the caption "Corporate Governance" in the 2020 Proxy Statement and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information relating to this item will be set forth under the caption "Proposal Three- Ratification of Selection of Independent Registered Public Accounting Firm" in the 2020 Proxy Statement and is incorporated herein by reference.

**Hooker Furniture Corporation**  
**Part IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Documents filed as part of this report on Form 10-K:

(1) The following reports and financial statements are included in this report on Form 10-K:

Management's Report on Internal Control Over Financial Reporting

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of February 2, 2020 and February 3, 2019

Consolidated Statements of Income for the fifty-two-week period ended February 2, 2020, the fifty-three-week period ended February 3, 2019 and the fifty-two-week period ended January 28, 2018

Consolidated Statements of Comprehensive Income for the fifty-two-week period ended February 2, 2020, the fifty-three-week period ended February 3, 2019 and the fifty-two-week period ended January 28, 2018

Consolidated Statements of Cash Flows for the fifty-two-week period ended February 2, 2020, the fifty-three-week period ended February 3, 2019 and the fifty-two-week period ended January 28, 2018

Consolidated Statements of Shareholders' Equity for the fifty-two-week period ended February 2, 2020, the fifty-three-week period ended February 3, 2019 and the fifty-two-week period ended January 28, 2018

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

Financial Statement Schedules have been omitted because the information required has been separately disclosed in the consolidated financial statements or related notes.

(b) Exhibits:

2.1 Asset Purchase Agreement, dated as of September 6, 2017, by and among Hooker Furniture Corporation, Shenandoah Furniture Corporation, Gideon C. Huddle and Candace H. Payne (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K (SEC File No. 000-25349) filed on September 29, 2017)

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 of the Company's Form 10-K (SEC File No. 000-25349) for the fiscal year ended February 2, 2014)

4.1 Amended and Restated Articles of Incorporation of the Company (See Exhibit 3.1)

4.2 Amended and Restated Bylaws of the Company (See Exhibit 3.2)

4.3 Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (filed herewith).

Pursuant to Regulation S-K, Item 601(b)(4)(iii), instruments, if any, evidencing long-term debt not exceeding 10% of the Company's total assets have been omitted and will be furnished to the Securities and Exchange Commission upon request.



- 10.1(a) Form of Executive Life Insurance Agreement dated December 31, 2003, between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 29, 2004)\*
- 10.1(b) Form of Outside Director Restricted Stock Agreement (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on January 17, 2006)\*
- 10.1(c) 2015 Amendment and Restatement of the Hooker Furniture Corporation Stock Incentive Plan (incorporated by reference to Appendix A of the Company's Definitive Proxy Statement dated March 1, 2015 (SEC File No. 000-25349))\*
- 10.1(d) 2010 Amended and Restated Hooker Furniture Corporation Supplemental Retirement Income Plan, dated as of June 8, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended October 31, 2010)\*
- 10.1(e) Form of Time-Based Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on February 13, 2012)\*
- 10.1(f) Form of Performance Grant Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on February 13, 2012)\*
- 10.1(i) Employment Agreement, dated June 4, 2018, between Anne Jacobsen and the Company (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)\*
- 10.1(j) Employment Agreement, dated June 25, 2018, between Donald Lee Boone and the Company (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)\*
- 10.1(k) Employment Agreement, dated June 4, 2018, between Jeremy Hoff and the Company (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)\*
- 10.1(l) Employment Agreement, dated June 4, 2018, between Douglas Townsend and the Company (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)\*
- 10.1(m) Form of Performance Share Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on May 11, 2018)\*
- 10.1 First Amendment to the 2010 Amended and Restated Hooker Furniture Corporation Supplemental Retirement Income plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed with the SEC on November 15, 2019)
- 10.2(a) Security Agreement (Assignment of Life Insurance Policy as Collateral), dated as of February 1, 2016, between Bank of America, N.A. and the Company (incorporated by referenced to Exhibit 10.2 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on February 2, 2016)
- 10.2(b) Second Amended and Restated Loan Agreement, dated as of September 29, 2017, between Bank of America, N.A. and Hooker Furniture Corporation, Bradington-Young, LLC, Sam Moore Furniture LLC and Home Meridian Group, LLC (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K (SEC File No. 000-25349) filed on September 29, 2017)
- 10.2(c) First Amendment to Second Amended and Restated Loan Agreement, dated as of February 1, 2019, between Bank of America, N.A. and Hooker Furniture Corporation, Bradington-Young, LLC, Sam Moore Furniture LLC and Home Meridian Group, LLC. (incorporated by reference to Exhibit 10.2(d) of the Company's Form 10-K (SEC File No. 000-25349) filed on April 19, 2019)

- 21 List of Subsidiaries:  
Bradington-Young LLC, a North Carolina limited liability company  
Home Meridian Group, LLC, a Virginia limited liability company  
Sam Moore Furniture LLC, a Virginia limited liability company
- 23 Consent of Independent Registered Public Accounting Firm (filed herewith)
- 31.1 Rule 13a-14(a) Certification of the Company’s principal executive officer (filed herewith)
- 31.2 Rule 13a-14(a) Certification of the Company’s principal financial officer (filed herewith)
- 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 (furnished herewith)
- 101 The following financial statements from the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2020, formatted in Extensible Business Reporting Language (“XBRL”): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of cash flows, (v) consolidated statements of shareholders’ equity and (vi) the notes to the consolidated financial statements, tagged as blocks of text (filed herewith)

\*Management contract or compensatory plan

**ITEM 16. FORM 10-K SUMMARY**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

April 17, 2020

By: /s/ Paul B. Toms, Jr. \_\_\_\_\_

Paul B. Toms, Jr.  
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Paul B. Toms, Jr.</u> Paul B. Toms, Jr.	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	April 17, 2020
<u>/s/ Paul A. Huckfeldt</u> Paul A. Huckfeldt	Senior Vice President - Finance and Accounting and Chief Financial Officer (Principal Financial and Accounting Officer)	April 17, 2020
<u>/s/ W. Christopher Beeler, Jr.</u> W. Christopher Beeler, Jr.	Director	April 17, 2020
<u>/s/ Paulette Garafalo</u> Paulette Garafalo	Director	April 17, 2020
<u>/s/ John L. Gregory, III</u> John L. Gregory, III	Director	April 17, 2020
<u>/s/ Tonya H. Jackson</u> Tonya H. Jackson	Director	April 17, 2020
<u>/s/ E. Larry Ryder</u> E. Larry Ryder	Director	April 17, 2020
<u>/s/ Ellen C. Taaffe</u> Ellen C. Taaffe	Director	April 17, 2020
<u>/s/ Henry G. Williamson, Jr.</u> Henry G. Williamson, Jr.	Director	April 17, 2020

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**  
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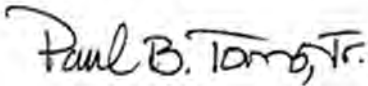
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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders of  
Hooker Furniture Corporation  
Martinsville, Virginia

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of February 2, 2020.

The effectiveness of the Company's internal control over financial reporting as of February 2, 2020 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report which is included herein.



Paul B. Toms, Jr.  
Chairman and Chief Executive Officer  
(Principal Executive Officer)  
April 17, 2020



Paul A. Huckfeldt  
Senior Vice President – Finance and Accounting  
and Chief Financial Officer  
(Principal Financial and Accounting Officer)  
April 17, 2020

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Hooker Furniture Corporation:

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Hooker Furniture Corporation and subsidiaries (the Company) as of February 2, 2020 and February 3, 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended February 2, 2020, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 2, 2020 and February 3, 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended February 2, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 2, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 17, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for revenue due to the adoption of Accounting Standards Codification 606, Revenue from Contracts with Customers.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2003.

Raleigh, North Carolina  
April 17, 2020

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Hooker Furniture Corporation:

### Opinion on Internal Control Over Financial Reporting

We have audited Hooker Furniture Corporation and subsidiaries' (the Company) internal control over financial reporting as of February 2, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 2, 2020, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of February 2, 2020 and February 3, 2019, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended February 2, 2020, and the related notes (collectively, the consolidated financial statements), and our report dated April 17, 2020 expressed an unqualified opinion on those consolidated financial statements.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

### Definition and Limitations of Internal Control Over Financial Reporting

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

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

/S/ KPMG LLP

Raleigh, North Carolina  
April 17, 2020

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands)

As of	February 2, 2020	February 3, 2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 36,031	\$ 11,435
Trade accounts receivable, net (See notes 6 and 7)	87,653	112,557
Inventories (see note 8)	92,813	105,204
Income tax recoverable	751	-
Prepaid expenses and other current assets	4,719	5,735
Total current assets	<u>221,967</u>	<u>234,931</u>
Property, plant and equipment, net (See note 9)	29,907	29,482
Cash surrender value of life insurance policies (See note 11)	24,888	23,816
Deferred taxes (See note 17)	2,880	4,522
Operating leases right-of-use assets (See note 12)	39,512	-
Intangible assets, net (See note 10)	33,371	35,755
Goodwill (See notes 4 and 10)	40,058	40,058
Other assets	1,125	1,152
Total non-current assets	<u>171,741</u>	<u>134,785</u>
Total assets	<u>\$ 393,708</u>	<u>\$ 369,716</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Current portion of term loans	\$ 5,834	\$ 5,829
Trade accounts payable	25,493	40,838
Accrued salaries, wages and benefits	4,933	8,002
Income tax accrual (See note 17)	-	3,159
Customer deposits	3,351	3,023
Current portion of lease liabilities	6,307	-
Other accrued expenses	4,211	3,564
Total current liabilities	<u>50,129</u>	<u>64,415</u>
Long term debt (See note 13)	24,282	29,628
Deferred compensation (See note 14)	11,382	11,513
Lease liabilities	33,794	-
Other liabilities	-	984
Total long-term liabilities	<u>69,458</u>	<u>42,125</u>
Total liabilities	<u>119,587</u>	<u>106,540</u>
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, 11,838 and 11,785 shares issued and outstanding on each date	51,582	49,549
Retained earnings	223,252	213,380
Accumulated other comprehensive (loss) income	(713)	247
Total shareholders' equity	<u>274,121</u>	<u>263,176</u>
Total liabilities and shareholders' equity	<u>\$ 393,708</u>	<u>\$ 369,716</u>

See accompanying Notes to Consolidated Financial Statements.



**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)

**For the 52 Week Period Ended February 2, 2020, the 53 Week Period Ended February 3, 2019 and the 52 Week Period Ended January 28, 2018.**

	2020	2019	2018
Net sales	\$ 610,824	\$ 683,501	\$ 620,632
Cost of sales	496,866	536,014	485,815
Casualty loss	-	500	-
Gross profit	113,958	146,987	134,817
Selling and administrative expenses	88,867	91,928	87,279
Intangible asset amortization	2,384	2,384	2,084
Operating income	22,707	52,675	45,454
Other income, net	458	369	1,566
Interest expense, net	1,238	1,454	1,248
Income before income taxes	21,927	51,590	45,772
Income taxes	4,844	11,717	17,522
Net income	<u>\$ 17,083</u>	<u>\$ 39,873</u>	<u>\$ 28,250</u>
Earnings per share:			
Basic	<u>\$ 1.44</u>	<u>\$ 3.38</u>	<u>\$ 2.42</u>
Diluted	<u>\$ 1.44</u>	<u>\$ 3.38</u>	<u>\$ 2.42</u>
Weighted average shares outstanding:			
Basic	<u>11,784</u>	<u>11,759</u>	<u>11,633</u>
Diluted	<u>11,838</u>	<u>11,783</u>	<u>11,663</u>
Cash dividends declared per share	<u>\$ 0.61</u>	<u>\$ 0.57</u>	<u>\$ 0.50</u>

See accompanying Notes to Consolidated Financial Statements.

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

**For the 52 Week Period Ended February 2, 2020, the 53 Week Period Ended February 3, 2019 and the 52 Week Period Ended January 28, 2018.**

	2020	2019	2018
Net Income	\$ 17,083	\$ 39,873	\$ 28,250
Other comprehensive income (loss):			
Gain on pension plan settlement	(520)	-	-
Income tax effect on settlement	124	-	-
Amortization of actuarial (loss) gain	(740)	(305)	(144)
Income tax effect on amortization	176	73	26
Adjustments to net periodic benefit cost	(960)	(232)	(118)
Reclassification of tax effects due to the adoption of ASU 2018-02	-	111	-
Total Comprehensive Income	<u>\$ 16,123</u>	<u>\$ 39,752</u>	<u>\$ 28,132</u>

See accompanying Notes to Consolidated Financial Statements.

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

For the 52 Week Period Ended February 2, 2020, the 53 Week Period Ended February 3, 2019 and the 52 Week Period Ended January 28, 2018.

	2020	2019	2018
<b>Operating Activities:</b>			
Net income	\$ 17,083	\$ 39,873	\$ 28,250
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,100	7,442	6,647
Gain on pension settlement	(520)	-	-
(Gain)/Loss on disposal of assets	(271)	(73)	571
Proceeds from Casualty Loss	-	409	-
Deferred income tax expense (benefit)	1,940	(1,221)	4,110
Non-cash restricted stock and performance awards	1,296	1,284	1,175
Provision for doubtful accounts and sales allowances	(435)	(799)	(531)
Gain on life insurance policies	(831)	(748)	(582)
Changes in assets and liabilities:			
Trade accounts receivable	25,339	(17,982)	2,908
Inventories	12,391	(21,323)	(6,776)
Income tax recoverable	(751)	-	-
Prepaid expenses and other current assets	(557)	267	(1,067)
Trade accounts payable	(15,349)	8,130	(4,623)
Accrued salaries, wages and benefits	(3,070)	(1,643)	129
Accrued income taxes	(3,159)	(672)	(612)
Customer deposits	328	(1,270)	(339)
Operating lease liabilities	299	-	-
Other accrued expenses	645	604	(696)
Deferred compensation	(49)	(2,757)	(1,151)
Other long-term liabilities	-	141	333
Net cash provided by operating activities	<u>41,429</u>	<u>9,662</u>	<u>27,746</u>
<b>Investing Activities:</b>			
Acquisitions	-	-	(32,773)
Purchases of property, plant and equipment	(5,129)	(5,214)	(3,166)
Proceeds received on notes receivable	1,449	119	120
Proceeds from sale of property and equipment	16	11	9
Premiums paid on life insurance policies	(590)	(652)	(673)
Proceeds received on life insurance policies	-	1,225	-
Net cash used in investing activities	<u>(4,254)</u>	<u>(4,511)</u>	<u>(36,483)</u>
<b>Financing Activities:</b>			
Proceeds from long-term debt	-	-	12,000
Payments for long-term debt	(5,368)	(17,917)	(6,285)
Debt issuance cost	-	-	(39)
Cash dividends paid	(7,211)	(6,714)	(5,816)
Net cash used in financing activities	<u>(12,579)</u>	<u>(24,631)</u>	<u>(140)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>24,596</b>	<b>(19,480)</b>	<b>(8,877)</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>11,435</b>	<b>30,915</b>	<b>39,792</b>
<b>Cash and cash equivalents at the end of year</b>	<b><u>\$ 36,031</u></b>	<b><u>\$ 11,435</u></b>	<b><u>\$ 30,915</u></b>
<i>Supplemental schedule of cash flow information:</i>			
Interest paid, net	\$ 993	\$ 1,338	\$ 1,135
Income taxes paid, net	6,818	13,613	14,122
<i>Supplemental schedule of noncash investing activities:</i>			
Acquisition cost paid in common stock	\$ -	\$ -	8,396
Increase in lease liabilities arising from obtaining right-of-use assets	625	-	-
Increase in property and equipment through accrued purchases	5	23	58

See accompanying Notes to Consolidated Financial Statements.

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(In thousands, except per share data)

For the 52 Week Period Ended February 2, 2020, the 53 Week Period Ended February 3, 2019 and the 52 Week Period Ended January 28, 2018.

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Total Shareholders' Equity
Balance at January 29, 2017	11,563	\$ 39,753	\$ 157,688	\$ 486	\$ 197,927
Net income			28,250		28,250
Unrealized loss on defined benefit plan, net of tax of \$26				(118)	(118)
Cash dividends paid and accrued (\$0.50 per share)			(5,816)		(5,816)
Stock issued for acquisition	176	8,396			8,396
Restricted stock grants, net of forfeitures	23	432			432
Restricted stock compensation cost		389			389
Balance at January 28, 2018	11,762	\$ 48,970	\$ 180,122	\$ 368	\$ 229,460
Net income			\$ 39,873		\$ 39,873
Prior year adjustment for ASU 2014-09 and 2018-02			99	\$ 111	210
Unrealized loss on defined benefit plan, net of tax of \$73				\$ (232)	(232)
Cash dividends paid and accrued (\$0.57 per share)			(6,714)		(6,714)
Restricted stock grants, net of forfeitures	23	\$ (30)			(30)
Restricted stock compensation cost		\$ 609			609
Balance at February 3, 2019	11,785	\$ 49,549	\$ 213,380	\$ 247	\$ 263,176
<b>Net income</b>			<b>\$ 17,083</b>		<b>\$ 17,083</b>
<b>Gain on pension settlement, net of tax of \$124</b>				<b>\$ (396)</b>	<b>(396)</b>
<b>Unrealized loss on defined benefit plan, net of tax of \$176</b>				<b>\$ (564)</b>	<b>(564)</b>
<b>Cash dividends paid and accrued (\$0.61 per share)</b>			<b>(7,211)</b>		<b>(7,211)</b>
<b>Restricted stock grants, net of forfeitures</b>	<b>53</b>	<b>\$ 344</b>			<b>344</b>
<b>Restricted stock compensation cost</b>		<b>\$ 790</b>			<b>790</b>
<b>Recognition of PSUs as equity-based awards</b>		<b>\$ 899</b>			<b>899</b>
<b>Balance at February 2, 2020</b>	<b>11,838</b>	<b>\$ 51,582</b>	<b>\$ 223,252</b>	<b>\$ (713)</b>	<b>\$ 274,121</b>

See accompanying Notes to Consolidated Financial Statements.

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollar and share amounts in tables, except per share amounts, in thousands unless otherwise indicated)  
For the Fifty-Two Weeks Ended February 2, 2020

**NOTE 1 – RECENTLY ADOPTED ACCOUNTING STANDARDS**

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“Topic 842”), which requires lessees to recognize lease right-of-use assets and liabilities on-balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. We adopted Topic 842 standard on February 4, 2019 and used the effective date transition method. As a result, our condensed consolidated balance sheets prior to February 4, 2019 were not restated and continue to be reported under previous guidance that did not require the recognition of lease liabilities and corresponding lease assets on the condensed consolidated balance sheets. In addition, we have elected the package of practical expedients, which allowed us not to reassess prior conclusions related to the expired or existing leases, and not to reassess the accounting for initial direct costs. As a result of the adoption of Topic 842, we have operating lease right-of-use assets of \$39.5 million and operating lease liabilities of \$40.1 million as of February 2, 2020. The adoption of Topic 842 did not have a material impact on our condensed consolidated statements of income and condensed consolidated statement of cash flows for the fiscal 2020. See Note 12 for additional information and disclosures required by Topic 842.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). This new standard replaced most existing revenue recognition guidance in 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. We adopted ASU No. 2014-09 as of January 29, 2018 using the modified retrospective method. As a result of adopting Topic 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.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Business**

Hooker Furniture Corporation and subsidiaries (the “Company,” “we,” “us” and “our”) design, import, manufacture and market residential household furniture, hospitality and contract furniture for sale to wholesale and retail merchandisers located principally in North America.

**Consolidation**

The consolidated financial statements include the accounts of Hooker Furniture Corporation and our wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. All references to the Company refer to the Company and our consolidated subsidiaries, unless specifically referring to segment information.

**Operating Segments**

As a public 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.

For financial reporting purposes, we are organized into three operating 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;
- **Domestic Upholstery**, which includes the domestic upholstery manufacturing operations of Bradington-Young, Sam Moore and Shenandoah Furniture; and
- **All Other**, consisting of H Contract and Lifestyle Brands. Neither of these operating segments were individually reportable; therefore, we combined them in “All Other” in accordance with ASC 280.

### **Cash and Cash Equivalents**

We consider cash on hand, demand deposits in banks and all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

### **Trade Accounts Receivable**

Accounts receivable are reported net of the allowance for doubtful accounts and sales-related allowances. Substantially all of our trade accounts receivable are due from retailers and dealers that sell residential home furnishings or commercial purchasers of our hospitality and senior living products, and consist of a large number of entities with a broad geographic dispersion. We perform credit evaluations of our customers and generally do not require collateral. 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. In the event a receivable is determined to be potentially uncollectible, we engage collection agencies or law firms to attempt to collect amounts owed to us after all internal collection attempts have ended. Once we have determined the receivable is uncollectible, it is charged against the allowance for doubtful accounts.

### **Business Combinations-Purchase Price Allocation**

For business combinations, we allocate the purchase price to the various tangible and intangible assets acquired and liabilities assumed, based on their estimated fair values. Determining the fair value of certain assets and liabilities acquired is subjective in nature and often involves the use of significant estimates and assumptions, which are inherently uncertain. Many of the estimates and assumptions used to determine fair values, such as those used for intangible assets, are made based on forecasted information and discount rates. To assist in the purchase price allocation process, as well as the estimate of remaining useful lives of acquired assets, we may engage a third-party appraisal firm. In addition, the judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact our results of operations.

### **Fair Value Measurements**

We utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. We determine fair value based on assumptions that we believe market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- **Level 1 Inputs:** Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- **Level 2 Inputs:** Observable inputs other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- **Level 3 Inputs:** Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

## **Fair Value of Financial Instruments**

The carrying value of certain of our financial instruments (cash and cash equivalents, trade accounts receivable and payable, and accrued liabilities) approximates fair value because of the short-term nature of those instruments. The carrying value of Company-owned life insurance is marked to market each reporting period and any change in fair value is reflected in income for that period. See Note 11 for details.

## **Inventories**

All inventories are stated at the lower of cost, or market value, with cost determined using the last-in, first-out (LIFO) method.

## **Property, Plant and Equipment**

Property, plant and equipment are stated at cost, less allowances for depreciation. Provision for depreciation has been computed at annual rates using straight-line or declining balance depreciation methods that will amortize the cost of the depreciable assets over their estimated useful lives.

## **Leases**

Leases are classified as either finance leases or operating leases based on criteria in Topic 842. All of our current leases are classified as operating leases. We do not currently have finance leases but could in the future.

Operating lease right-of-use ("ROU") assets and liabilities are recognized on the adoption date based on the present value of lease payments over the remaining lease term. As interest rates are not explicitly stated or implicit in any of our leases, we utilized our incremental borrowing rate at the adoption date of February 4, 2019. For leases without explicitly stated or implicit interest rates that commenced after the adoption date, we use our incremental borrowing rate which was one-month LIBOR at the lease commencement date plus 1.5%. ROU assets also include any lease payments made and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

At the inception of a lease, we allocate the consideration in the contract to each lease and non-lease component based on the component's relative stand-alone price to determine the lease payments. Lease and non-lease components are accounted for separately. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Included in lease expense are any variable lease payments incurred in the period that were not included in the initial lease liability. Some of our real estate leases contain variable lease payments, including payments based on the percentage increase in the Consumer Price Index for Urban Consumers ("CPI-U"). We used February 2019 CPI-U issued by the US Department of Labor's Bureau of Labor Statistics to measure lease payments and calculate lease liabilities upon adoption of this standard. Additional payments based on the change in an index or rate, or payments based on a change in our portion of the operating expenses, including real estate taxes and insurance, are recorded when incurred.

We have a sub-lease at one of our warehouses. In accordance with the provisions of Topic 842, since we have not been relieved as the primary obligor of the warehouse lease, we cannot net the sublease income against our lease payment to calculate the lease liability and ROU asset. Our practice has been, and we will continue to, straight-line the sub-lease income over the term of the sublease.

Our leases have remaining lease terms of less than one year to seven years, some of which include options to extend the leases for up to seven years. We have elected not to recognize ROU assets and lease liabilities that arise from short term leases for any class of underlying asset. Short term leases are leases with lease terms of 12 months or less with either (a) no renewal option or (b) a renewal option which we are not reasonably certain to exercise.

## **Impairment of Long-Lived Assets**

Long-lived assets, such as property, plant and equipment and definite-lived assets, are evaluated for impairment annually or more frequently when events or changes in circumstances indicate that the carrying amount of the assets or asset groups may not be recoverable through the estimated undiscounted future cash flows from the use of those assets. When any such impairment exists, the related assets are written down to fair value. Long-lived assets subject to disposal by sale are measured at the lower of their carrying amount or fair value less estimated cost to sell, are no longer depreciated, and are reported separately as "assets held for sale" in the consolidated balance sheets.

## **Intangible Assets and Goodwill**

We own both definite-lived (amortizable) assets and indefinite-lived intangible assets. Our amortizable intangible assets are related to the Shenandoah and Home Meridian acquisitions and includes customer relationships and trademarks. Our indefinite lived assets include goodwill related to the Shenandoah and Home Meridian acquisitions, as well as the Bradington-Young and Sam Moore tradenames. We may acquire additional amortizable assets and/or indefinite lived intangible assets in the future. Our indefinite-lived intangible assets are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired.

Our goodwill, trademarks and trade names are tested for impairment annually as of the first day of our fourth quarter or more frequently if events or changes in circumstances indicate that the asset might be impaired. Circumstances that could indicate a potential impairment include, but are not limited to:

- a significant adverse change in the economic or business climate either within the furniture industry or the national or global economy;
- significant changes in demand for our products;
- loss of key personnel; and
- the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise subject to disposal.

The assumptions used to determine the fair value of our intangible assets are highly subjective and judgmental and include long-term growth rates, sales volumes, projected revenues, assumed royalty rates and factors used to develop an applied discount rate. If the assumptions that we use in these calculations differ from actual results, we may realize additional impairment on our intangible assets that may have a material-adverse effect on our results of operations and financial condition.

## **Cash Surrender Value of Life Insurance Policies**

We own 78 life insurance policies on certain of our current and former executives and other key employees. These policies had a carrying value of \$24.9 million at February 2, 2020 and have a face value of approximately \$54 million as of that date. Proceeds from the policies are used to fund certain employee benefits and for other general corporate purposes. We account for life insurance as a component of employee benefits cost. Consequently, the cost of the coverage and any resulting gains or losses related to those insurance policies are recorded as a decrease or increase to operating income. Cash payments that increase the cash surrender value of these policies are classified as investing outflows on the Consolidated Statements of Cash Flows, with amounts paid in excess of the increase in cash surrender value included in operating activities. Gains on life insurance policies, which typically occur at the time a policy is redeemed, are included in the reconciliation of net income to net cash used in or provided by operating activities. Substantially all of the cash value of our company owned life insurance is pledged as collateral for our secured term loan.

## **Revenue Recognition**

We recognize revenue pursuant to Accounting Standards Codification 606, which requires revenue to be recognized 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. 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. Orders are generally non-cancellable once loaded into a shipping trailer or container.

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.



Net sales are comprised of gross revenues from sales of home furnishings and hospitality furniture products and are recorded net of allowances for trade promotions, estimated product returns, rebate advertising programs and other discounts. Physical product returns are very rare due to the high probability of damages to our products in return transit. 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.

### **Cost of Sales**

The major components of cost of sales are:

- the cost of imported products purchased for resale;
- raw materials and supplies used in our domestically manufactured products;
- labor and overhead costs associated with our domestically manufactured products;
- the cost of our foreign import operations;
- charges associated with our inventory reserves;
- warehousing and certain shipping and handling costs; and
- all other costs required to be classified as cost of sales.

### **Selling and Administrative Expenses**

The major components of our selling and administrative expenses are:

- the cost of our marketing and merchandising efforts, including showroom expenses;
- sales and design commissions;
- the costs of administrative support functions including, executive management, information technology, human resources and finance; and
- all other costs required to be classified as selling and administrative expenses.

### **Advertising**

We offer advertising programs to qualified dealers under which we may provide signage, catalogs and other marketing support to our dealers and may reimburse some advertising and other costs incurred by our dealers in connection with promoting our products. The cost of these programs does not exceed the fair value of the benefit received. We charge the cost of point-of-purchase materials (including signage, catalogs, and fabric and leather swatches) to selling and administrative expense as incurred. Advertising costs charged to selling and administrative expense for fiscal years 2020, 2019 and 2018 were \$3.4 million, \$3.3 million, and \$3.0 million, respectively. The costs for other advertising allowance programs are charged against net sales. We also have arrangements with some dealers to reimburse them for a portion of their advertising costs, which provides advertising benefits to us. Costs for these arrangements are expensed as incurred and are netted against net sales in our consolidated statements of income and comprehensive income.

### **Income Taxes**

At times, tax law and generally accepted accounting principles differ in the treatment of certain income and expense items. These items may be excluded or included in taxable income at different times than is required for GAAP or “book” reporting purposes. These differences may be permanent or temporary in nature.

We determine our annual effective income tax rate based on pre-tax book income and permanent book and tax differences.

To the extent any book and tax differences are temporary in nature, that is, the book realization will occur in a different period than the tax realization, a deferred tax asset or liability is established. To the extent a deferred tax asset is created, we evaluate our ability to realize this asset. If we determine that we will not be able to fully utilize deferred tax assets, we establish a valuation reserve. In assessing the realization of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is primarily dependent upon the generation of future taxable income during the periods in which those temporary differences reverse. All deferred tax assets and liabilities are classified as non-current on our consolidated balance sheets.

## Earnings Per Share

We use the two-class method to compute basic earnings per share. Under this method we allocate earnings to common shares and participating securities according to their participation rights in dividends declared and undistributed earnings and divide the income available to each class by the weighted average number of common shares for the period in each class. Unvested restricted stock grants made to our non-employee directors and certain employees are considered participating securities because the shares have the right to receive non-forfeitable dividends. Because the participating shares have no obligation to share in net losses, we do not allocate losses to our common shares in this calculation.

Diluted earnings per share reflect the potential dilutive effect of securities that could share in our earnings. Restricted stock awarded to non-employee directors and certain employees and restricted stock units granted to employees that have not yet vested are considered when computing diluted earnings per share. We use the treasury stock method to determine the dilutive effect of both unvested restricted stock and unvested restricted stock units. Shares of unvested restricted stock and unvested restricted stock units under a stock-based compensation arrangement are considered options for purposes of computing diluted earnings per share and are considered outstanding shares as of the grant date for purposes of computing diluted earnings per share even though their exercise may be contingent upon vesting. Those stock-based awards are included in the diluted earnings per share computation even if the non-employee director may be required to forfeit the stock at some future date, or no shares may ever be issued to the employees. Unvested restricted stock and unvested restricted stock units are not included in outstanding common shares in computing basic earnings per share.

## Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of: (i) assets and liabilities, including disclosures regarding contingent assets and liabilities at the dates of the financial statements; and (ii) revenue and expenses during the reported periods. Significant items subject to such estimates and assumptions include useful lives of fixed and intangible assets; allowance for doubtful accounts; deferred tax assets; the valuation of fixed assets and goodwill; our pension and supplemental retirement income plans; and stock-based compensation. These estimates and assumptions are based on our best judgments. We evaluate these estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which we believe to be reasonable under the circumstances. We adjust our estimates and assumptions as facts and circumstances dictate. Actual results could differ from our estimates.

## NOTE 3 – FISCAL YEAR

Our fiscal years end on the Sunday closest to January 31. In some years, generally once every six years, the fourth quarter will be fourteen weeks long and the fiscal year will consist of fifty-three weeks. The 2019 fiscal year that ended on February 3, 2019 was a 53-week fiscal year. Our quarterly periods are based on thirteen-week “reporting periods,” which end on Sundays. As a result, each quarterly period generally will be thirteen weeks, or 91 days long, except during a 53-week fiscal year which will have 14 weeks in the fourth quarter.

In the notes to the consolidated financial statements, references to the:

- 2020 fiscal year and comparable terminology mean the fiscal year that began February 4, 2019 and ended February 2, 2020;
- 2019 fiscal year and comparable terminology mean the fiscal year that began January 29, 2018 and ended February 3, 2019;
- and
- 2018 fiscal year and comparable terminology mean the fiscal year that began January 30, 2017 and ended January 28, 2018.

#### NOTE 4 – SHENANDOAH ACQUISITION

On September 29, 2017, we completed the previously announced acquisition (the “Shenandoah acquisition”) of substantially all of the assets of Shenandoah Furniture, Inc. (“SFI”) pursuant to the Asset Purchase Agreement the Company and SFI entered into on September 6, 2017 (the “Asset Purchase Agreement”). Upon completion and including post-closing working capital adjustments, the Company paid \$32.8 million in cash (the “Cash Consideration”) and issued 176,018 shares of the Company’s common stock (the “Stock Consideration”) to the shareholders of SFI as consideration for the Shenandoah acquisition. The Cash Consideration included an additional payment of approximately \$770,000 pursuant to working capital adjustments provided for in the Asset Purchase Agreement. The number of shares of common stock issued at closing for the Stock Consideration was determined by reference to the mean closing price of the Company’s common stock for the ten trading days immediately preceding the business day preceding the closing date (\$45.45). Under the Asset Purchase Agreement, we also assumed certain assets and liabilities of SFI. The assumed liabilities did not include the indebtedness (as defined in the Asset Purchase Agreement) of SFI.

Also on September 29, 2017, we entered into a second amended and restated loan agreement (the “Loan Agreement”) with Bank of America, N.A. (“BofA”) in connection with the completion of the Shenandoah acquisition. The Loan Agreement amends and restates the amended and restated loan agreement the Company entered into with BofA on February 1, 2016, in connection with its acquisition of substantially all of the assets of Home Meridian International, Inc. The Amended and Restated Loan Agreement provides us with a new \$12 million unsecured term loan (the “New Unsecured Term Loan”). On September 29, 2017, we borrowed the full \$12 million available under the New Unsecured Term Loan in connection with the completion of the Shenandoah acquisition. For additional details regarding the Loan Agreement, see Note 13. “Long-Term Debt,” below.

In accordance with FASB Accounting Standards Codification Topic 805, “Business Combinations” (“ASC 805”), the Shenandoah acquisition has been accounted for using the acquisition method of accounting. We recorded assets acquired, including identifiable intangible assets, and liabilities assumed, from SFI at their respective fair values at the date of completion of the acquisition. The excess of the purchase price over the net fair value of such assets and liabilities was recorded as goodwill.

The following table summarizes the estimates of the fair values of the identifiable assets acquired and liabilities assumed in the Shenandoah acquisition as of September 29, 2017.

Purchase price consideration	
Cash paid for assets acquired, including working capital adjustment	\$ 32,773
Value of shares issued for assets acquired	8,000
Fair value adjustment to shares issued for assets acquired*	396
Total purchase price	<u>\$ 41,169</u>
Fair value estimates of assets acquired and liabilities assumed	
Accounts receivable	\$ 3,576
Inventory	2,380
Prepaid expenses and other current assets	52
Property and equipment	5,401
Intangible assets	14,300
Goodwill	16,871
Accounts payable	(699)
Accrued expenses	(712)
Total purchase price	<u>\$ 41,169</u>

\*As provided by the Asset Purchase Agreement, we calculated the number of common shares issued to SFI by dividing \$8 million by the mean closing price of our common stock for the ten trading days immediately preceding the business day immediately preceding the closing date (\$45.45). However, U.S. Generally Accepted Accounting Standards provide that we value stock consideration exchanged in the Shenandoah acquisition at fair value. Consequently, we adjusted the purchase price by \$396,000, which represents the difference in the mean closing price of the Company’s common stock for the ten trading days immediately preceding the business day preceding the closing date (\$45.45) and the price on September 29, 2017, multiplied by the number of common shares issued (176,018.) No additional consideration was transferred to SFI as a result of this adjustment.

During the fiscal 2018 fourth quarter, we paid \$123,000 cash for the post-closing working capital adjustment which increased the purchase price by that same amount. Additionally, we (i) refined our estimates of the values of certain intangible assets which increased intangible assets by \$1.1 million, (ii) recorded additional accrued expenses of \$123,000 and (iii) decreased property and equipment by \$17,000. These adjustments decreased goodwill by \$774,000.

Property and equipment were recorded at fair value and primarily consist of machinery and equipment and leasehold improvements. Property and equipment will be amortized over their estimated useful lives and leasehold improvements will be amortized over the lesser of their useful lives or the remaining lease period.

Goodwill is calculated as the excess of the purchase price over the fair value net assets acquired. The goodwill recognized is attributable to growth opportunities and expected synergies. All goodwill is expected to be deductible for income tax purposes.

Intangible assets other than goodwill, consist of three separately identified assets:

- Shenandoah customer relationships, which are definite-lived intangible assets with an aggregate fair value of \$13.2 million. The customer relationships are amortizable and will be amortized over a period of thirteen years;
- The Shenandoah tradename, which is definite-lived intangible assets with an aggregate fair value of \$700,000. The trade name is amortizable and will be amortized over a period of twenty years; and
- Shenandoah's order backlog which is a definite-lived intangible asset with an aggregate fair value of \$400,000 that we amortized over four months, with all of the expense recognized in fiscal year 2018.

The total weighted average amortization period for these assets is 12.1 years.

The following unaudited consolidated pro forma summary has been prepared by adjusting our historical data to give effect to the Shenandoah acquisition as if it had occurred on February 1, 2016:

	<b>Pro Forma - Unaudited</b>	
	<b>13 Weeks Ended</b>	<b>52 Weeks Ended</b>
	<b>January 28, 2018</b>	<b>January 28, 2018</b>
	(Pro forma)	(Pro forma)
Net Sales	\$ 175,365	\$ 649,936
Net Income	\$ 8,775	\$ 32,977
Basic EPS	\$ 0.75	\$ 2.82
Diluted EPS	\$ 0.75	\$ 2.81

The unaudited consolidated pro forma financial information was prepared in accordance with existing standards and is not necessarily indicative of the results of operations that would have occurred if the Shenandoah acquisition had been completed on the date indicated, nor is it indicative of our future operating results.

Material adjustments, net of income tax, included in the fiscal 2017 pro forma financial information in the table above consist of the amortization of intangible assets (\$171,000 in the quarterly period and \$943,000 in the annual period), addition of transaction related costs (\$0 in the quarterly period and \$520,000 in the annual period), interest on additional debt incurred as part of the acquisition (\$46,000 in the quarterly period and \$197,000 in the annual period), salary expense (\$46,000 in the quarterly period and \$185,000 in the annual period), and income tax on Shenandoah operations (\$536,000 in the quarterly period and \$2.4 million in the annual period).

Material adjustments, net of income tax, included in the fiscal 2018 pro forma financial information in the table above consist of the amortization of intangible assets (decrease of \$132,000 in the quarterly period and a net increase of \$191,000 in the annual period), reclassification of transaction related costs to fiscal 2017 (-\$67,000 in the quarterly period and -\$522,000 in the annual period), interest on additional debt incurred as part of the acquisition (-\$13,000 in the quarterly period and \$61,000 in the annual period), salaries (\$0 in the quarterly period and \$123,000 in the annual period), and income tax on Shenandoah operations (\$0 in the quarterly period and \$2.4 million in the annual period).

The unaudited pro forma results do not reflect events that either have occurred or may occur in the future. They also do not give effect to certain charges that we expect to incur in connection with the Shenandoah acquisition, including, but not limited to, additional professional fees, employee integration, retention, potential asset impairments and accelerated depreciation and amortization.

We incurred approximately \$800,000 in Shenandoah acquisition-related costs in fiscal 2018. These expenses are included in the “Selling and administrative expenses” line of our condensed consolidated statements of income. Included in our fiscal 2018 results are Shenandoah’s October 2017 through January 2018 results, which include \$11.3 million in net sales and \$604,000 of operating income, including \$750,000 in intangible amortization expense.

#### NOTE 5 – CASUALTY LOSS

On May 18, 2018, the Martinsville/Henry County, Va. area experienced torrential rains. Two of our Hooker Brands segment warehouse facilities were damaged as a result. No employees were injured, and the casualty loss caused only a nominal disruption in our ability to fulfill and ship orders. The costs associated with the recovery efforts exceeded our insurance deductible of \$500,000. Consequently, we recorded a \$500,000 casualty loss during the fiscal 2019 second quarter. We incurred another \$409,000 of repair and remediation-related expenses during the third quarter, which was recovered from our casualty insurer during the fourth quarter of fiscal 2019.

#### NOTE 6 – DOUBTFUL ACCOUNTS AND OTHER ACCOUNTS RECEIVABLE ALLOWANCES

The activity in the allowance for doubtful accounts was:

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
Balance at beginning of year	\$ 908	\$ 1,014	\$ 508
Non-cash charges to cost and expenses	417	158	767
Less uncollectible receivables written off, net of recoveries	(422)	(264)	(261)
Balance at end of year	<u>\$ 903</u>	<u>\$ 908</u>	<u>\$ 1,014</u>

The activity in other accounts receivable allowances was:

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
Balance at beginning of year	\$ 4,267	\$ 5,117	\$ 6,298
Charges to cost and expenses	31,815	41,606	30,447
Less uncollectible receivables written off, net of recoveries	(32,589)	(42,456)	(31,628)
Balance at end of year	<u>\$ 3,493</u>	<u>\$ 4,267</u>	<u>\$ 5,117</u>

#### NOTE 7 – ACCOUNTS RECEIVABLE

	<b>February 2, 2020</b>	February 3, 2019
Trade accounts receivable	\$ 91,261	\$ 117,732
Receivable from factor	788	-
Other accounts receivable allowances	(3,493)	(4,267)
Allowance for doubtful accounts	(903)	(908)
Accounts receivable	<u>\$ 87,653</u>	<u>\$ 112,557</u>

“Receivable from factor” represented amounts due with respect to factored accounts receivable for a single customer. The agreement was discontinued in early fiscal 2021.

## NOTE 8 – INVENTORIES

	February 2, 2020	February 3, 2019
Finished furniture	\$ 106,495	\$ 112,847
Furniture in process	1,304	1,825
Materials and supplies	8,479	10,896
Inventories at FIFO	116,278	125,568
Reduction to LIFO basis	(23,465)	(20,364)
Inventories	<u>\$ 92,813</u>	<u>\$ 105,204</u>

If the first-in, first-out (FIFO) method had been used in valuing all inventories, net income would have been \$19.5 million in fiscal 2020, \$41.5 million in fiscal 2019, and \$28.1 million in fiscal 2018. We recorded LIFO expense of \$3.1 million in fiscal 2020, \$2.1 million in fiscal 2019, and LIFO income of \$225,000 in fiscal 2018.

At February 2, 2020 and February 3, 2019, we had \$424,000 and \$1.3 million, respectively, in consigned inventories, which are included in the “Finished furniture” line in the table above.

At February 2, 2020, we held \$9.6 million in inventory outside of the United States, in China and in Vietnam. At February 3, 2019, we held \$8.1 million in inventory outside of the United States, in China and in Vietnam.

## NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

	Depreciable Lives (In years)	February 2, 2020	February 3, 2019
Buildings and land improvements	15 - 30	\$ 31,316	\$ 24,588
Computer software and hardware	3 - 10	19,166	18,719
Machinery and equipment	10	9,271	8,934
Leasehold improvements	Term of lease	9,737	9,376
Furniture and fixtures	3 - 8	2,597	2,318
Other	5	651	665
Total depreciable property at cost		<u>72,738</u>	<u>64,600</u>
Less accumulated depreciation		44,089	39,925
Total depreciable property, net		<u>28,649</u>	<u>24,675</u>
Land		1,077	1,067
Construction-in-progress		181	3,740
Property, plant and equipment, net		<u>\$ 29,907</u>	<u>\$ 29,482</u>

Depreciation expense for fiscal 2020, 2019 and 2018 were \$4.7 million, \$5.0 million and \$4.5 million, respectively.

## Capitalized Software Costs

Certain costs incurred in connection with developing or obtaining computer software for internal use are capitalized. These costs are amortized over periods of ten years or less. Capitalized software is reported as a component of computer software and hardware above and on the property, plant, and equipment line of our consolidated balance sheets. The activity in capitalized software costs was:

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
Balance beginning of year	\$ 5,123	\$ 5,982	\$ 6,510
Additions	286	373	630
Amortization expense	(1,132)	(1,227)	(1,151)
Disposals	-	(5)	(7)
Balance end of year	<u>\$ 4,277</u>	<u>\$ 5,123</u>	<u>\$ 5,982</u>

## NOTE 10 – INTANGIBLE ASSETS AND GOODWILL

Our goodwill, some trademarks and trade names have indefinite useful lives and, consequently, are not subject to amortization for financial reporting purposes but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired.

Our non-amortizable intangible assets consist of:

- Goodwill and trademarks and tradenames related to the Home Meridian and Shenandoah acquisitions; and
- Trademarks and tradenames related to the acquisitions of Bradington-Young (acquired in 2002), Sam Moore (acquired in 2007) and Home Meridian (acquired in 2016).

We review goodwill annually for impairment or more frequently if events or circumstances indicate that it might be impaired.

In accordance with ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, the goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test outlined in ASC Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the quantitative assessment. The quantitative assessment involves estimating the fair value of our goodwill using projected future cash flows that are discounted using a weighted average cost of capital analysis that reflects current market conditions. Management judgment is a significant factor in the goodwill impairment evaluation process. The computations require management to make estimates and assumptions, the most critical of which are the potential future cash flows and an appropriate discount rate. In addition to our qualitative assessment, management performed a quantitative analysis on the Home Meridian reporting unit's goodwill in the fiscal 2020 fourth quarter. Based on our qualitative assessment and quantitative analysis, we have concluded that our goodwill is not impaired as of February 2, 2020.

In conjunction with our evaluation of the cash flows generated by the Home Meridian, Bradington-Young and Sam Moore reporting units, we evaluated the carrying value of trademarks and trade names using the relief from royalty method, which values the trademark/trade name by estimating the savings achieved by ownership of the trademark/trade name when compared to licensing the mark/name from an independent owner. The inputs used in the trademark/trade name analyses are considered Level 3 fair value measurements.

Details of our non-amortizable intangible assets are as follows:

Non-amortizable Intangible Assets	Segment	February 2, 2020	February 3, 2019
Goodwill	Home Meridian	\$ 23,187	\$ 23,187
Goodwill	Domestic Upholstery	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	Domestic Upholstery	861	861
Trademarks and trade names - Sam Moore	Domestic Upholstery	396	396
Total Trademarks and trade names		\$ 12,657	\$ 12,657
Total non-amortizable assets		\$ 52,715	\$ 52,715

The following table is a rollforward of goodwill for the 2020 and 2019 fiscal years:

Segment	February 2, 2020	February 3, 2019
Home Meridian	\$ 23,187	\$ 23,187
Domestic Upholstery	16,871	16,871
	\$ 40,058	\$ 40,058

Our amortizable intangible assets are recorded in the Home Meridian and in Domestic Upholstery segments. The carrying amounts and changes therein of those amortizable intangible assets were as follows:

	Amortizable Intangible Assets		
	Customer Relationships	Trademarks	Totals
Balance at February 3, 2019	\$ 22,320	\$ 778	\$ 23,098
Amortization	(2,324)	(60)	(2,384)
<b>Balance at February 2, 2020</b>	<b>\$ 19,996</b>	<b>\$ 718</b>	<b>\$ 20,714</b>

The weighted-average amortization period for all amortizable intangible assets is 9.2 years. The weighted-average amortization period for customer relationships is 9.0 years and is 15.8 years for our trademarks.

The estimated amortization expense associated with our amortizable intangible assets is expected to be as follows:

Fiscal Year	Amount
2021	2,384
2022	2,384
2023	2,384
2024	2,384
2025	2,359
2026 and thereafter	8,819
	<b>\$ 20,714</b>



Gross intangible assets and total accumulated amortization for each major class of intangible assets is as follows:

	<u>February 2, 2020</u>	<u>February 3, 2019</u>
Goodwill	\$ 40,058	\$ 40,058
Trademarks and tradenames	13,435	13,495
Accumulated amortization	<u>(60)</u>	<u>(60)</u>
Trademarks and tradenames, net	13,375	13,435
Customer relationships	22,320	24,644
Accumulated amortization	<u>(2,324)</u>	<u>(2,324)</u>
Customer relationships, net	19,996	22,320
Total Goodwill and other intangible assets, net	<u>\$ 73,429</u>	<u>\$ 75,813</u>

#### NOTE 11 – 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 February 2, 2020, and February 3, 2019, 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.

On January 30, 2019, our Board of Directors voted to terminate the Pension Plan. We settled all Pension Plan obligations during the fiscal 2020 third quarter with the purchase of annuities for plan participants. See Note 14. Employee Benefit Plans for additional information about the Plan.

Our assets measured at fair value on a recurring basis at February 2, 2020 and February 3, 2019, were as follows

Description	Fair value at February 2, 2020				Fair value at February 3, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)							
<b>Assets measured at fair value</b>								
Company-owned life insurance	\$ -	\$ 24,888	\$ -	\$ 24,888	\$ -	\$ 23,816	\$ -	\$ 23,816
Pension plan assets	-	-	-	-	10,992	-	-	10,992

## NOTE 12 – LEASES

On February 4, 2019, we adopted Accounting Standards Codification Topic 842 *Leases*. Our lease assets are composed of real estate and equipment. Real estate leases consist primarily of warehouses, showrooms and offices, while equipment leases consist of vehicles, office and warehouse equipment. At the inception of a contract, we assess whether the contract is, or contains, a lease. Our assessment is based on: (a) whether there is an identified asset in the contract that is land or a depreciable asset – i.e. property, plant or equipment; (b) whether we have the right to control the use of the identified asset throughout the period of use, which may be different from the overall contract term; and (c) whether we have the right to direct the use of an identified asset if it can direct (and change) how and for what purpose the asset will be used throughout the period of use.

Leases are classified as either finance leases or operating leases based on criteria in Topic 842. All of our leases are classified as operating leases. We do not currently have finance leases but could in the future.

Operating lease right-of-use ("ROU") assets and liabilities are recognized on the adoption date based on the present value of lease payments over the remaining lease term. As interest rates are not explicitly stated or implicit in any of our leases, we utilized our incremental borrowing rate at the adoption date of February 4, 2019, which was one-month LIBOR plus 1.5%. For leases without explicitly stated or implicit interest rates that commenced after the adoption date, we used our incremental borrowing rate which was one-month LIBOR at the lease commencement date plus 1.5%. ROU assets also include any lease payments made and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

At the inception of a lease, we allocate the consideration in the contract to each lease and non-lease component based on the component's relative stand-alone price to determine the lease payments. Lease and non-lease components are accounted for separately. Lease expense for operating leases is recognized on a straight-line basis over the lease term. Included in lease expense are any variable lease payments incurred in the period that were not included in the initial lease liability. Some of our real estate leases contain variable lease payments, including payments based on the percentage increase in the Consumer Price Index for Urban Consumers ("CPI-U"). We used February 2019 CPI-U issued by the US Department of Labor's Bureau of Labor Statistics to measure lease payments and calculate lease liabilities. Additional payments based on the change in an index or rate, or payments based on a change in our portion of the operating expenses, including real estate taxes and insurance, are recorded when incurred and are not included in the calculation of our lease liabilities.

We have a sub-lease at one of our warehouses. In accordance with the provisions of Topic 842, since we have not been relieved as the primary obligor of the warehouse lease, we cannot net the sublease income against our lease payment to calculate the lease liability and ROU asset. Our practice has been, and we will continue to, straight-line the sub-lease income over the term of the sublease. We recognized \$405,000 sub-lease income in fiscal 2020.

Our leases have remaining lease terms of less than one year to seven years, some of which include options to extend the leases for up to seven years. We have elected not to recognize ROU assets and lease liabilities that arise from short term leases for any class of underlying asset. Short term leases are leases with lease terms of 12 months or less with either (a) no renewal option or (b) a renewal option which we are not reasonably certain to exercise.

We have elected to adopt a package of practical expedients provided under Topic 842 that allows us not to reassess: (a) whether expired or existing contracts contain a lease under the new definition of a lease; (b) lease classification of expired or existing leases; and (c) whether previously capitalized initial direct costs would qualify for capitalization under Topic 842.

The components of lease cost and supplemental cash flow information for leases in fiscal 2020 were:

	<b>Fifty-two Weeks Ended February 2, 2020</b>
Operating lease cost	\$ 8,408
Variable lease cost	153
Short-term lease cost	581
Total operating lease cost	<u>\$ 9,142</u>
Operating cash outflows	\$ 8,725

The right-of-use assets and lease liabilities recorded on our Condensed Consolidated Balance Sheets as of February 2, 2020 were:

	<b>February 2, 2020</b>
Real estate	\$ 38,175
Property and equipment	1,337
Total operating leases right-of-use assets	<u>\$ 39,512</u>
Current portion of operating lease liabilities	\$ 6,307
Long term operating lease liabilities	33,794
Total operating lease liabilities	<u>\$ 40,101</u>

Weighted-average remaining lease term is 7.4 years. We used our incremental borrowing rate which is LIBOR plus 1.5% at the adoption date. The weighted-average discount rate is 3.99%.

The following table reconciles the undiscounted future lease payments for operating leases to the operating lease liabilities recorded in the condensed consolidated balance sheet at February 2, 2020:

	<b>Undiscounted Future Operating Lease Payments</b>
2020	\$ 7,805
2021	7,182
2022	5,588
2023	5,329
2024	5,280
2025 and thereafter	15,205
Total lease payments	<u>\$ 46,389</u>
Less: impact of discounting	<u>(6,288)</u>
Present value of lease payments	<u>\$ 40,101</u>

As of February 2, 2020, we did not have any additional material operating or finance leases that had not yet commenced.

Under ASC 840, future minimum lease payments as of February 3, 2019 were as follows:

	<b>Minimum Future Operating Lease Payments</b>
2019	\$ 7,778
2020	7,226
2021	5,320
2022	3,610
2023	2,412
2024 and thereafter	588
Total minimum lease payments	<u>\$ 26,934</u>

## NOTE 13 – LONG-TERM DEBT

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

### 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 will bear 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 amounts borrowed under the Secured Term Loan will bear 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:

- amended and restated 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”), which we subsequently paid off in full in fiscal 2019.

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:

- Maintain a ratio of funded debt to EBITDA not exceeding:
  - 2.00:1.00;
- A basic fixed charge coverage ratio of at least 1.25:1.00; and
- Limit capital expenditures to no more than \$15.0 million during any fiscal year beginning in fiscal 2020.

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 February 2, 2020.

The full remaining principal amounts of \$30.1 million on our term loans are due on February 1, 2021. We expect to refinance the balance of our term loans and any balance due under our revolving credit facility (currently \$0) during fiscal 2021.

Given that our term loans have a floating rate of interest and our credit profile has not materially changed since the inception of the loans, the carrying amount of our term loans approximates their fair value at February 2, 2020.

As of February 2, 2020, we had an aggregate \$25.7 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of \$4.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of February 2, 2020. There were no additional borrowings outstanding under the Existing Revolver as of February 2, 2020.

## **NOTE 14 – EMPLOYEE BENEFIT PLANS**

### **Employee Savings Plans**

We sponsor a tax-qualified 401(k) retirement plan covering substantially all employees. This plan assists employees in meeting their savings and retirement planning goals through employee salary deferrals and discretionary employer matching contributions. Our contributions to the plan amounted to \$1.4 million in fiscal 2020, \$1.3 million in fiscal 2019 and \$974,000 in fiscal 2018.

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 a \$30,000 gain from Selling and administrative expenses to Other income, net in fiscal 2018 consolidated statements of income.

### **Executive Benefits**

#### Pension, SRIP and SERP Overview

We maintain two “frozen” retirement plans, which are paying benefits and may include active employees among the participants but we do not expect to add participants to these plans in the future. The two plans include:

- a supplemental retirement income plan (“SRIP”) for certain former and current executives of Hooker Furniture Corporation; and
- the Pulaski Furniture Corporation Supplemental Executive Retirement Plan (“SERP”) for certain former executives.

In January 2019, we terminated the Pulaski Furniture Corporation Pension Plan (“Pension Plan”) settled all the obligations in fiscal 2020 which was also frozen and had been frozen since we acquired it in the Home Meridian acquisition.

#### SRIP and SERP

The SRIP provides monthly payments to participants or their designated beneficiaries based on a participant’s “final average monthly earnings” and “specified percentage” participation level as defined in the plan, subject to a vesting schedule that may vary for each participant. The benefit is payable for a 15-year period following the participant’s termination of employment due to retirement, disability or death. In addition, the monthly retirement benefit for each participant, regardless of age, becomes fully vested and the present value of that benefit is paid to each participant in a lump sum upon a change in control of the Company as defined in the plan. The SRIP is unfunded and all benefits are payable solely from our general assets. The plan liability is based on the aggregate actuarial present value of the vested benefits to which participating employees are currently entitled but based on the employees’ expected dates of separation or retirement. No employees have been added to the plan since 2008 and we do not expect to add additional employees in the future, due to changes in our compensation philosophy, which emphasizes more performance-based compensation measures in total management compensation.

The SERP provides monthly payments to eight retirees or their designated beneficiaries based on a defined benefit formula as defined in the plan. The benefit is payable for the life of the retiree with the following forms available as a reduced monthly benefit: Ten-year Certain and Life; 50% or 100% Joint and Survivor Annuity. The SERP is unfunded and all benefits are payable solely from our general assets. The plan liability is based on the aggregate actuarial present value of the benefits to which retired employees are currently entitled. No employees have been added to the plan since 2006 and we do not expect to add additional employees in the future.

Summarized SRIP and SERP information as of each fiscal year-end (the measurement date) is as follows:

	<b>SRIP (Supplemental Retirement Income Plan)</b>		
	<b>Fifty-Two Weeks Ended February 2, 2020</b>	<b>Fifty-Three Weeks Ended February 3, 2019</b>	
<b>Change in benefit obligation:</b>			
Beginning projected benefit obligation	\$ 9,622	\$ 9,365	
Service cost	104	326	
Interest cost	351	341	
Benefits paid	(537)	(511)	
Actuarial loss	716	101	
Ending projected benefit obligation (funded status)	<u>\$ 10,256</u>	<u>\$ 9,622</u>	
<b>Accumulated benefit obligation</b>	<u>\$ 10,131</u>	<u>\$ 9,182</u>	
<b>Discount rate used to value the ending benefit obligations:</b>	2.50%	3.75%	
<b>Amount recognized in the consolidated balance sheets:</b>			
Current liabilities (Accrued salaries, wages and benefits line)	\$ 557	\$ 511	
Non-current liabilities (Deferred compensation line)	9,699	9,111	
Total	<u>\$ 10,256</u>	<u>\$ 9,622</u>	
	<b>Fifty-Two Weeks Ended February 2, 2020</b>	<b>Fifty-Three Weeks Ended February 3, 2019</b>	<b>Fifty-Two Weeks Ended January 28, 2018</b>
<b>Net periodic benefit cost</b>			
Service cost	\$ 104	\$ 326	\$ 302
Interest cost	351	341	345
Net loss	149	172	62
Net periodic benefit cost	<u>\$ 604</u>	<u>\$ 839</u>	<u>\$ 709</u>
<b>Other changes recognized in accumulated other comprehensive income</b>			
Net loss arising during period	716	101	393
Amortizations:			
Loss	(149)	(172)	(62)
Total recognized in other comprehensive loss (income)	<u>567</u>	<u>(71)</u>	<u>331</u>
<b>Total recognized in net periodic benefit cost and accumulated other comprehensive income</b>	<u>\$ 1,171</u>	<u>\$ 768</u>	<u>\$ 1,040</u>
<b>Assumptions used to determine net periodic benefit cost:</b>			
Discount rate	3.75%	3.75%	4.00%
Increase in future compensation levels	4.00%	4.00%	4.00%
<b>Estimated Future Benefit Payments:</b>			
Fiscal 2021	\$ 556		
Fiscal 2022	868		
Fiscal 2023	868		
Fiscal 2024	955		
Fiscal 2025	955		
Fiscal 2026 through fiscal 2030	4,202		

For the SRIP, the discount rate used to determine the fiscal 2020 net periodic cost was 3.75% based on the Moody's Composite Bond Rate as of January 31, 2019. The discount rate utilized in each period was the Annualized Moody's Composite Bond Rate rounded to the nearest 0.25%. At February 2, 2020, combining the Mercer yield curve and the plan's expected benefit payments resulted in a rate of 2.50%. This rate was used to value the ending benefit obligations. Increasing the SRIP discount rate by 1% would decrease the projected benefit obligation at February 2, 2020 by approximately \$695,000. Similarly, decreasing the discount rate by 1% would increase the projected benefit obligation at February 2, 2020 by \$780,000.

At February 2, 2020, the actuarial losses related to the SRIP amounted to \$716,000, net of tax of \$149,000. At February 3, 2019, the actuarial losses related to the SRIP amounted to \$101,000, net of tax of \$23,000. The estimated actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the 2021 fiscal year is \$337,633. There is no expected prior service (cost) or credit amortization.

	<b>SERP (Supplemental Executive Retirement Plan)</b>	
	<b>Fifty-Two Weeks Ended February 2, 2020</b>	<b>Fifty-Three Weeks Ended February 3, 2019</b>
<b>Change in benefit obligation:</b>		
Beginning projected benefit obligation	\$ 1,805	\$ 2,008
Service cost	-	-
Interest cost	67	70
Benefits paid	(180)	(185)
Actuarial loss (gain)	168	(88)
Ending projected benefit obligation (funded status)	<u>\$ 1,860</u>	<u>\$ 1,805</u>
<b>Accumulated benefit obligation</b>	<u>\$ 1,860</u>	<u>\$ 1,805</u>
<b>Discount rate used to value the ending benefit obligations:</b>	<b>2.60%</b>	<b>3.90%</b>
<b>Amount recognized in the consolidated balance sheets:</b>		
Current liabilities (Accrued salaries, wages and benefits line)	\$ 172	\$ 173
Non-current liabilities (Deferred compensation line)	<u>1,688</u>	<u>1,632</u>
Total	<u>\$ 1,860</u>	<u>\$ 1,805</u>

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
<b>Net periodic benefit cost</b>			
Service cost	\$ -	\$ -	\$ -
Interest cost	67	70	83
Net gain	(5)	-	-
Net periodic benefit cost	<u>\$ 62</u>	<u>\$ 70</u>	<u>\$ 83</u>
<b>Other changes recognized in accumulated other comprehensive income</b>			
Net loss (gain) arising during period	168	(88)	(160)
Amortizations:			
Gain (Loss)	5	-	-
Total recognized in other comprehensive loss (income)	<u>173</u>	<u>(88)</u>	<u>(160)</u>
<b>Total recognized in net periodic benefit cost and accumulated other comprehensive income</b>	<u>\$ 235</u>	<u>\$ (18)</u>	<u>\$ (77)</u>
<b>Assumptions used to determine net periodic benefit cost:</b>			
Discount rate	3.90%	3.64%	3.77%
Increase in future compensation levels	N/A	N/A	N/A
<b>Estimated Future Benefit Payments:</b>			
Fiscal 2021	\$ 172		
Fiscal 2022	168		
Fiscal 2023	163		
Fiscal 2024	158		
Fiscal 2025	152		
Fiscal 2026 through fiscal 2030	651		

For the SERP, the discount rate assumption used to measure the postretirement benefit obligations is set by reference to a certain hypothetical AA-rated corporate bond spot-rate yield curve constructed by our actuary, Aon Hewitt (“Aon”). This yield curve was constructed from the underlying bond price and yield data collected as of the Plan’s measurement date and is represented by a series of annualized, individual discount rates with durations ranging from six months to seventy-five years. Aon then applies the yield curve to the actuarially projected cash flow patterns to derive the appropriate discount rate. At February 3, 2019, the plan used 3.90% based on the Aon AA Above Median yield curve as of January 31, 2019. This rate was used to determine the fiscal 2020 net periodic cost. At February 2, 2020, combining the Aon AA Above Median yield curve and the plan’s expected benefit payments created a rate of 2.60%. This rate was used to value the ending benefit obligations. Increasing the SERP discount rate by 1% would decrease the projected benefit obligation at February 2, 2020 by approximately \$130,000. Similarly, decreasing the discount rate by 1% would increase the projected benefit obligation at February 2, 2020 by \$148,000.

At February 2, 2020, the actuarial loss related to the SERP was \$168,000. At February 3, 2019, the actuarial gain related to the SERP was \$88,000. The estimated net transition (asset)/obligation, prior service (cost) credit and actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over fiscal 2020 are immaterial.



## The Pension Plan

On January 30, 2019, our Board of Directors voted to terminate the Pension Plan. We settled all Pension Plan obligations during the third quarter of fiscal 2020 with the purchase of nonparticipating annuity contracts for plan participants. Consequently, we recognized a \$520,000 settlement gain during the quarter, which is recorded in the “other income” line of our condensed consolidated statements of income. The \$520,000 represented an amount recorded in accumulated other comprehensive income until the pension obligation was settled upon plan termination.

Summarized Pension Plan information as of February 2, 2020 (the measurement date) is as follows:

	<b>Pulaski Furniture Pension Plan</b>	
	<b>Fifty-Two Weeks Ended February 2, 2020</b>	<b>Fifty-Three Weeks Ended February 3, 2019</b>
<b>Change in benefit obligation:</b>		
Beginning projected benefit obligation	\$ 10,906	\$ 11,198
Acquisition		
Service cost	-	-
Interest cost	303	415
Benefits paid	(522)	(708)
Settlement	(12,557)	-
Actuarial loss	1,870	1
Ending projected benefit obligation	<u>\$ -</u>	<u>\$ 10,906</u>
<b>Change in Plan Assets:</b>		
Beginning fair value of plan assets	\$ 10,992	\$ 8,757
Actual return on plan assets	1,960	23
Employer contributions	344	3,110
Actual expenses paid	(217)	(190)
Settlement	(12,557)	-
Actual benefits paid	(522)	(708)
Ending fair value of plan assets	<u>\$ -</u>	<u>\$ 10,992</u>
<b>Funded Status of the Plan</b>	<u>\$ -</u>	<u>\$ 86</u>
<b>Discount rate used to value the ending benefit obligations:</b>	N/A	3.80%
<b>Amount recognized in the consolidated balance sheets:</b>		
Current liabilities (Accrued salaries, wages and benefits line)	\$ -	\$ 86
Non-current liabilities (Deferred compensation line)	-	-
Net Asset/(Liability)	<u>\$ -</u>	<u>\$ 86</u>

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
<b>Net periodic benefit cost</b>			
Expected administrative expenses	\$ 105	\$ 280	\$ 280
Interest cost	303	415	695
Net gain	(305)	(575)	(933)
Net periodic benefit cost	<u>\$ 103</u>	<u>\$ 120</u>	<u>\$ 42</u>
Settlement/Curtailment Income	(193)	-	(562)
Total net periodic benefit cost (Income)	<u>\$ (90)</u>	<u>\$ 120</u>	<u>\$ (520)</u>
<b>Other changes recognized in other comprehensive income</b>			
Net (gain) loss arising during period	327	464	(590)
Amortization:			
Gain	193	-	562
Total recognized in other comprehensive (income) loss	<u>520</u>	<u>464</u>	<u>(28)</u>
<b>Total recognized in net periodic benefit cost and accumulated other comprehensive income</b>	<u>\$ 430</u>	<u>\$ 584</u>	<u>\$ (548)</u>

**Assumptions used to determine net periodic benefit cost:**

Discount rate	3.80%	3.82%	4.14%
Increase in future compensation levels	N/A	N/A	N/A

**Performance Grants**

The Compensation Committee of our Board of Directors annually awards performance grants to certain senior executives under the Company's Stock Incentive Plan. Payments under these awards are based on our achieving specified performance targets during a designated performance period. Generally, each executive must remain continuously employed with the Company through the end of the performance period. Typically, performance grants can be paid in cash, shares of the Company's common stock, or both, at the discretion of the Compensation Committee at the time payment is made.

Outstanding performance grants are classified as liabilities since the (i) settlement amount for each grant is not known until after the applicable performance period is completed and (ii) settlement of the grants may be made in common stock, cash or a combination of both. The estimated cost of each grant is recorded as compensation expense over its performance period when it becomes probable that the applicable performance targets will be achieved. The expected cost of the performance grants is revalued each reporting period. As assumptions change regarding the expected achievement of performance targets, a cumulative adjustment is recorded and future compensation expense will increase or decrease based on the currently projected performance levels. If we determine that it is not probable that the minimum performance thresholds for outstanding performance grants will be met, no further compensation cost will be recognized and any previously recognized compensation cost will be reversed.

During fiscal 2017, the Compensation Committee awarded performance grants for the 2018 fiscal year. The 2017 awards had a three-year performance period that ended on January 28, 2018. The performance criteria for these awards were met and were paid in April 2018. During fiscal 2018, fiscal 2019 and fiscal 2020, the Compensation Committee awarded performance grants that have three-year performance periods ending on February 3, 2019, February 2, 2020 and January 31, 2021, respectively. The following amounts were accrued in our consolidated balance sheets as of the fiscal period-end dates indicated:

	<b>February 2, 2020</b>	February 3, 2019
<b>Performance grants</b>		
Fiscal 2017 grant (Current liabilities, Accrued wages, salaries and benefits)	\$ -	\$ 621
Fiscal 2018 grant (Current liabilities, Accrued wages, salaries and benefits)	333	468
Total performance grants accrued	<u>\$ 333</u>	<u>\$ 1,089</u>

## NOTE 15 – SHARE-BASED COMPENSATION

Our Stock Incentive Plan permits incentive awards of restricted stock, restricted stock units, stock appreciation rights and performance grants to key employees. A maximum of 750,000 shares of the Company’s common stock is authorized for issuance under the Stock Incentive Plan. The Stock Incentive Plan also provides for annual restricted stock awards to non-employee directors. We have issued restricted stock awards to our non-employee directors since January 2006 and certain other management employees since 2014.

We account for restricted stock awards as “non-vested equity shares” until the awards vest or are forfeited. Restricted stock awards to non-employee directors and certain other management employees vest if the director/employee remains on the board/employed through the specified vesting period for shares and may vest earlier upon certain events specified in the plan. For shares issued to non-employee directors during fiscal 2016 and after, there is a 12-month service period. The fair value of each share of restricted stock is the market price of our common shares on the grant date. The weighted average grant-date fair values of restricted stock awards issued during fiscal 2020 were \$29.77, \$29.21 and \$19.87, during fiscal 2019 were \$37.83 and \$46.88, during fiscal 2018 were \$31.45, \$41.70 and \$39.05, respectively.

The restricted stock awards outstanding as of February 2, 2020 had an aggregate grant-date fair value of \$1.2 million, after taking vested and forfeited restricted shares into account. As of February 2, 2020, we have recognized non-cash compensation expense of approximately \$654,000 related to these non-vested awards and \$1.9 million for awards that have vested. The remaining \$563,000 of grant-date fair value for unvested restricted stock awards outstanding at February 2, 2020 will be recognized over the remaining vesting periods for these awards. The number of outstanding restricted shares increased due primarily to grants of restricted shares to a larger population of our non-executive employees as an incentive for retention and alignment of individual performance to our values.

For each restricted stock issuance, the following table summarizes restricted stock activity, including the weighted average issue price of those shares on the grant date, the fair value of each grant of restricted stock on the grant date, compensation expense recognized for the unvested shares of restricted stock for each grant and the remaining fair value of the unvested shares of restricted stock for each grant as of February 2, 2020:

	<u>Whole Number of Shares</u>	<u>Grant-Date Fair Value Per Share</u>	<u>Aggregate Grant-Date Fair Value</u>	<u>Compensation Expense Recognized</u>	<u>Grant-Date Fair Value Unrecognized At February 2, 2020</u>
Previous Awards (vested)				\$ 1,901	
Restricted shares Issued on April 13, 2017	4,572	31.45	142	102	6
Forfeited	(1,058)		(34)		
Restricted shares Issued on May 7, 2018	7,972	37.83	301	156	111
Forfeited	(886)		(34)		
Restricted shares Issued on April 17, 2019	15,239	29.77	454	109	283
Forfeited	(2,058)		(62)		
Restricted shares Issued on May 8, 2019	1,027	29.21	30	7	23
Restricted shares Issued on June 17, 2019	21,138	19.87	420	280	140
<b>Awards outstanding at February 2, 2020:</b>	<u><u>45,946</u></u>		<u><u>\$ 1,217</u></u>	<u><u>\$ 654</u></u>	<u><u>\$ 563</u></u>

We have awarded time-based restricted stock units to certain senior executives since 2011. Each restricted stock unit, or “RSU”, entitles the executive to receive one share of the Company’s common stock if he remains continuously employed with the Company through the end of a three-year service period. The RSUs may be paid in shares of the Company’s common stock, cash or both, at the discretion of the Compensation Committee. The RSUs are accounted for as “non-vested stock grants.” Similar to the restricted stock grants issued to our non-employee directors, RSU compensation expense is recognized ratably over the applicable service period. However, unlike restricted stock grants, no shares are issued, or other payment made, until the end of the applicable service period (commonly referred to as “cliff vesting”) and grantees are not entitled to receive dividends on their RSUs during that time. The fair value of each RSU is the market price of a share of our common stock on the grant date, reduced by the present value of the dividends expected to be paid on a share of our common stock during the applicable service period, discounted at the appropriate risk-free rate.

The following table presents RSU activities for the year ended February 2, 2020:

	<u>Whole Number of Units</u>	<u>Grant-Date Fair Value Per Unit</u>	<u>Aggregate Grant-Date Fair Value</u>	<u>Compensation Expense Recognized</u>	<u>Grant-Date Fair Value Unrecognized At February 2, 2020</u>
Previous Awards (vested)				\$ 959	
RSUs Awarded on April 15, 2017	6,258	\$ 30.03	185	129	4
Forfeited	(2,687)		(52)		
RSUs Awarded on June 4, 2018	6,032	\$ 35.86	216	125	69
Forfeited	(616)		(22)		
RSUs Awarded on April 17, 2019	10,196	\$ 28.01	286	78	168
Forfeited	(1,441)		(40)		
<b>Awards outstanding at February 2, 2020:</b>	<u><u>17,742</u></u>		<u><u>\$ 573</u></u>	<u><u>\$ 332</u></u>	<u><u>\$ 241</u></u>

We have issued Performance-based Restricted Stock Units (“PSUs”) to certain senior executives since fiscal 2019 under the Company’s Stock Incentive Plan. Each PSU entitles the executive officer to receive one share of our common stock based on the achievement of two specified performance conditions if the executive officer remains continuously employed through the end of the three-year performance period. One target is based on our annual average growth in our EPS over the performance period and the other target is based on EPS growth over the performance period compared to our peers. The payout or settlement of the PSUs will be made in shares of our common stock.

	<u>Whole Number of Units</u>	<u>Grant-Date Fair Value Per Unit</u>	<u>Aggregate Grant-Date Fair Value</u>	<u>Compensation Expense Recognized</u>	<u>Grant-Date Fair Value Unrecognized At February 2, 2020</u>
PSUs Awarded on June 4, 2018	22,499	\$ 35.86	807	538	229
Forfeited	(893)		(40)		
PSUs Awarded on April 17, 2019	36,412	\$ 29.77	1,084	361	642
Forfeited	(2,700)		(81)		
<b>Awards outstanding at February 2, 2020:</b>	<u><u>55,318</u></u>		<u><u>\$ 1,770</u></u>	<u><u>\$ 899</u></u>	<u><u>\$ 871</u></u>

The number of RSUs and PSUs increased primarily due to the addition of three executive officers in the second quarter of fiscal 2019.

## NOTE 16 – EARNINGS PER SHARE

We refer you to the Earnings Per Share disclosure in Note 2-Summary of Significant Accounting Policies, above, for more detailed information concerning the calculation of earnings per share.

All stock awards are designed to encourage retention and to provide an incentive for increasing shareholder value. We have issued restricted stock awards to non-employee members of the board of directors since 2006 and to certain non-executive employees since 2014. We have issued 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 have issued Performance-based Restricted Stock Units (“PSUs”) to certain senior executives since fiscal 2019 under the Company’s Stock Incentive Plan. Each PSU entitles the executive officer to receive one share of our common stock based on the achievement of two specified performance conditions if the executive officer remains continuously employed through the end of the three-year performance period. One target is based on our annual average growth in our EPS over the performance period and the other target is based on EPS growth over the performance period compared to our peers. The payout or settlement of the PSUs will be made in shares of our common stock.

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 and PSUs, net of forfeitures and vested shares, as of the fiscal period-end dates indicated:

	<b>February 2, 2020</b>	February 3, 2019	January 28, 2018
Restricted shares	45,946	22,070	15,777
RSUs and PSUs	<b>73,060</b>	14,189	19,397
	<b><u>119,006</u></b>	<u>36,259</u>	<u>35,174</u>

All restricted shares, RSUs and PSUs 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:

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
Net income	\$ 17,083	\$ 39,873	\$ 28,250
Less: Dividends on unvested restricted shares	25	11	10
Net earnings allocated to unvested restricted stock	60	68	50
Earnings available for common shareholders	<b><u>\$ 16,998</u></b>	<u>\$ 39,794</u>	<u>\$ 28,190</u>
Weighted average shares outstanding for basic earnings per share	11,784	11,759	11,633
Dilutive effect of unvested restricted stock awards	54	24	30
Weighted average shares outstanding for diluted earnings per share	<b><u>11,838</u></b>	<u>11,783</u>	<u>11,663</u>
Basic earnings per share	<b><u>\$ 1.44</u></b>	<u>\$ 3.38</u>	<u>\$ 2.42</u>
Diluted earnings per share	<b><u>\$ 1.44</u></b>	<u>\$ 3.38</u>	<u>\$ 2.42</u>

In fiscal year 2018, we issued 176,018 shares of common stock to the designees of SFI as partial consideration for the Shenandoah acquisition on September 29, 2017.

## NOTE 17 – INCOME TAXES

Our provision for income taxes was as follows for the periods indicated:

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
<b>Current expense</b>			
Federal	\$ 2,312	\$ 10,537	\$ 12,022
Foreign	255	118	85
State	334	2,247	1,390
Total current expense	<u>2,901</u>	<u>12,902</u>	<u>13,497</u>
<b>Deferred taxes</b>			
Federal	1,645	(963)	4,038
State	298	(222)	(13)
Total deferred taxes	<u>1,943</u>	<u>(1,185)</u>	<u>4,025</u>
Income tax expense	<u>\$ 4,844</u>	<u>\$ 11,717</u>	<u>\$ 17,522</u>

Total tax expense for fiscal 2020 was \$4.5 million, of which \$4.8 million expense was allocated to continuing operations and \$ 300,000 tax benefit was allocated to other comprehensive income. Total tax expense for fiscal 2019 was \$11.6 million, of which \$11.7 million expense was allocated to continuing operations and \$73,000 tax benefit was allocated to other comprehensive income. Total tax expense for fiscal 2018 was \$17.5 million, of which \$17.5 million was allocated to continuing operations and \$26,000 tax benefit was allocated to other comprehensive income.

The effective income tax rate differed from the federal statutory tax rate as follows for the periods indicated:

	<b>Fifty-Two Weeks Ended February 2, 2020</b>	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
Income taxes at statutory rate	21.0%	21.0%	33.9%
Increase (decrease) in tax rate resulting from:			
State taxes, net of federal benefit	2.4	3.2	2.0
Officer's life insurance	-1.1	-0.7	-0.6
Tax Cuts and Jobs Act of 2017	0.0	0.0	4.0
Other	-0.2	-0.8	-1.0
Effective income tax rate	<u>22.1%</u>	<u>22.7%</u>	<u>38.3%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities for the period indicated were:

	<b>February 2, 2020</b>	February 3, 2019
<b>Assets</b>		
Deferred compensation	\$ 2,673	\$ 3,572
Allowance for bad debts	1,050	1,236
Employee benefits	607	335
Inventories	600	882
Capital loss carryover	393	339
Accrued liabilities	338	448
Deferred rent	231	168
Other	431	169
Total deferred tax assets	<u>6,323</u>	<u>7,149</u>
Valuation allowance	<u>(393)</u>	<u>(339)</u>
	<b>5,930</b>	<b>6,810</b>
<b>Liabilities</b>		
Intangible assets	1,737	923
Property, plant and equipment	1,313	1,288
Unrecognized pension actuarial losses	-	77
Total deferred tax liabilities	<u>3,050</u>	<u>2,288</u>
Net deferred tax assets	<u>\$ 2,880</u>	<u>\$ 4,522</u>

At February 2, 2020 and February 3, 2019 our net deferred asset was \$2.9 million and \$4.5, respectively. The increase in the valuation allowance of \$54,000 was due to foreign tax credit limitations. We expect to fully realize the benefit of the deferred tax assets, with the exception of the capital loss carry forward and foreign tax credit carry forward, in future periods when the amounts become deductible. The capital loss carry-forward is \$1.4 million and expires in fiscal 2022. The foreign tax credit carry-forward is \$54,000 and expires beginning in fiscal 2029.

Current accounting standards prescribe a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also addresses de-recognition, classification, interest and penalties, accounting in interim periods and disclosures.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the fiscal years ended February 2, 2020 and February 3, 2019 are as follows:

	<b>February 2, 2020</b>	February 3, 2019
Balance, beginning of year	\$ 43	\$ 91
Decrease related to prior year tax positions	<u>(39)</u>	<u>(48)</u>
Balance, end of year	<u>\$ 4</u>	<u>\$ 43</u>

The net unrecognized tax benefits as of February 2, 2020 which, if recognized, would affect our effective tax rate are \$3,000. We expect that \$4,000 of gross unrecognized tax benefits will decrease within the next year.

We have elected to classify interest and penalties recognized with respect to unrecognized tax benefits as income tax expense. Interest expense of \$1,000 and \$5,600 was accrued as of February 2, 2020 and February 3, 2019, respectively.

Tax years ending January 29, 2017, through February 2, 2020 remain subject to examination by federal and state taxing authorities.

## NOTE 18 – SEGMENT INFORMATION

As a public 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 2020, we updated our reportable segments as follows: Domestic upholstery producers Bradington-Young, Sam Moore and Shenandoah Furniture were moved from All other and aggregated into a new reportable segment called “Domestic Upholstery.” All Other now consists of H Contract and Lifestyle Brands. Lifestyle Brands is a business in its start-up phase targeted at the interior designer channel. The Hooker Branded and Home Meridian segments were unchanged. Therefore, for financial reporting purposes, we are organized into three 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;
- **Domestic Upholstery**, which includes the domestic upholstery manufacturing operations of Bradington-Young, Sam Moore and Shenandoah Furniture; and
- **All Other**, consisting of H Contract and Lifestyle Brands, a new business started in late fiscal 2019. Neither of these operating segments were individually reportable; therefore, we combined them in “All Other” in accordance with ASC 280.



The following table presents segment information for the periods, and as of the dates, indicated. Prior-year information has been recast to reflect the changes in segments discussed above.

	<u>Fifty-Two Weeks Ended</u> February 2, 2020	<u>% Net Sales</u>	<u>Fifty-Three Weeks Ended</u> February 3, 2019	<u>% Net Sales</u>	<u>Fifty-Two Weeks Ended</u> January 28, 2018	<u>% Net Sales</u>
<b>Net Sales</b>						
Hooker Branded	\$ 161,990	26.4%	\$ 178,710	26.2%	\$ 166,754	26.9%
Home Meridian	340,630	55.8%	387,825	56.7%	365,472	58.9%
Domestic Upholstery	95,670	15.7%	106,580	15.6%	78,392	12.6%
All Other	12,534	2.1%	10,386	1.5%	10,014	1.6%
Consolidated	<u>\$ 610,824</u>	<u>100%</u>	<u>\$ 683,501</u>	<u>100%</u>	<u>\$ 620,632</u>	<u>100%</u>
<b>Gross Profit</b>						
Hooker Branded	\$ 51,462	31.8%	\$ 58,122	32.5%	\$ 53,007	31.8%
Home Meridian	36,936	10.8%	62,850	16.2%	62,325	17.1%
Domestic Upholstery	21,120	22.1%	22,503	21.1%	16,228	20.7%
All Other	4,440	35.4%	3,512	33.8%	3,257	32.5%
Consolidated	<u>\$ 113,958</u>	<u>18.7%</u>	<u>\$ 146,987</u>	<u>21.5%</u>	<u>\$ 134,817</u>	<u>21.7%</u>
<b>Operating Income</b>						
Hooker Branded	\$ 21,512	13.3%	\$ 25,269	14.1%	\$ 22,139	13.3%
Home Meridian	(7,169)	-2.1%	18,828	4.9%	17,828	4.9%
Domestic Upholstery	6,637	6.9%	7,607	7.1%	4,463	5.7%
All Other	1,727	13.8%	971	9.4%	1,024	10.2%
Consolidated	<u>\$ 22,707</u>	<u>3.7%</u>	<u>\$ 52,675</u>	<u>7.7%</u>	<u>\$ 45,454</u>	<u>7.3%</u>
<b>Capital Expenditures</b>						
Hooker Branded	\$ 690		\$ 843		\$ 1,372	
Home Meridian	496		534		1,098	
Domestic Upholstery	3,914		3,807		696	
All Other	29		30		-	
Consolidated	<u>\$ 5,129</u>		<u>\$ 5,214</u>		<u>\$ 3,166</u>	
<b>Depreciation &amp; Amortization</b>						
Hooker Branded	\$ 1,930		\$ 1,979		\$ 1,956	
Home Meridian	2,218		2,407		2,716	
Domestic Upholstery	2,938		3,049		1,968	
All Other	14		7		7	
Consolidated	<u>\$ 7,100</u>		<u>\$ 7,442</u>		<u>\$ 6,647</u>	

	As of February 2, 2020	%Total Assets	As of February 3, 2019	%Total Assets
<b>Assets</b>				
Hooker Branded	\$ 144,112	45.0%	\$ 109,702	37.3%
Home Meridian	138,313	43.2%	144,277	49.1%
Domestic Upholstery	36,085	11.3%	38,467	13.1%
All Other	1,769	0.6%	1,457	0.5%
Consolidated Assets	<u>\$ 320,279</u>	100%	<u>\$ 293,903</u>	100%
Consolidated Goodwill and Intangibles	73,429		75,813	
Total Consolidated Assets	<u><u>\$ 393,708</u></u>		<u><u>\$ 369,716</u></u>	

Sales by product type are as follows:

	Net Sales (in thousands)					
	Fiscal					
	2020		2019		2018	
Casegoods	\$ 397,192	65%	\$ 417,677	61%	\$ 404,808	65%
Upholstery	213,632	35%	265,824	39%	215,824	35%
	<u><u>\$ 610,824</u></u>		<u><u>\$ 683,501</u></u>		<u><u>\$ 620,632</u></u>	

No significant long-lived assets were held outside the United States at either February 2, 2020 or February 3, 2019. International customers accounted for 1.6% of consolidated invoiced sales in fiscal 2020, 1.2% fiscal 2019 and 2.5% of consolidated invoiced sales in fiscal 2018. We define international sales as sales outside of the United States and Canada.

## NOTE 19 – COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ARRANGEMENTS

### Commitments and Off-Balance Sheet Arrangements

We lease office space, warehousing facilities, showroom space and office equipment under leases expiring over the next five years. Rent expense was \$11.2 million in fiscal 2020, \$10.1 million in fiscal 2019, and \$9.0 million in fiscal 2018. Future minimum annual commitments under leases and operating agreements are \$8.7 million in fiscal 2021, \$8.2 million in fiscal 2022, \$6.6 million in fiscal 2023, \$6.4 million in fiscal 2024 and \$6.4 million in fiscal 2025.

We had letters of credit outstanding totaling \$4.3 million on February 2, 2020. We utilize letters of credit to collateralize certain imported inventory purchases and certain insurance arrangements.

Substantially all of the cash value of our company owned life insurance is pledged as collateral for our secured term loan.

In the ordinary course of our business, we may become involved in legal proceedings involving contractual and employment relationships, product liability claims, intellectual property rights and a variety of other matters. We do not believe that any pending legal proceedings will have a material impact on our financial position or results of operations.

Our business is subject to a number of significant risks and uncertainties, including our reliance on offshore sourcing, any of which can adversely affect our business, results of operations, financial condition or future prospects.

## NOTE 20 – CONCENTRATIONS OF RISK

### Imported Products Sourcing

We source imported products through multiple vendors, located in eight countries. Because of the large number and diverse nature of the foreign factories from which we can source our imported products, we have some flexibility in the placement of products in any particular factory or country.

Factories located in Vietnam and China are a critical resource for Hooker Furniture. In fiscal 2020, imported products sourced from Vietnam and China accounted for nearly all of our import purchases and our top five suppliers in those countries accounted for approximately half of our fiscal 2020 import purchases. A disruption in our supply chain from Vietnam or China could significantly impact our ability to fill customer orders for products manufactured at that factory or in that country.

## Raw Materials Sourcing for Domestic Upholstery Manufacturing

Our five largest domestic upholstery suppliers accounted for 28% of our raw materials supply purchases for domestic upholstered furniture manufacturing operations in fiscal 2020. One supplier accounted for 8.1% of our raw material purchases in fiscal 2020. Should disruptions with these suppliers occur, we believe we could successfully source these products from other suppliers without significant disruption to our operations.

## Concentration of Sales and Accounts Receivable

One customer accounted for nearly 11% of our consolidated sales in fiscal 2020. Our top five customers accounted for approximately 30% of our fiscal 2020 consolidated sales. The loss of any one or more of these customers could adversely affect our earnings, financial condition and liquidity. At February 2, 2020, 35% of our consolidated accounts receivable is concentrated in our top five customers. Should any one of these receivables become uncollectible, it would have an immediate and material adverse impact on our financial condition and liquidity.

## **NOTE 21 – CONSOLIDATED QUARTERLY DATA (Unaudited- see accompanying accountant’s report.)**

	Fiscal Quarter			
	First	Second	Third	Fourth
<b>2020</b>				
Net sales	\$ 135,518	\$ 152,248	\$ 158,176	\$ 164,882
Cost of sales	110,001	123,422	129,777	133,665
Gross profit	25,517	28,826	28,399	31,217
Selling and administrative expenses	22,016	22,462	22,810	21,581
Net income	1,987	4,160	3,920	7,016
Basic earnings per share	\$ 0.17	\$ 0.35	\$ 0.33	\$ 0.59
Diluted earnings per share	\$ 0.17	\$ 0.35	\$ 0.33	\$ 0.59
<b>2019</b>				
Net sales	\$ 142,892	\$ 168,661	\$ 171,474	\$ 200,475
Cost of sales	110,926	133,016	135,638	156,935
Gross profit	31,966	35,645	35,836	43,540
Selling and administrative expenses	21,990	23,184	22,979	23,777
Net income	7,154	8,693	9,332	14,691
Basic earnings per share	\$ 0.61	\$ 0.74	\$ 0.79	\$ 1.25
Diluted earnings per share	\$ 0.61	\$ 0.74	\$ 0.79	\$ 1.24

Earnings per share for each fiscal quarter is derived using the weighted average number of shares outstanding during that quarter. Earnings per share for each fiscal year is derived using the weighted average number of shares outstanding on an annual basis. Consequently, the sum of earnings per share for the quarters of a fiscal year may not equal earnings per share for the full fiscal year.

## **NOTE 22 – RELATED PARTY TRANSACTIONS**

We lease the four properties utilized in Shenandoah’s operations. One of our employees has an ownership interest in the entities that own these properties. The leases commenced on September 29, 2017 and an option to renew each for an additional seven years. All four leases include annual rent escalation clauses with respect to minimum lease payments after the initial 84-month term of the lease is completed. In addition to monthly lease payments, we also incur expenses for property taxes, routine repairs and maintenance and other operating expenses. We paid \$821,000 in lease payments to these entities during fiscal 2020.

## NOTE 23 – SUBSEQUENT EVENTS

### Cash Dividend

On March 2, 2020, our Board of Directors declared a quarterly cash dividend of \$0.16 per share, payable on March 31, 2020 to shareholders of record at March 17, 2020.

### COVID-19

In late 2019, an outbreak of COVID-19 was identified and has subsequently been recognized as a global pandemic by the World Health Organization. Federal, state and local governments in the U.S and elsewhere have imposed restrictions on travel and business operations and are advising or requiring individuals to limit or eliminate time outside of their homes. Temporary closures of businesses have also been ordered in certain jurisdictions and other businesses have temporarily closed on a voluntarily basis. Consequently, the COVID-19 outbreak has severely restricted the level of economic activity in the U.S. and around the world.

Due to the aforementioned effects of COVID-19, we have seen decreased demand for home furnishings in our industry and for our company. We have also seen a spike in order cancellations over the last few weeks prior to filing this Annual Report, which has blunted some of the strong backlog we had at fiscal year-end. Some customers have taken or are expected to take extended payment terms and we expect cash collections to slow.

To begin to address the financial impact of the virus, we have delayed non-essential capital spending and have implemented other cost-cutting measures, including abbreviated shifts, furloughs, the temporary closure of our domestic manufacturing plants, staff reductions, temporary fee reductions for Board of Directors, temporary salary reductions for officers and other managers, rationalizing current import purchase orders and working with our vendors to cut costs and extend payment terms where we can.

We expect sales and earnings to be down materially in the fiscal 2021 first quarter and for fiscal 2021, both as compared to prior-year periods, but we are unable to reasonably estimate the extent of those decreases. Additionally, we note we have limited insight into the extent to which our business may be impacted by the COVID-19 pandemic and there are many unknowns including the severity and duration of the current crisis. Further delays in the receipt of goods and other unanticipated impacts to our supply chain, including on direct imports or goods purchased domestically, or our customers, could have a more significant impact on our future business (including sales and earnings).

We continue to monitor the situation closely and may implement further measures to provide additional financial flexibility as we work to protect our cash position and liquidity.

## The Hooker Furniture Culture: Living Out our Values

During the year, we intentionally defined our culture for all stakeholders. We've launched a company-wide leadership development initiative to help grow our current and future leaders and to encourage diversity in our workforce.

These are the attributes that define our combined Hooker Furniture culture:

- **Character, Integrity** – We do the right thing, all the time, and are transparent in all our interactions.
- **Team Focused** – We are a diverse, inclusive organization and we believe that when we work together as a team we can achieve more. We love what we do and have fun doing it!
- **High Performing** – We are a performance-based organization and are willing to make investments (in people and resources) and reward appropriately for superior results. Continuous improvement is part of our DNA.
- **Adaptive** – We adapt to the changes going on around us. We think like entrepreneurs, anticipating opportunities and acting quickly, taking reasonable risks and making difficult decisions to move our organization forward.
- **Information Sharing** – We communicate openly and honestly, being clear about what we need and expect. We listen well and give honest and fair feedback.
- **Caring** – We are a kind and caring group who support each other and the communities where we live and work.





The top-selling Savion Sectional from Hooker Upholstery blends classic elegance with modern flair, combining traditional button-tufted tailoring with a sleek profile. The innovative silhouette features two power-activated recliners, each with adjustable headrests.

# HOOKER®

— FURNITURE —

[hookerfurniture.com](http://hookerfurniture.com)

440 East Commonwealth Boulevard, Martinsville, Va 24112 • PO Box 4708 Martinsville, Va 24115 • 276.632.2133



***About the cover photo:***

This year, Hooker Caseloads celebrated the 10th anniversary of the best-selling Sanctuary Collection with Sanctuary II, a fresh take on this long-running favorite. The Diamont Canopy Bed is a French Moderne-inspired silhouette featuring hand-painted glass panels in a creamy white color with diamond fretwork in Jewel, a silver finish with rich undertones of gold and champagne, along with silver leaf and eglomise accents.