



ONE VISION, FRESH MOMENTUM

2022 Annual Report

**HOOKER<sup>®</sup>**  
FURNISHINGS



# MESSAGE TO OUR SHAREHOLDERS

## ONE VISION, FRESH MOMENTUM

*“One way to keep momentum going is to have constantly greater goals.” -- Michael Korda*

Much like our country and most of our world, Hooker Furnishings experienced several momentum swings in our Fiscal 2022, which encompassed most of calendar 2021, the second year of the Covid-19 pandemic.

The fiscal year began with record sales and earnings in the first quarter. When we achieved double-digit sales and profitability gains in the second quarter, we believed momentum was building to substantially improve our financial performance, exceeding pre-pandemic growth rates.

While we reported nearly a 20% sales increase compared to fiscal 2021 and consolidated net income of \$15.7 million for the first nine months, macroeconomic factors began to shift momentum in the second half of the year. A surge of the Covid Delta Variant caused Asian factories to shut down temporarily beginning August 1 through most of the rest of the calendar year. This loss of production capacity intensified already substantial logistics constraints and raw material shortages, exacerbated by high levels of consumer demand in a strong economic recovery.

As ocean freight costs rose dramatically and both vessel space and production capacity were limited, the initial impact of these supply-side bottlenecks was most severe on our Home Meridian segment (HMI), which relies on direct shipments from Asia to customers rather than warehoused inventory. Even as consumer and retail demand and backlogs remained historically strong, consolidated sales slowed in the second half, driven by significantly reduced shipments at HMI. The consolidated decline was partially offset by sales increases in the Hooker Branded and Domestic Upholstery segments, which achieved six consecutive quarters of higher year-over-year net sales through the end of the fiscal year.

### Seizing the Opportunity to Create Long-term Momentum

As these economic factors buffeted our financial performance beginning in the third quarter, we seized the opportunity to create long-term momentum and pursue new opportunities. We undertook strategic initiatives in the third quarter such as opening the largest facility in our history, an 800,000-square-foot distribution center in Savannah, GA to help HMI reduce costs and delivery times to customers. Other ambitious initiatives in the second half included entering the Las Vegas Furniture Market with an 8,500-square-foot showroom to serve interior designers in the Western US. On January 31, 2022, we entered the fast-growing outdoor furniture arena with the acquisition of Sunset West, an opportunity for incremental sales, becoming a player in a category with an outlook for sustained vitality.

Throughout the year, our vision to become “One Company, One Team” gained momentum as we broke down many of the barriers between segments – which had largely functioned independently – to become more of a big, blended family: sharing best practices and



The largest facility in our history, an 800,000-square-foot distribution center in Savannah, opened in Fiscal 2022 with a goal of helping HMI reduce costs and delivery times to customers and reduce our carbon footprint.



HFC entered the Las Vegas Furniture Market with an 8,500-square-foot showroom to serve interior designers in the Western US.

resources while problem solving together as a team. Our integration into one cohesive company came through organizational changes, enhanced communication and cultural initiatives that we'll discuss in more depth later in this letter.

### **Mitigating Global Supply-Side Disruptions**

Inflation, driven in part by rising freight costs, initially had less impact on our Hooker Branded and Domestic Upholstery segments, but these costs, coupled with raw material shortages, caught up with all segments in the third quarter. With a goal of minimizing costs and maximizing product shipments to customers during these disruptions, we mitigated as much as possible through measures such as surcharges and price increases to cover higher transportation and raw material costs. We continue to rationalize our stocking inventory to focus on "A and B-level" top-selling products by prioritizing them for production and container utilization.

Results for the second half of the year were disappointing, particularly for Home Meridian, but the fall off from strong starts in our other segments was unexpected as well. The dramatic macroeconomic-driven momentum shifts have exposed some risks in our businesses, and we have taken steps to reduce those risks, and position our Company for more stable sales and earnings in the future.

### **Hooker Branded Fiscal Performance Trends**

As a primarily warehouse-based business, our Hooker Branded segment was well positioned to take advantage of strong demand through the first three quarters of the year. Sales were well above prior year and pre-pandemic levels, and despite increased transit and product costs, profitability was well above our expectations for much of the year. We increased prices in response to increased costs, but generally only on new orders. We believe our focus on prioritizing production and shipping of best-selling products helped fuel this growth; however, sales growth faded somewhat in the fourth quarter as our inventories declined due to extended transit times and the Asian factory shutdowns beginning in August. Even with supply challenges throughout the year and inventory shortages in the fourth quarter, Hooker Branded turned in excellent results for the year. We're proud of the Branded team's ability to manage through the difficulties and capitalize on the strong demand environment, which we expect to continue into the new year based on higher-than-traditional order rates and an order backlog almost double the already elevated prior year backlog.

The consistent growth in the Hooker Branded segment has been sparked by diversifying our product portfolio to address a wide variety of lifestyles and price points with fresh looks. Our merchandising and design direction was affirmed this year when Hooker Casegoods received the 2021 Pinnacle Award from the International Society of Furniture Designers in the "Major Collections" category for the Cascade Collection.

At the April 2021 High Point Furniture Market, we launched Commerce & Market, a line of accent furniture at slightly lower price points and more casual style, aimed at Millennial consumers, another step toward diversifying our product portfolio.



Hooker Furniture's Cascade Collection received a Pinnacle Award from the International Society of Furniture Designers in the "Major Collections" category.

### **Home Meridian Fiscal Performance Trends**

Home Meridian was most severely impacted by many of the challenges we faced in fiscal 2022, as well as the cost of strategic capital expenditures such as the move to our new, highly efficient 800,000 square foot warehouse near the Port of Savannah, GA, positioning the company to reduce transportation costs and delivery times, grow its warehouse business and reduce its carbon footprint. Another negative impact on profitability was the decision for HMI to exit the highly competitive ready-to-assemble furniture category, which we were unable to offer at a satisfactory consumer value due to exorbitant ocean freight costs. Much of the first half of fiscal 2022 was a return-to-normal for Home Meridian with sales rebounding well from the prior year. Profitability

during this period, while somewhat challenged by higher freight costs, was also returning to more normal levels.

However, beginning in the second half, rapidly increasing freight costs began to accumulate on goods in transit to our warehouses and to our customers. Surcharges and price increases were not implemented in a timely manner, and in some cases, freight costs were not adequately considered when determining which inventory to bring in with the limited available container capacity. Due to the lower sales value of most Home Meridian products, increases in freight costs have a disproportionate impact on the profitability of those sales, so it is even more imperative that surcharges or price increases be implemented as quickly as possible. And because such a large percentage of Home Meridian product is shipped directly from our Asian suppliers to our customers, the Covid-related factory shutdowns had an almost immediate impact on our ability to ship Home Meridian products. Sales in the second half of fiscal 2022 were down by about 30% from the prior year which, coupled with the cost issues already discussed, resulted in significant losses in the second half, and for the year. There were other factors as well, including significant chargebacks from a Clubs customer, which has been an ongoing issue, and the costs of moving inventory and exiting certain businesses and facilities, which we will discuss in more detail later in this letter.

### **Domestic Upholstery Fiscal Performance Trends**

Our Domestic Upholstery segment faced similar challenges and opportunities to those experienced by our import divisions; however, some of the details and timing differed. Sales were much higher than in the pandemic-impacted Fiscal 2021, but foam availability, raw material and labor inflation, staffing challenges and transportation capacity were all a drag on what otherwise could have been stellar results based on the record rate of incoming orders and customer backlog. In the first half of the year, sales returned to pre-pandemic levels but were limited by foam shortages, the result of a severe weather event which shut down the electrical grid in Texas, which had a short-term but severe impact on the supply of petrochemicals. Sales rebounded in the second half of the year, and our domestic operations are developing a positive production momentum. While large backlogs are a sign of strong demand, our lead times were extended, and we did not raise prices on sold orders. Therefore, increasing material and labor costs had a short-term negative impact on margins. As we produce newer orders, price increases will offset these increased costs, which we expect to contribute to improved margins in the new fiscal year.



### **Gaining Momentum and Cohesion as “One Company”**

It’s easiest to build positive momentum if everyone is pulling in the same direction at the same time. In fiscal 2022, we gained traction in steps designed to bring our organization together and focus on best practices throughout our company. During fiscal 2022, we combined leadership of most of our operational functions, including sourcing and supply chain, marketing, information systems and finance. Throughout the year, we continued to combine processes and functions wherever it made sense, but left most customer-facing functions such as sales and merchandising within the individual divisions, leaving the personalities of each division in place and building on the strength of trade relationships built over years.

This series of upholstery from Sam Moore was designed in lock-step with the Chapman collection from Hooker. The introductions even share hardware and metal accents from the same foundry in Vietnam, taking product development collaboration to a new level for the brands.

Some of this reorganization involved changing personnel, but more was organizational change to place the most qualified leaders in narrower but deeper roles across the entire company, flattening the organization. There has been some pain, as processes and reporting structures changed, but the goal is to enhance communication, collaboration and teamwork throughout the organization and break down the silos that can exist in decentralized organizations. For example, the sales and operations planning function in the Hooker Branded segment has directly contributed to our inventory availability and reduced obsolescence for a number of years. We are implementing the same process at Home Meridian, under the guidance of the established leader of that function at Hooker Branded.

We are also well on our way to the implementation of a new, company-wide ERP system, replacing two separate, end-of-life systems. This will provide common processes, information and reporting for the entire company, which will enhance or enable our drive to be One Company/One Team.

### **Building Long-term Momentum**

We've used a lot of this letter's allotted space discussing our fiscal 2022 results, because we thought it was important to give context to a disappointing year. But more importantly, we believe that many of the drivers of last year's results were transitory, and we have strategies to grow, improve and build momentum. We will eventually sell through the portion of our backlog attributable to the Covid-driven demand and order surge, so we need to continue to develop growth strategies to take advantage of what we believe are favorable demographics and trends. We have strategies for each business unit, which are reviewed and updated regularly.

### **Acquiring Sunset West**

Among our most important strategic moves was the acquisition of Sunset West, a California-based designer and manufacturer of upscale outdoor furniture, on the first day of fiscal 2023. Sunset West's products and distribution fit well with our Hooker Branded distribution and profitability profile. We believe the combination of Sunset West's designs and industry expertise with Hooker's manufacturing and distribution resources, sales force, and customer base can help us grow this business at well above industry growth rates.

### **Growing with the Interior Designer Channel**

In Hooker Branded, our efforts to grow our presence in the interior design channel has doubled our design customer base, adding over 1,500 new customers, who are typically smaller but operate in a highly profitable channel. In January 2022, we opened our new 8,500 square foot showroom in Las Vegas. Aimed at the interior design trade, this low cost, year-round showroom will service West Coast designers who do not typically attend the High Point Furniture Markets. Attendance at our first Las Vegas show far exceeded our expectations and included many designers we have not sold in the past. From what we've learned and with the tools and processes we developed, we expect to add Home Meridian brands like Pulaski and Samuel Lawrence to our offerings in that channel, along with growing Sunset West's business with designers.

### **Opening the Largest Facility in Company History**

To service the design trade as well as customers who prefer to buy from warehouse stock rather than container loads, we will redeploy some of our inventory working capital to warehouse inventory and utilize the Savannah warehouse to service these accounts. Savannah's strategic location and efficient layout will reduce transportation costs from the port and enable us to ship individual orders more quickly. In addition to interior designers, Home Meridian will introduce 'Portfolio,' an open stock collection available to be shipped to individual or smaller orders from the Savannah distribution center. After a series of Covid-related delays, Home Meridian is also poised to launch products under the Drew + Jonathan Scott licenses we announced last year. Retailer response to this offering, which is one of the premier brands in the home furnishings space, has been exceptional and we are pleased to be able to begin filling those orders.

Another important strategic direction, made clear by the stresses our business has experienced from enduring multiple macro-events over the past few years, is the need to focus on our most profitable, stable channels and product lines, rather than relying on sales growth in low margin businesses. This is especially true in our Home Meridian segment. We believe we have identified good businesses, with opportunities to grow profitably, which have been obscured by riskier,



The initial rollout of the Drew & Jonathan Home brand will include over 60 retailers, including several Top 100 accounts and regional players, in the late spring and early summer of 2022.



less stable channels, customers and products, which were too dependent on above average growth and stable costs. We have taken steps to exit the Ready-to-Assemble category and the Clubs channel, incurring significant cost in fiscal 2022 to do so. We are also in the process of redefining our ACH business away from entry-level price points which can quickly become unprofitable, even with small fluctuations in cost. We believe these changes, along with redeploying the working capital supporting these lines of business, will create a more sustainable long-term business model for Home Meridian and Hooker.

### **Committing to Corporate Citizenship**

During fiscal 2022 we increased our focus on sustainability and corporate citizenship and enhanced our reporting and accountability. You will find some of the results of this initiative on our Investor Relations website, under Company Info. We also redoubled our efforts to address diversity, pay equity and paying living wages last year, something you will not see as clearly in our public disclosures. We still have work to do in many of these critical areas, but believe that the progress being made is driving the organizational consciousness needed to accelerate and sustain lasting change in these areas, especially among a new generation of leaders.

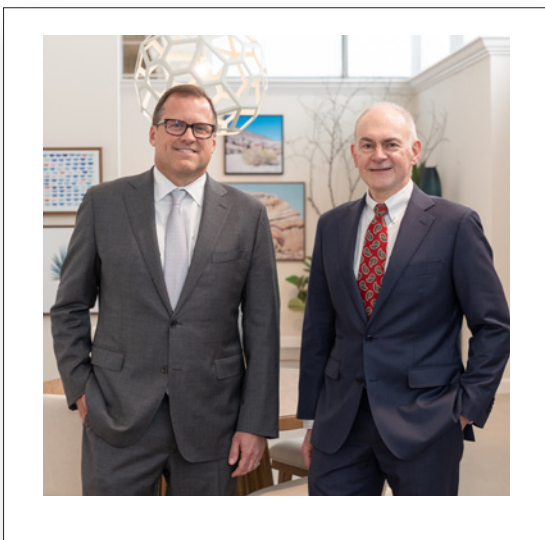
### **Appreciating our People**

Fiscal 2022 was another difficult year for our employees, who continued to face the disruptions of Covid-19. Keeping our employees safe was again one of our primary goals as a management team, even if that meant additional cost and inconvenience. We also refined our ability to develop products remotely, taking advantage of our extensive, talented team in Asia, since we were unable to travel during much of the year. We thank everyone for their diligence and dedication during another disrupted year.

This year we bid farewell to two long-serving members of the Hooker Furnishings family who retired from our Board of Directors after long careers with the Company and service on our Board. We thank Paul Toms and Larry Ryder for their service in many roles, and their support of our new management team. We welcomed Maria Duey as our newest director, and Henry Williamson, a Hooker director since 2004, in his expanded role as Board Chair. Maria adds experience in finance, investor relations and mergers and acquisitions to our Board.

### **Positioned for Sustained Momentum**

Fiscal 2022 was a challenging year, but thanks to our financial stability and resources, we have been able to move forward, create new strategies and invest in our future. We believe demographics and the related housing trends favor our industry for years to come. US housing demand, low interest rates and trends toward work from home, larger houses and second homes are all expected to create high levels of demand for furniture. As millennials reach middle age and mid-career and Gen Z, the largest generation in our history, enters the workforce, we expect demand for housing and related home furnishings will continue a growth trajectory. We are building our business to meet the needs of these generations, propelling us into a promising future with a cohesive team, bright vision and compelling culture poised for sustained momentum.



Jeremy Hoff, Paul Huckfeldt

Jeremy Hoff  
Chief Executive Officer and Director

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

## Board of Directors & Executive Officers

### Jeremy R. Hoff

Director; Chief Executive Officer -Hooker  
Furnishings Corporation

### W. Christopher Beeler Jr.

Director; Chairman—Virginia Mirror Company  
and Virginia Glass Products

### Maria C. Duey

Director; Chief Executive Officer and Founder-  
Leonine Advisory and Support Services

### Paulette Garafalo

Director; CEO and President- Paul Stuart

### Tonya H. Jackson

Director; Senior Vice President and Chief  
Product Delivery Officer- Lexmark

### E. Larry Ryder

Director; Retired Executive Vice President and  
Chief Financial Officer—Hooker Furnishings  
Corporation

### Ellen C. Taaffe

Director; Founder & CEO Ellen Taaffe  
Consulting

### Henry Williamson Jr.

Board Chair; Retired Chief Operating Officer—  
Truist Financial Corporation (formerly BB & T  
Corporation) and Branch Banking and Trust  
Company of North Carolina, South Carolina  
and Virginia



### Hooker Furniture Board of Directors.

*Front Row, left to right:* Paulette Garafalo, Jeremy Hoff, Tonya Jackson  
*Back Row, left to right:* Maria Duey, Henry Williamson Jr., Ellen Taaffe,  
Christopher Beeler

*Not pictured:* E Larry Ryder

## Executive Officers



**Jeremy Hoff**  
Chief Executive Officer



**Paul Huckfeldt**  
Chief Financial Officer



**Tod Phelps**  
Senior Vice President,  
Operations & Chief  
Information Officer



**Anne Smith**  
Chief Administrative Officer &  
President, Domestic Upholstery

# CORPORATE DATA

## CORPORATE OFFICES

Hooker Furnishings 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 Furnishings Corporation will be held on Tuesday, June 7, 2022 at the Hooker Furnishings Corporation Corporate Offices, 440 East Commonwealth Blvd. Martinsville, VA 24112.

## ANNUAL REPORT ON FORM 10-K

Hooker Furnishings Corporation's Annual Report on Form 10-K, included herein, is also available on our website at hookerfurnishings.com. A free copy of our Form 10-K may also be obtained by contacting Earl Armstrong, 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 hookerfurnishings.com in the "Investor Relations" section. The Company's quarterly reports on Form 10-Q are also available at hookerfurnishings.com.

This 2022 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.



Produced by Shenandoah, MARQ makes modern real: on-trend, high-style sofas, chairs, ottomans and sectionals perfect for the glorious gamut of everyday life.



Bradington-Young's Plaza Midwood Collection offers moderately-scaled, customizable pieces and appeals to the next generation of luxury furniture buyers who live in loft-style spaces or homes with open concept plans.



Crafted of Mango Wood with an iron base in a gold finish, the hexagonal-shaped Octavius Cocktail Table received a Green Ribbon Award from the Sustainable Furnishings Council as a recognition of its true sustainability and design ingenuity.



## Financial Highlights<sup>1</sup>

(in thousands, except per share data)

For the:	Fifty-two Weeks Ended January 30, 2022	Fifty-two Weeks Ended January 31, 2021	Fifty-two Weeks Ended February 2, 2020	Fifty-three Weeks Ended February 3, 2019	Fifty-two Weeks Ended January 28, 2018
<b>STATEMENT OF OPERATIONS DATA</b>					
Net sales	\$ 593,612	\$ 540,081	\$ 610,824	\$ 683,501	\$ 620,632
Operating income (loss)	14,843	(14,364)	22,707	52,675	45,454
Net income (loss)	11,718	(10,426)	17,083	39,873	28,250
<b>PER SHARE DATA</b>					
Basic earnings (loss) per share	\$ 0.99	\$ (0.88)	\$ 1.44	\$ 3.38	\$ 2.42
Diluted earnings (loss) per share <sup>2</sup>	\$ 0.97	\$ (0.88)	\$ 1.44	\$ 3.38	\$ 2.42
Weighted average shares outstanding- basic	11,852	11,822	11,784	11,759	11,633
Weighted average shares outstanding- diluted <sup>2</sup>	11,970	11,822	11,838	11,783	11,663
Cash dividends per share	\$ 0.74	\$ 0.66	\$ 0.61	\$ 0.57	\$ 0.50

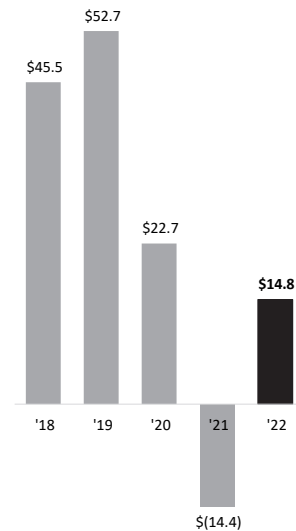
<sup>1</sup> These financial highlights should be read in conjunction with the Selected Financial Data, Consolidated Financial Statements, including the related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report on Form 10-K included in this report.

<sup>2</sup> Due to the fiscal 2021 net loss, approximately 119,000 unvested restricted shares would have been anti-dilutive and are therefore excluded from the calculation of diluted earnings per share.

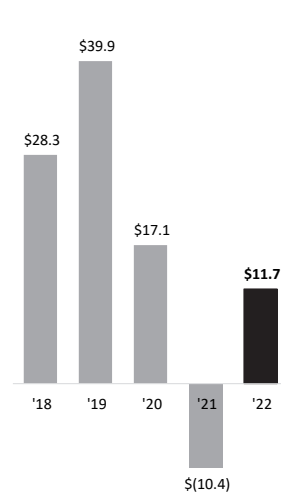
**NET SALES**  
(\$ in millions)



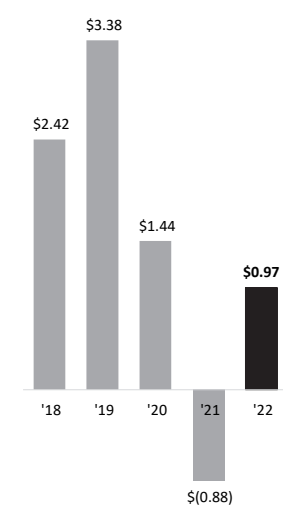
**OPERATING INCOME (LOSS)**  
(\$ in millions)



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



**DILUTED EARNINGS (LOSS) PER SHARE**



**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 **January 30, 2022**

Commission file number **000-25349**

**HOOKER<sup>®</sup>**  
**FURNISHINGS**

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

**Virginia**

*(State or other jurisdiction of incorporation or organization)*

**54-0251350**

*(IRS employer identification no.)*

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

*(Address of principal executive offices, Zip Code)*

**(276) 632-2133**

*(Registrant's telephone number, including area code)*

**Hooker Furniture Corporation**

*(Former name, if changed since last report)*

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
<b>Common Stock, no par value</b>	<b>HOFT</b>	<b>NASDAQ Global Select Market</b>

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 an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated Filer

Accelerated filer

Non-accelerated Filer

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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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: \$385.7 million.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of April 11, 2022:

**Common stock, no par value**  
*(Class of common stock)*

**11,942,493**  
*(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 7, 2022 are incorporated by reference into Part III.



## Hooker Furnishings Corporation

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*All references to 2022, 2021, 2020, 2019, and 2018 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 2022 ending on January 30, 2022. 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 Furnishings 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 includes Bradington-Young, Sam Moore, and Shenandoah Furniture. All Other includes H Contract and Lifestyle Brands.*

## **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:

- disruptions involving our vendors or the transportation and handling industries, particularly those affecting imported products from Vietnam, China, and Malaysia, including customs issues, labor stoppages, strikes or slowdowns and the availability and cost of shipping containers and cargo ships;
- the effect and consequences of the coronavirus (COVID-19) pandemic or future pandemics on a wide range of matters including but not limited to U.S. and local economies; our business operations and continuity; the health and productivity of our employees; and the impact on our global supply chain, inflation, the retail environment and our 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 prior U.S. administration’s imposition of a 25% tariff on certain goods imported into the United States from China including almost all furniture and furniture components manufactured in China, which is still in effect, with the potential for additional or increased tariffs in the future;
- risks associated with our reliance on offshore sourcing and the cost of imported goods, including fluctuation in the prices of purchased finished goods, freight costs, including the price and availability of shipping containers, vessels, ocean and domestic trucking, and warehousing costs and the risk that a disruption in our offshore suppliers could adversely affect our ability to timely fill customer orders;
- 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 related to the recent Sunset West acquisition including integration costs, maintaining Sunset West’s existing customer relationships, the loss of key employees from Sunset West, the disruption of ongoing businesses or inconsistencies in standards, controls, procedures and policies across the business which could adversely affect our internal control or information systems and the costs of bringing them into compliance and failure to realize benefits anticipated from the acquisition;

- 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;
- 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 and the adverse effects of negative media coverage;
- disruptions and damage (including those due to weather) affecting our Virginia, Georgia, North Carolina or California warehouses, our Virginia or North Carolina administrative facilities, our North Carolina and Las Vegas showrooms or our representative offices or warehouses in Vietnam and China;
- risks associated with our newly leased warehouse space in Georgia including information systems, access to warehouse labor and the inability to realize anticipated cost savings;
- the risks specifically related to the concentrations of a material part of our sales and accounts receivable in only a few customers, including the loss of several large customers through business consolidations, failures or other reasons, or the loss of significant sales programs with major customers;
- our inability to collect amounts owed to us or significant delays in collecting such amounts;
- 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;
- the direct and indirect costs and time spent by our associates associated with the implementation of our Enterprise Resource Planning system (“ERP”), including costs resulting from unanticipated disruptions to our business;
- achieving and managing growth and change, and the risks associated with new business lines, acquisitions, including the selection of suitable acquisition targets, restructurings, strategic alliances and international operations;
- the impairment of our long-lived assets, which can result in reduced earnings and net worth;
- capital requirements and costs;
- 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.



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 Furnishings Corporation

## Part I

### ITEM 1. BUSINESS

Hooker Furnishings Corporation, incorporated in Virginia in 1924, is a designer, marketer and importer of casegoods (wooden and metal furniture), leather furniture, fabric-upholstered furniture and outdoor 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 2020 shipments to U.S. retailers, according to a 2021 survey by a leading trade publication.

#### Recent Sunset Acquisition

On January 31, 2022, the first day of our 2023 fiscal year, we entered into an Asset Purchase Agreement (the "Asset Purchase Agreement") with Sunset HWM, LLC ("Sunset West") and its three members (the "Sunset West Members") to acquire substantially all of the assets of Sunset West (the "Sunset Acquisition"). Simultaneously, we closed on the transaction by paying \$23.5 million in cash and \$2 million subject to an escrow arrangement and possible earn-out payments to the Sunset West Members up to an aggregate of \$4 million with the closing cash consideration subject to adjustment for customary working capital estimates. Under the Asset Purchase Agreement, the Company also assumed specified liabilities of Sunset West.

Sunset West is a leading West Coast-based manufacturer of outdoor furniture with its headquarters in Vista, California. The transaction enables us to immediately gain market share in the growing outdoor furniture segment of the industry with one of the most respected brands in the category. For more information regarding the Sunset Acquisition, please see Note 20 Subsequent Events to our Consolidated Financial Statements on page F-31.

#### 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 16 -Segment Information 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. Hooker Furnishings Corporation consists of the following three operating segments and "All Other":

- 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, ready-to-assemble (RTA) furniture category and Clubs channel in its wind-down phase. Due to low profitability, we began exiting the RTA furniture category and warehouse clubs (Clubs) channel in fiscal 2022.

- 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.

While we are still analyzing Sunset West’s operations and the requirements of ASC 280: *Segment Reporting*, we anticipate Sunset West will be included in the Domestic Upholstery segment.

## Sourcing

### *Imported Products*

We have sourced products from foreign manufacturers for over thirty years, predominantly from Asia. Imported casegoods and upholstered furniture together accounted for approximately 82% in fiscal 2022 and 83% of our net sales in both fiscal 2021 and fiscal 2020.

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 our foreign suppliers’ factory capacities, factory shutdowns, and delays caused by the COVID-19 pandemic and possible similar health-related issues, much higher ocean freight costs, container and vessel space availability, currency exchange rate fluctuations, 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 25% tariff on certain goods imported into the United States from China, including almost all furniture and furniture components manufactured in China since fiscal 2019. In response to these tariffs, we began re-sourcing products from non-tariff countries, primarily Vietnam, and to a lesser extent Malaysia, and reduced our Chinese imports to less than 15% by the end of fiscal 2022.

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, China, or Malaysia 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, a disruption in our supply chain from a major furniture supplier, or from Vietnam, China, or Malaysia in general, could decrease our sales, earnings and liquidity.

In the summer of calendar 2021, many of our Vietnam and Malaysia suppliers were temporarily closed or operating at reduced capacity due to a COVID-19-related lockdown and did not fully resume until after the Lunar New Year holidays in calendar 2022. Slower-than expected re-openings and delays at the factories, along with constrained container and steamship availability, negatively impacted shipments and sales at our Home Meridian segment and the inventory levels at our Hooker Branded segment, which resulted in out-of-stock issues and decreased sales. Additionally, port congestion has led to delays in unloading furniture once it reaches U.S. ports. All of these factors, combined with the production halt that regularly occurs at the Lunar New Year holidays, have significantly lengthened the time it takes to ship and receive goods and our order backlog is at historic levels.

Given the sourcing capacity available in Vietnam, China, Malaysia 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. However, under certain circumstances, we may re-negotiate pricings during the year. During fiscal 2022, due to the global supply chain crisis and inflation pressure in Asia and the U.S., we were forced to re-negotiate prices multiple times during the year. We accept the exposure to exchange rate movements during 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 the 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 the 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. Our five largest domestic upholstery suppliers accounted for 32% of our raw materials purchases for domestic upholstered furniture manufacturing operations in fiscal 2022. In the first half of fiscal 2022, we experienced shortages of foam which had a short-term but material impact on production levels, sales volume and operating efficiencies for that same period. Should disruptions with these suppliers occur, other than macro disruptions affecting all such suppliers, we believe we could successfully source these products from other suppliers without significant disruption to our operations. For example, as of the date of this report, our SFI division is in the process of re-sourcing Russian Birch plywood as a result of possible tariffs and lack of availability due to the current conflict in Ukraine.

### **Customers**

Our home furnishings products are sold through a variety of retailers including independent furniture stores, department stores, mass merchants, national chains, catalog merchants, interior designers, e-commerce retailers and warehouse clubs. No single customer accounted for more than 8% of our consolidated sales in fiscal 2022. Our top five customers accounted for approximately 26% of our fiscal 2022 consolidated sales. The loss of any one or more of these customers would have a material adverse impact on our business. Roughly 2% of our sales in fiscal 2022 were to international customers. We define sales to international customers as sales to customers outside of the United States and Canada since our independent domestic sales force services both countries.

### **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, Georgia and California, and in limited cases, from customer operated warehouses in strategic locations. We are in the process of consolidating our Home Meridian segment's North Carolina warehousing operations into an 800,000 square foot distribution center in Liberty County, Georgia, which we occupied in the Fall of 2021. We believe that this strategically located facility near the Port of Savannah and major interstate highways will allow us to more efficiently service our customers, reduce transportation costs and better position us for future growth.

## 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.

In the summer of calendar 2021, factories in Vietnam and Malaysia were temporarily closed due to COVID-related lockdown. Slower than expected re-openings and factory delays led to low inventory receipts in the second half of the year in Hooker Branded segment, which ships the majority of its products from U.S. warehouses to customers. Additionally, container availability and steamship capacity continued to be challenging. We expect these conditions to improve as we move through the second quarter of fiscal 2023.

Most of the Hooker Branded segment's products are shipped from our US warehouses, while a large percentage of products sold at our Home Meridian segment are not warehoused by us but ship directly to our customers and thus not included as inventory. However, Home Meridian's warehoused inventory increased \$7 million as compared to the end of the prior fiscal year, due primarily to increased inventory in Home Meridian's Accentrics Home division. Generally, our domestic upholstery segment products are made to order and shipped shortly after they are produced; however, due to the domestic truck driver shortage, shipments of this segment's finished goods slowed somewhat in fiscal 2022. We do not carry significant amounts of 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. We purchase accounts receivable insurance on certain customers 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 (free on board origin, which means the buyer is responsible for the costs and liability of the freight during transport) 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 January 30, 2022, our backlog of unshipped orders was as follows:

Reporting Segment	Order Backlog (Dollars in 000s)			
	January 30, 2022		January 31, 2021	
	Dollars	Weeks	Dollars	Weeks
Hooker Branded	\$ 68,925	17.9	\$ 34,776	11.1
Home Meridian	167,968	31.3	180,188	33.2
Domestic Upholstery	67,068	34.1	30,271	18.8
All Other	6,148	27.2	2,845	12.8
Consolidated	\$ 310,109	27.2	\$ 248,080	23.9

In the discussion below and herein we reference changes in sales orders or “orders” and sales order backlog (unshipped orders at a point in time) or “backlog” over and compared to certain periods of time and changes discussed are in sales dollars and not units of inventory, unless stated otherwise. We believe orders are generally good current indicators of sales momentum and business conditions. If the items ordered are in stock and the customer has requested immediate delivery, we generally ship products in about seven days or less from receipt of order; however, orders may be shipped later if they are out of stock or there are production or shipping delays or the customer has requested the order to be shipped at a later date. 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.

For the Hooker Branded and Domestic Upholstery segments and All Other, we generally consider 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, we do not consider order backlogs to be a reliable indicator of expected long-term sales. We generally 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, and mega account channels of distribution, (iii) the proprietary nature of many of its products and (iv) the project nature of its hospitality business, for which average order sizes tend to be larger and consequently, its order backlog tends to be larger. There are exceptions to the general predictive nature of our orders and backlogs noted in this paragraph due to current demand and supply chain challenges related to the COVID-19 pandemic. They are discussed in greater detail below and are essential to understanding our prospects.

We are very encouraged by the current historic levels of orders and backlogs; however, due to the current supply chain issues including the lack and cost of shipping containers and vessel space and limited overseas vendor capacity, orders are not converting to shipments as quickly as would be expected compared to the pre-pandemic environment and we expect that to continue at some level through at least the fiscal 2023 second quarter. The current logistics challenges are slowing order fulfillment, particularly for Home Meridian whose average order sizes tend to be larger and more project-based versus orders for the traditional Hooker businesses, which tend to be smaller and more predictable. Additionally, Home Meridian orders are programmed out and scheduled for delivery to its larger accounts further into the future than usual, which is also contributing to its large backlog.

At the end of fiscal 2022, order backlog increased \$62 million or 25% as compared to the prior year end due largely to increased incoming orders in the Hooker Branded and Domestic Upholstery segments, and to a lesser degree, continued supply chain disruptions and delays affecting those segments.

### **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.

### **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 federal 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.



We are actively working to refine our environmental stewardship based on current best practices, shareholder expectations and regulatory developments. Our environmental steering committee meets at least monthly to discuss the development and implementation of environmental initiatives and our Board is updated at least quarterly on those initiatives. We note the following ongoing activities and new developments:

- won the Sustainable Furnishings Council Green Ribbon Award for our Octavius Cocktail Table for design, aesthetics, sustainability, and ingenuity;
- became EFEC (“Enhancing Furniture’s Environmental Culture”) certified at Hooker Branded, Sam Moore, and Bradington-Young facilities;
- began using FSC (“Forest Stewardship Council”) compliant paper products and replaced Styrofoam packing with recyclable material for repacking in all distribution centers;
- switched to LED lighting and cleaner-operating electric forklifts in many locations including our new distribution center in Georgia;
- recycled, reused or repurposed substantially all of our pallets;
- repurposed wood chips and sawdust from Bradington-Young and the Shenandoah Valdese and Mount Airy facilities for use in the farming industry;
- disposed of eWaste using an EPA compliant eWaste recycling firm in all divisions; and
- provided monetary support to the Sustainable Furnishings Council, the Arbor Day Foundation, the Eco-Council of the Dan River basin, and Foothills Conservancy to support various projects including reforestation in Florida and clean-up efforts in local counties.

## **Human Capital Resources**

As of January 30, 2022, we had 1,294 full-time employees, of which 242 were employed in our Hooker Branded segment, 371 were employed in our Home Meridian segment, 674 were employed in our Domestic Upholstery segment and 7 were employed in All Other. 1,091 employees were located in the United States and 203 were located in Asia. None of our employees are represented by a labor union. We consider our relations with our employees to be good.

We are committed to creating a diverse, equitable and inclusive space for all our employees, customers and retail partners. The core values of our company include integrity, caring and inclusivity that affirms every individual. Our leadership team is committed to fostering an environment where everyone is welcomed, respected, listened to and valued for their unique contributions to the organization, and to providing a work environment that is free from all forms of harassment, discrimination and inequality. We recruit, employ, train, promote and compensate our employees without regard to race, ethnicity, age, gender, gender identity, religion, national origin, citizenship, marital status, veteran’s status or disability. All facilities have established human resource departments with formal hiring processes and controls in place to ensure ethical and fair hiring practices. The action steps that we have taken recently or are working on currently include:

- formed a Diversity, Equity, and Inclusion (DEI) leadership team with over 15 senior executives representing all divisions of the Company meeting on a regular basis to guide both short- and long-term goals in addition to creating the overall strategic direction of DEI at the Company;
- formed an employee-led Diversity Council consisting of a diverse group of employees;
- partner with an outside DEI consultant to assist in crafting a plan to embed DEI culturally;
- provide diversity, equity and inclusion training for all employees; and
- formalized our Occupational Health and Safety Policy.

We compensate employees competitively relative to the industry and local labor market, and in accordance with all applicable federal, state and local wage, work hour, overtime and benefit laws. In addition, we offer competitive benefits to support the well-being of all employees including health insurance, disability and life insurance, wellness credits, paid time off, a 401(k) savings plan with company-match, an employee assistance program, and educational stipends to children and spouses of our employees (excluding family members of officers and board directors of the Company). Additionally, need and merit-based renewable undergraduate college scholarships are available through the Hooker Educational Scholarship Fund for children and spouses of full-time employees, excluding family members of current and former officers and board directors of the Company.

### **Patents and Trademarks**

The Hooker Furnishings, 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, MARQ and Sunset West trade names represent many years of continued business. We believe these trade names are well-recognized and associated with quality and service in the furnishings 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 [hookerfurnishings.com](http://hookerfurnishings.com), [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), [hcontractfurniture.com](http://hcontractfurniture.com) and [sunsetwestusa.com](http://sunsetwestusa.com). We make available, free of charge through our Hooker Furnishings website [hookerfurnishings.com](http://hookerfurnishings.com), 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@hookerfurnishings.com](mailto:earmstrong@hookerfurnishings.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.

### **► Risks related to COVID-19 and future pandemics**

#### **The impact of COVID-19 and future pandemics could adversely affect our business, results of operations, financial condition and liquidity, and stock price.**

The COVID-19 pandemic is a serious threat to health and economic well-being affecting our customers, our associates and our suppliers. Home furnishings purchases are largely postponable and heavily influenced by consumer confidence and most of our customers' businesses are classified as non-essential. Consequently, traffic to our customers' stores and demand for our products significantly decreased at the initial height of the pandemic, our sales deteriorated and our earnings were negatively impacted. COVID-19 also impacted our Asian supply chain, particularly as a result of mandatory shutdowns in locations where our products are manufactured, and we experienced out-of-stocks and lost sales as a result. Additionally, the demand surge that occurred after the initial height of the pandemic continues to cause supplier capacity restraints, shipping container and steamship space shortages. These logistics issues have increased costs, led to out-of-stocks and adversely affected our sales and earnings. Our sales order backlog is at historic levels due to these factors, and we cannot assure that we will be able to convert this backlog into sales at a normal pace or at all. We face the risk that current consumer demand could soften, or our customers could go elsewhere for products if our competitors are able to solve the current issues and we cannot. Alternatively, solving these issues may significantly diminish our profit margins if we are unable to offset these additional costs.

The extent of the continued impact of COVID-19 on our business and financial results depends on future developments, including the emergence of new and different strains of the virus and the effectiveness of vaccinations and other public health measures. Other pandemics are also possible with similar or worse public health outcomes.

The sweeping nature of pandemics makes it extremely difficult to predict how our business and operations could be affected in the longer run. Any of the foregoing factors, or other cascading effects of this or other pandemics, 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.

► **Risks related to our business and industry**

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

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

In fiscal 2022, imported products sourced from Vietnam and China accounted for 88% of our import purchases and our top five suppliers in Vietnam and China accounted for 42% of our fiscal 2022 import purchases. Our supply chain could be adversely impacted by the uncertainties of health concerns and governmental restrictions. A disruption in our supply chain, or from Vietnam, China or Malaysia in general, could significantly impact our ability to fill customer orders for products manufactured in those countries. For example, in the summer of calendar 2021, our suppliers in Vietnam and Malaysia were temporarily closed or operated at substantially reduced levels due to a COVID-related lockdown. We faced supply chain constraints including but not limited to slower-than-expected re-openings, capacity limitations and production delays at some of our suppliers, along with the reduced shipping container and ocean vessel space availability. Home Meridian segment shipping and sales were immediately impacted as the majority of its business is container direct customers. In the fourth quarter of fiscal 2022, Hooker Branded segment sales were also impacted due to low inventory receipts in the second half of fiscal 2022 which consequently resulted in out-of-stocks. In some cases, we were able to provide substitutions using inventory on hand, in-transit and from our domestic warehouses, but not enough to entirely mitigate the lost sales. 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. If we are 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, China or Malaysia in general, could adversely affect our sales, earnings, financial condition and liquidity.

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

Transportation costs, including ocean freight costs and domestic trucking costs, on imported products currently represent a significant portion of the cost of those products. Transportation costs on our imported products are affected by a myriad of factors including the global economy, petroleum prices and ocean freight carrier capacity. We have seen a significant spike in these costs over the past year and our profitability has been materially impacted. We have implemented price increases and surcharges; however, there can be no assurance that we will be successful in increasing prices or receiving freight surcharges in the future or that we can do it quickly enough to offset increased costs. Increased transportation costs, both domestically and internationally, 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.

- **Potential future increases in tariffs on manufactured goods imported from China or new tariffs imposed on other countries from which we source, including Vietnam, could adversely affect our business.**

Effective September 24, 2018, the prior 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 and such tariffs have not been repealed. New tariffs could be imposed on manufactured goods from other countries from which we source, including Vietnam. 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.

- **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 during 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 and fiscal 2021 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, Georgia 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, North Carolina and California.

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 by COVID-19 and we experienced some COVID-related employee absences. During the initial height of the COVID-19 crisis in early calendar 2020, we activated business continuity plans and many administrative employees telecommuted given recommendations for social distancing and most of our domestic manufacturing facilities temporarily closed or operated at reduced levels. We also instituted increased cleaning regimens and social distancing and masking protocols for office, manufacturing and warehousing associates. As COVID-infection rates have decreased, more administrative employees have returned to our offices and social distancing and masking protocols have adjusted to current public health guidelines. 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.

### **Labor shortages could disrupt operations at our domestic warehousing and manufacturing facilities**

Demand for home furnishings rose after the COVID-19 pandemic and led to higher-than-normal order rates and historic levels of order backlogs. We hired an increased number of employees in all three segments during fiscal 2022 in response to business growth. It has become increasingly difficult to recruit skilled labor into our domestic upholstery plants and training and turnover costs have increased. In fiscal 2022, lack of qualified workers and high turnover in a variety of positions caused increased training costs, adversely affected our production schedules and the ability to ship our furniture products, which adversely affected our sales, earnings and liquidity. Should these issues persist or increase due to the COVID-19 pandemic or similar pandemics in the future, our sales, earnings, financial condition and liquidity could again be adversely affected.

### **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. For example, our domestic upholstery segment experienced foam allocations of between 60-75% of requested amounts in early fiscal 2022 which negatively impacted production efficiencies for several months. Later we experienced raw material cost inflation for nearly all of our raw materials and higher freight surcharges to bring in these materials. We may not always be able to pass price increases on raw materials through to our customers due to competition and other market pressures. In addition, the price increases are frequently implemented on future orders instead of existing order backlogs. Considering our lead times of five to six months, the benefits of new pricing could be offset by continued price increases from our suppliers that could impact us before we realize the benefit from our price increases. The inability to meet customers' demands or recover higher costs could adversely affect our sales, earnings, financial condition and liquidity.

In 2021, Russia was the third largest source of US hardwood plywood imports. Due to the current Ukraine-Russia conflict, the U.S. House of Representatives voted to raise tariffs on some Russian imports, which could impose tariffs of 40% to 50% on Russian Birch. Currently, 50% - 60% of the plywood used at our Shenandoah (SFI) division is Russian birch. Based on current rates of sale, we believe we have an adequate supply to support SFI manufacturing operations through mid-to-late summer 2022. SFI has begun the process of switching from the Russian Birch to another plywood species and are currently working with suppliers and testing those products. If we are unable to find a suitable replacement for Russian Birch before we exhaust our supply, our sales, earnings and liquidity could be adversely affected.

**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.

**A material part of our sales and accounts receivable are concentrated in a few customers. The loss of several large customers through business consolidations, the loss of a major customer or significant sales programs with major customers, 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 8% of our consolidated sales in fiscal 2022, our top five customers accounted for about 26% of our fiscal 2022 consolidated sales. Approximately 25% 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, the loss of major product placements, 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.

Sales and earnings in the Clubs channel of our Home Meridian segment are subject to higher volatility than other distribution channels subject to our success or failure in developing suitable products at acceptable prices for this channel. The Clubs channel has proven to be a particularly difficult channel in which to do business. We have taken steps to minimize our exposure in this channel however, given the relatively liberal return policies in this channel, we are subject to higher-than-normal customer chargebacks. While we accrue estimated amounts for chargebacks based on sales and chargeback history, those accruals may not be adequate and given the relative size of customers in this channel, we may not be successful in negotiating resolutions to these extra costs. Consequently, our sales and earnings could be adversely affected.

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. We 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.

**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.

### **The implementation of our Enterprise Resource Planning system could disrupt our business.**

We are in the process of implementing a common Enterprise Resource Planning (ERP) system across all divisions and expect to go-live with this system in our Hooker Branded segment in the second half of our 2023 fiscal year, with other segments and divisions following thereafter. Although we currently expect the ERP implementation to increase efficiencies by leveraging a common, cloud-based system throughout all divisions and standardizing processes and reporting, our ERP system implementation may not result in improvements that outweigh its costs and may disrupt our operations. Our inability to mitigate existing and future disruptions could adversely affect our sales, earnings, financial condition and liquidity. The ERP system implementation subjects us to substantial costs and inherent risks associated with migrating from our legacy systems. These costs and risks could include, but are not limited to:

- Significant capital and operating expenditures;
- Disruptions to our domestic and international supply chains;
- Inability to fill customer orders accurately and on a timely basis, or at all;
- Inability to process payments to suppliers, vendors and associates accurately and in a timely manner;
- Disruption to our system of internal controls;
- Inability to fulfill our SEC or other governmental reporting requirements in a timely or accurate manner;
- Inability to fulfill international, federal, state, or local tax filing requirements in a timely or accurate manner; and
- Increased demands on management and staff time to the detriment of other corporate initiatives.

### **We may engage in acquisitions and investments in companies, form strategic alliances and pursue new business lines. These activities could disrupt our business, divert management attention from our current business, pose integration concerns, dilute our earnings per share, decrease the value of our common stock and decrease our earnings and liquidity.**

Our growth strategy includes growth by acquisition, which is highly dependent upon finding attractive targets and there can be no assurance those targets will be found. We may acquire or invest in businesses such as those that offer complementary products or 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, personnel and management attention. 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 fail to realize all of the anticipated benefits of the Sunset West acquisition.**

We incurred significant acquisition and acquisition-related costs in fiscal 2022 in connection with the Sunset West acquisition and expect to incur additional integration-related costs in fiscal 2023, but we may fail to realize all the anticipated benefits of the acquisition or they may take longer to realize than expected. While we believe the Sunset West acquisition will be accretive to our earnings per share beginning in fiscal 2023, this expectation is based on preliminary estimates which may materially change. Although we do not expect to merge operations or change customer-facing services, the success of this acquisition will depend, in part, on our ability to improve each business by sharing best practices in order to lower costs, improve efficiencies and grow sales. We have based our expectations in part on the historical results and trends in Sunset West's business; however there can be no assurance regarding when or the extent to which we will be able to realize these benefits. Achieving the anticipated benefits is subject to a number of uncertainties, including whether the business acquired can be operated in the manner we intend. Events outside of our control could also adversely affect our ability to realize the anticipated benefits from the acquisition. Thus, the integration of Sunset West's business may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired business will perform in accordance with our expectations, or that our expectations with respect to integration or benefits as a result of the contemplated acquisition will materialize.

The integration process could result in the loss of key employees, the disruption of ongoing businesses or inconsistencies in standards, controls, procedures and policies. If the integration is not completed as planned, our ongoing business and financial results may be adversely affected, which could adversely affect our sales, earnings, financial condition and liquidity.

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

At January 30, 2022, we had \$52.4 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. As an example, COVID-19 had a material impact on our financial performance in the fiscal 2021 first quarter and on the market valuations, discount rates and other inputs used in our intangibles valuation analysis. We determined that an immediate intangible asset valuation was necessary given our performance and changing market dynamics. As a result of the intangible asset valuation analysis, in the fiscal 2021 first quarter, we recorded \$44.3 million in non-cash impairment charges to write down goodwill and certain tradenames in the Home Meridian segment and goodwill in the Shenandoah division of its Domestic Upholstery segment. 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 7 and 8 to our Consolidated Financial Statements for additional information.

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

**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, availability of raw materials and finished inventory and changes in consumer order patterns. From time to time, we have experienced, and may continue to experience, volatility with respect to availability of and 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.

► **Other general risk factors applicable to us and our business**

**We may not be able to maintain, raise prices, or raise prices in a timely manner 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 labor, finished goods, raw materials, freight and other product-related costs, 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.

**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 those caused by pandemics such as COVID-19. 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 or scarcity of transportation and Asian manufacturing capacity during times of increased demand. These events could also impact retailers, who are our primary customers, possibly adversely affecting 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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



## ITEM 2. PROPERTIES

Set forth below is information with respect to our principal properties on April 15, 2022. We believe all of these properties are well-maintained and in good condition. During fiscal 2022, we estimate our upholstery plants operated at approximately 88% 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 4.1 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	216,505	Leased
Madison, NC	HM	Warehouse	500,000	Leased
Midway, GA	HM	Warehouse	798,560	Leased
Bedford, VA	DU	Manufacturing and Offices	327,000	Owned
Hickory, N.C.	DU	Manufacturing and Offices	166,000	Owned
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
Ho Chi Minh City, VN	HB, HM	Office, Warehouse and Distribution	108,364	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 Furnishings' executive officers and their ages as of April 15, 2022 and the calendar year each joined the Company are as follows:

Name	Age	Position	Year Joined Company
Jeremy R. Hoff	48	Chief Executive Officer and Director	2017
Paul A. Huckfeldt	64	Chief Financial Officer and Senior Vice President - Finance and Accounting	2004
Anne J. Smith	60	Chief Administration Officer and President-Domestic Upholstery	2008
Tod R. Phelps	53	Senior Vice President - Operations and Chief Information Officer	2017

**Jeremy R. Hoff** has been Chief Executive Officer and Director since February 2021. Mr. Hoff served as President of Hooker Legacy Brands from February 2020 to January 2021, 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.

**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 J. Smith** has been Chief Administration Officer and President – Domestic Upholstery since February 2021. Ms. Smith served as Chief Administration Officer from July 2018 to January 2021, 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.

**Tod R. Phelps** has been Chief Information Officer and Senior Vice President – Operations since February 2021. Mr. Phelps joined the Company in April 2017 as Chief Information Officer. From March 2014 to April 2017, he served as Chief Technology Officer of Heritage Home Group, LLC.

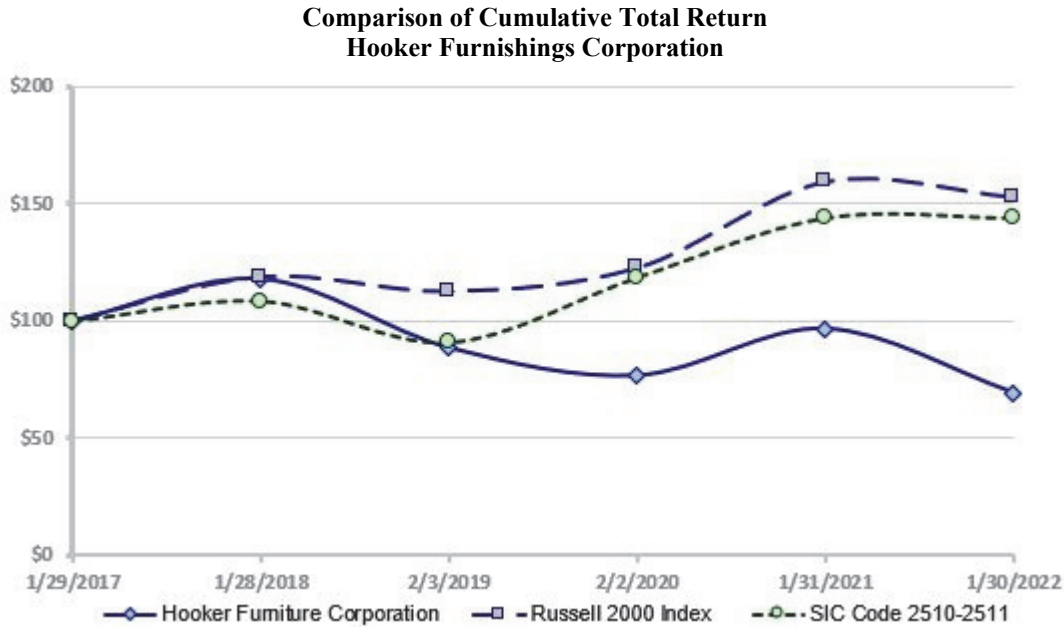
**Hooker Furnishings Corporation**  
**Part II**

**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 January 30, 2022, we had approximately 9,600 beneficial shareholders. As we have done in the past, 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.

**Performance Graph (1)**

The following graph compares cumulative total shareholder return for the Company with a broad performance indicator, the Russell 2000® Index (2), and a published industry index, the Household Furniture Index (3), for the period from January 29, 2017 to January 30, 2022.



- (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 January 30, 2022, 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 Furnishings Corporation, Sleep Number Corp., Kimball International, Inc., Luvu Brands, Inc., Tempur Sealy International, Inc., Compass Diversified Holdings, Natuzzi Spa, Purple Innovation, Inc., Casper Sleep Inc., Bassett Furniture Industries, Inc., Ethan Allen Interiors, Inc., Horison Resources, Inc., The Rowe Companies, Dorel Industries, and Instadose Pharma Corp.

## ITEM 6. SELECTED FINANCIAL DATA

SEC disclosure rules no longer require the presentation of selected financial data; however, based on shareholder and internal feedback we continue to provide this information. 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)				
	January 30, 2022	January 31, 2021	February 2, 2020	February 3, 2019	January 28, 2018
	(In thousands, except per share data)				
<b>Income Statement Data:</b>					
Net sales	\$ 593,612	\$ 540,081	\$ 610,824	\$ 683,501	\$ 620,632
Cost of sales	491,910	427,333	496,866	536,014	485,815
Casualty loss (2)	-	-	-	500	-
Gross profit	101,702	112,748	113,958	146,987	134,817
Selling and administrative expenses (3)	84,475	80,410	88,867	91,928	87,279
Goodwill impairment (4)	-	39,568	-	-	-
Trade names impairment (4)	-	4,750	-	-	-
Intangible asset amortization (4)	2,384	2,384	2,384	2,384	2,084
Operating income / (loss)(3)	14,843	(14,364)	22,707	52,675	45,454
Other income, net (3)	373	336	458	369	1,566
Interest Expense, net	110	540	1,238	1,454	1,248
Income / (loss) before income taxes	15,106	(14,568)	21,927	51,590	45,772
Income tax expense / (benefit)	3,388	(4,142)	4,844	11,717	17,522
Net income / (loss)	11,718	(10,426)	17,083	39,873	28,250
<b>Per Share Data:</b>					
Basic earnings/(loss) per share	\$ 0.99	\$ (0.88)	\$ 1.44	\$ 3.38	\$ 2.42
Diluted earnings/(loss) per share	0.97	(0.88)	1.44	3.38	2.42
Cash dividends per share	0.74	0.66	0.61	0.57	0.50
Net book value per share (5)	22.01	21.76	23.25	22.37	19.53
Weighted average shares outstanding (basic)	11,852	11,822	11,784	11,759	11,633
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 69,366	\$ 65,841	\$ 36,031	\$ 11,435	\$ 30,915
Trade accounts receivable	73,727	83,290	87,653	112,557	92,803
Inventories	75,023	70,159	92,813	105,204	84,459
Working capital	170,777	169,612	171,838	170,516	153,162
Total assets	374,559	352,273	393,708	369,716	350,058
Long-term debt (including current maturities) (6)	-	-	30,138	35,508	53,425
Shareholders’ equity	261,128	257,503	274,121	263,176	229,460

- (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 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).

- (4) Represents impairment charges and amortization expense on acquisition-related intangibles. See Note 8 to our Consolidated Financial Statements 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) Long-term debt (including current maturities) consisted of term loans incurred to fund a portion of the Home Meridian and Shenandoah acquisitions. We paid off the term loans in January 2021.

## **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.hookerfurnishings.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 in Note 17 to our Consolidated Financial Statements on page F-30 of this report. This note describes 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 2022 compared to fiscal 2021. We also provide information regarding the performance of each of our operating segments and All Other. The analysis and discussions of fiscal 2021 compared to fiscal 2020 results are in our 2021 Form-10K available through Hooker Furnishings and SEC websites.

Unless otherwise indicated, references to the “Company”, “we,” “our” or “us” refer to Hooker Furnishings 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.

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. See Note 16 to our consolidated financial statements for additional financial information regarding our segments.



## Overview

Hooker Furnishings 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, contract and outdoor 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 2020 shipments to U.S. retailers, according to a 2021 survey by a leading trade publication.

## Executive Summary- Fiscal 2022 Results of Operations

Consolidated net sales increased by \$53.5 million, or 9.9%, compared to the prior year period, due to over 20% increases in sales in both Hooker Branded and Domestic Upholstery segments, partially offset by a 1.2% sales decrease in the Home Meridian segment. Despite the sales increases and slight sales decrease in the Home Meridian segment, consolidated gross profit and margin both decreased due to excess freight costs and product cost inflation in the Home Meridian segment and, to a lesser extent, in the Hooker Branded segment, as well as ready-to-assemble ("RTA") product cancellation costs in the Home Meridian segment incurred as we exited that product category. Consolidated operating income was \$14.8 million compared to a \$14.4 million operating loss in the prior year period. The prior year loss was driven by \$44.3 million (\$33.7 million net of tax) non-cash intangible assets impairment charge. Consolidated net income was \$11.7 million or \$0.97 per diluted share, as compared to net loss of \$10.4 million or (\$0.88) per diluted share in the prior year period.

Our fiscal 2022 performance is discussed in greater detail below under "Review" and "Results of Operations".

## Review

We started fiscal 2022 with strong order backlogs carried over from the prior year end and reported significantly increased sales and profits in the first two quarters. Although we were pleased that favorable demand for home furnishings continued through the year, ongoing global supply chain disruptions, the COVID lockdowns in Vietnam and Malaysia and the slower than expected re-openings of our suppliers in those two countries, coupled with freight and product inflationary pressures adversely affected our sales and profitability. We reported a 9.9% consolidated net sales increase and \$14.8 million in operating income and finished fiscal 2022 with a consolidated order backlog 25% higher over the level at the end of our fiscal 2021 year-end.

*The Hooker Branded segment's* net sales increased by \$38.3 million, or 23.5%, as compared to the prior fiscal year, which was attributable to increased sales volume and lower discounting driven by higher demand. About 80% of the net sales increases were in our casegoods non-container business as we were better able to manage our inventory availability and keep our best-selling products in stock during the first half of fiscal 2022. However, the unexpected COVID-related lockdown at our suppliers in Vietnam and Malaysia for nearly three months, beginning in August and their slow re-openings coupled with continued difficulty obtaining shipping containers and vessel space caused low inventory receipts in the second half of this year which resulted in out-of-stock issues and decreased net sales in the fourth quarter. On a more positive note, the majority of shipments in this segment carried the price increases we implemented in July 2021 to mitigate higher ocean freight and product cost inflation. Hooker Branded reported \$30.7 million operating income or 15.3% operating margin, an increase of \$7.8 million or 34.3% as compared to the prior year. Given the current economic conditions, we are pleased to have maintained Hooker Branded segment profitability. Incoming orders increased by 24.2% as compared to prior year period when business dramatically rebounded. Backlog remained historically high and nearly doubled as compared to the prior year end when backlog was already at a high level, with part of that increase being due to lower shipments in the fourth quarter.

*The Home Meridian segment* had a difficult year with net sales decreasing by \$3.5 million, or 1.2%, as compared to the prior year. This segment also reported a \$21.3 million operating loss. Despite the disappointing financial results, we believe the challenges are short-term and the strategic decisions made by management will provide us with opportunities to significantly improve profitability in the coming year.

- Net sales decreased due to sales declines with e-commerce and Clubs channels, and the hospitality business, nearly offset by sales increases with mass merchants and major furniture chains driven by higher demand. E-commerce sales decreased by 30% due to lower demand (which was driven by higher product costs due to excess freight costs) and inventory availability issues. Clubs sales decreased due to lower volume (which was intentional as we began exiting this channel in fiscal 2022) and \$2.9 million of higher than expected chargebacks which negatively impacted net sales. Hospitality sales also decreased during the year as capital spending in the hospitality industry is still recovering from the COVID crisis. On a more positive note, hospitality order backlog at fiscal 2022 year-end was higher than prior year end. In the summer of 2021, the temporary COVID lockdowns at our suppliers in Vietnam and Malaysia immediately impacted shipments and sales as the majority of revenue in this segment is container direct sales. The sales volume loss during the second half of this year largely offset the sales increases in the first and second quarters.

- Higher freight costs adversely impacted gross margin by 530 bps in fiscal 2022 and were the primary driver of increased product costs. Home Meridian's Accentrics Home division, was impacted the most by higher freight costs due to the lower sales value of its product. We imposed freight surcharges and price increases during the second and third quarters to mitigate these excess costs; however, significant volume was shipped at pre-surcharge selling prices.
- To help improve future profitability, eliminate low-margin categories and avoid unnecessary costs, we took steps to optimize our product, sales channel and customer mix at Home Meridian.
  - Current freight costs made our RTA furniture products unprofitable. Consequently, we exited the RTA furniture category and incurred one-time order cancellation costs of \$2.6 million. We estimate we avoided at least \$10 million of additional costs by exiting this category.
  - Due to continued poor profitability and excess chargebacks of \$2.9 million, we made the decision to exit the Clubs channel and incurred one-time order cancellation costs of \$900,000.
- Although these actions adversely affected our sales and earnings and helped drive an operating loss at Home Meridian, we believe these actions allow us to focus resources on more profitable business and stable channels to drive long-term growth. We are also in the process of redefining our e-commerce business' price points.

*The Domestic Upholstery segment* net sales increased by \$18.6 million, or 22.2%, in fiscal 2022 due to double-digit sales increases at all three divisions as well as the absence of factory shutdowns in the current year. However, gross margin decreased as compared to the prior year and pre-pandemic levels as this segment faced several manufacturing constraints which adversely impacted profitability. Raw material cost increases and higher freight surcharges increased product costs by 360 bps. The foam shortage we experienced early in fiscal 2022 and inconsistent deliveries of raw materials due to supply chain disruptions with our suppliers adversely impacted our production levels. Labor shortages and inefficiencies at the Sam Moore division also impacted manufacturing capacities and resulted in higher over-time at already inflated wage rates. We filled key positions at Sam Moore to improve labor productivity and reevaluated pay and benefits in order to attract and retain qualified employees. In addition, domestic driver and truck shortages adversely impacted the delivery of finished products. Despite increased material and labor costs, this segment reported operating income of \$4.3 million, or a 4.2% operating margin as compared to a \$12.4 million operating loss in the prior year, which was attributable to \$16.4 million non-cash intangible assets impairment charge. Incoming orders increased by 38% and this segment finished the year with an order backlog 122% higher than prior year, when backlog levels were already at a historical high. We implemented price increases and surcharges in July and October of 2021 to mitigate increased material costs. Since this segment has current order backlog levels of 5-6 months from when the sale was made and prices were not increased on backlog orders, we anticipate seeing the benefits of the price increases beginning in the second quarter of fiscal 2023. However, these benefits could be offset by continuing price increases from our suppliers that impact us sooner than our price increases.

*All Other* net sales increased by \$197,000 or 1.7% as compared to the prior fiscal year, due principally to sales increase at Lifestyle Brands, a business started in fiscal 2019 targeted at the interior design channel. Although this business is still small, its net sales increased nearly 80% as compared to the prior fiscal year. H Contract's net sales stayed essentially flat as compared to the prior year. The senior living industry, which comprises the majority of H Contract's business, has been severely impacted by the pandemic and has reduced capital spending due to increased costs and uncertain revenues. However, according to an industry survey, with new treatments and increased vaccination rates, especially among the senior population, occupancy level increased in the last two quarters of 2021 despite the later waves caused by delta and omicron variants. H Contract's incoming orders increased by 27% in fiscal 2022 and turned into 44% increased net sales in the fourth quarter, which offset the sales decreases in the first three quarters. H Contract finished the year with backlog 126% higher than prior year end. H Contract's gross profit and margin decreased due to an unfavorable product mix and much of the product sold did not carry the full price increases. All Other reported \$1.1 million operating income or 9.6% operating margin for fiscal 2022.

Cash and cash equivalents stood at \$69.4 million at fiscal 2022 year-end, an increase of \$3.5 million compared to the balance at the fiscal 2021 year-end due primarily to collection of accounts receivable. During fiscal 2022, we used a portion of the \$19.2 million generated from operations and \$372,000 in life insurance proceeds to pay \$8.8 million in cash dividends to our shareholders, \$6.7 million in capital expenditures in our newly opened Georgia distribution center and enhancements of other facilities and systems. In the third quarter of fiscal 2022, our Board of Directors approved the increase of our quarterly dividend to \$0.20 per share, an increase of 11.1% or \$0.02 per share. In fiscal 2022, dividends totaled \$0.74 per share or \$8.8 million in the aggregate paid, an increase of 12.1% or \$0.08 per share, compared to the prior year representing the sixth consecutive annual dividend increase. In addition to our cash balance, we have an aggregate of \$27.9 million available under our \$35 million revolving credit facility with BofA (the “Existing Revolver”) to fund working capital needs and have access to \$26.5 million in cash surrender value of Company-owned life insurance policies. We believe we have the financial resources to fund our business operations for the foreseeable future, including weathering an extended impact of COVID-19 pandemic as well as the logistics issues, cost increases and production capacity constraints which are currently impacting our industry.

## 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</b>		
	<b>January 30, 2022</b>	January 31, 2021	February 2, 2020
Net sales	<b>100.0%</b>	100.0%	100.0%
Cost of sales	<b>82.9</b>	79.1	81.3
Gross profit	<b>17.1</b>	20.9	18.7
Selling and administrative expenses	<b>14.2</b>	14.9	14.5
Goodwill impairment charges	-	7.3	-
Trade name impairment charges	-	0.9	-
Intangible asset amortization	<b>0.4</b>	0.4	0.4
Operating income/(loss)	<b>2.5</b>	(2.7)	3.7
Other income (expense), net	<b>0.1</b>	0.1	0.1
Interest expense, net	-	0.1	0.2
Income/(loss) before income taxes	<b>2.6</b>	(2.7)	3.6
Income tax expense/(benefit)	<b>0.6</b>	(0.8)	0.8
Net income/(loss)	<b>2.0</b>	(1.9)	2.8

## Fiscal 2022 Compared to Fiscal 2021

### Net Sales

	<b>Fifty-two weeks ended</b>						
	<b>January 30, 2022</b>	% Net Sales		January 31, 2021	% Net Sales		<b>\$ Change</b>
Hooker Branded	<b>\$ 200,692</b>	<b>33.8%</b>	\$ 162,442	30.1%	\$ 38,250		23.5%
Home Meridian	<b>278,902</b>	<b>47.0%</b>	282,423	52.3%	(3,521)		-1.2%
Domestic Upholstery	<b>102,283</b>	<b>17.2%</b>	83,678	15.5%	18,605		22.2%
All Other	<b>11,735</b>	<b>2.0%</b>	11,538	2.1%	197		1.7%
Consolidated	<b>\$ 593,612</b>	<b>100%</b>	\$ 540,081	100%	\$ 53,531		9.9%

### Unit Volume and Average Selling Price (“ASP”)

Unit Volume	FY22 % Increase / (Decrease) vs. FY21	Average Selling Price	FY22 % Increase / (Decrease) vs. FY21
Hooker Branded	6.0%	Hooker Branded	16.1%
Home Meridian	-8.9%	Home Meridian	1.4%
Domestic Upholstery	9.6%	Domestic Upholstery	10.8%
All Other	-7.0%	All Other	6.8%
Consolidated	-5.7%	Consolidated	12.2%

Consolidated net sales increased due to sales increases at Hooker Branded and Domestic Upholstery segments, partially offset by a small sales decrease at Home Meridian segment.

- Hooker Branded segment’s net sales increased significantly in fiscal 2022 driven by increased demand. ASP increased in response to higher freight costs and product cost inflation. However, Hooker Branded net sales decreased in the fourth quarter of fiscal 2022 due to inventory unavailability issues. The temporary factory shutdown in Vietnam and Malaysia during the summer resulted in low inventory receipts in the third and fourth quarters of fiscal 2022.
- The Home Meridian segment’s net sales decreased by 1.2% as compared to the prior year period due to decreased unit volume as the result of COVID-19 lockdown in Vietnam and Malaysia, which led to lower shipments. The majority of Home Meridian’s business are container direct customers, which were immediately impacted by factory delays. Net sales and ASP decreased within the e-commerce , hospitality and Clubs channels, partially offset by ASP increases with major furniture chains and retail stores as the result of strong demand.
- Domestic Upholstery net sales increased in fiscal 2022 as all three divisions of this segment reported double digit net sales increases due to high demand and reduced prior-year sales due to temporary COVID-19 factory shutdowns. ASP increased at all three divisions in response to the inflation of raw material costs. Unit volume increased by double digits at Bradington-Young and Shenandoah, while increasing by lower single digits at Sam Moore due to labor inefficiencies.
- All Other net sales increased slightly in fiscal 2022 due to sales increases in the Lifestyle Brands business. H Contract’s net sales were essentially flat as compared to prior year period even though sales rebounded in the fourth quarter when the orders started to improve.

### Gross Profit and Margin

	Fifty-two weeks ended				\$ Change	% Change
	January 30, 2022	% Segment Net Sales	January 31, 2021	% Segment Net Sales		
Hooker Branded	\$ 63,146	31.5%	\$ 51,832	31.9%	\$ 11,314	21.8%
Home Meridian	15,213	5.5%	39,832	14.1%	(24,619)	-61.8%
Domestic Upholstery	19,471	19.0%	17,121	20.5%	2,350	13.7%
All Other	3,872	33.0%	3,963	34.4%	(91)	-2.3%
Consolidated	<u>\$ 101,702</u>	<u>17.1%</u>	<u>\$ 112,748</u>	<u>20.9%</u>	<u>\$ (11,046)</u>	<u>-9.8%</u>

Consolidated gross profit and margin both decreased as compared to the prior fiscal year due principally to significantly decreased gross profit and margin in the Home Meridian segment.

- Hooker Branded segment gross profit increased while margin decreased slightly in fiscal 2022. Favorable sales variances were partially offset by product cost inflation, increased warehouse labor costs due to increased shipments, and higher demurrage and drayage expenses due to supply chain interruptions. In the third quarter of fiscal 2022, product sold started to carry the price increases we implemented in the second quarter of fiscal 2022, which helped offset excess ocean freight costs.
- Home Meridian segment gross profit and margin decreased significantly in fiscal 2022 due to excess ocean freight costs, which impacted margin by 530 bps, as well as sales volume declines, increased product costs due to inflation, order cancellation costs related to the exit of the RTA furniture category, Clubs channel order cancellation costs, and excess moving costs and disposal of obsolete inventory related to the consolidation of segment warehouse operations to our new Georgia warehouse.
- Domestic Upholstery segment gross profit increased in fiscal 2022 driven by increased net sales. Gross margin decreased in fiscal 2022 due primarily to increased raw material costs (including increased freight costs), which negatively impacted margin by 360 bps, partially offset by improved production efficiencies from operating near full capacity due to historic levels of backlog, as compared to the prior year when factories were temporarily closed or operating at a reduced production level during the initial wave of COVID-19 crisis, which resulted in unabsorbed fixed costs.
- All Other gross profit and margin both decreased despite increased net sales because of higher costs due to inflation, partially offset by price increases on these products and increased Lifestyle Brands gross profit.

#### Selling and Administrative Expenses (S&A)

	Fifty-two weeks ended					
	January 30, 2022	% Segment Net Sales	January 31, 2021	% Segment Net Sales	\$ Change	% Change
Hooker Branded	\$ 32,479	16.2%	\$ 29,005	17.9%	\$ 3,474	12.0%
Home Meridian	35,139	12.6%	36,632	13.0%	(1,493)	-4.1%
Domestic Upholstery	14,117	13.8%	12,108	14.5%	2,009	16.6%
All Other	2,740	23.4%	2,665	23.1%	75	2.8%
Consolidated	<u>\$ 84,475</u>	<u>14.2%</u>	<u>\$ 80,410</u>	<u>14.9%</u>	<u>\$ 4,065</u>	<u>5.1%</u>

Consolidated selling and administrative expenses increased in absolute terms but decreased as a percentage of net sales in fiscal 2022.

- Hooker Branded segment S&A expenses increased in absolute terms in fiscal 2022 driven by increased selling costs as the result of higher net sales, increased salaries and wages due primarily to inflation, increased professional service expenses related to the recent Sunset West acquisition, increased ERP project expenses, and increased showroom, samples, travel and other general spendings as business returned to more normal levels. These increases were partially offset by reversal of executives' bonus accrual on lower profits and lower bad debt expenses due to the absence of a customer write-off in the current year. S&A expenses decreased as a percentage of net sales in fiscal 2022 due to increased net sales.
- Home Meridian segment S&A expenses decreased in absolute terms and as a percentage of net sales due to decreased selling expenses on lower net sales, absence of employee bonuses due to failure to achieve profitability goals, decreased compliance costs and the absence of a customer write-off in the current year period, partially offset by increased severance expenses due to personnel changes, increased depreciation expenses and increased marketing, showroom, travel and other expenses as business returned to more normal levels.
- Domestic Upholstery segment S&A expenses increased in absolute terms in fiscal 2022 due to increased salaries and wages because of the absence of employee furloughs when factories were temporarily shut down in the prior year period (and to a lesser extent inflationary pressures), increased selling expenses on higher net sales, and increased depreciation expenses due to the accelerated depreciation of our existing ERP system because of the expected implementation of an upgraded cloud-based ERP solution in fiscal 2023. S&A decreased as a percentage of net sales due to increased net sales.
- All Other S&A expenses increased slightly in absolute terms and as a percentage of net sales in fiscal 2022 due to increased selling and market expenses, partially offset by decreased advertising supply expenses.

### Goodwill impairment charges

	Fifty-two weeks ended				\$ Change	% Change
	January 30, 2022	% Segment Net Sales	January 31, 2021	% Segment Net Sales		
Home Meridian	\$ -		\$ 23,187	8.2%	\$ (23,187)	
Domestic Upholstery	-		16,381	19.6%	(16,381)	
Consolidated	\$ -		\$ 39,568	7.3%	(39,568)	

### Trade name impairment charges

	Fifty-two weeks ended				\$ Change	% Change
	January 30, 2022	% Segment Net Sales	January 31, 2021	% Segment Net Sales		
Home Meridian	\$ -		\$ 4,750	1.7%	\$ (4,750)	
Consolidated	\$ -		\$ 4,750	0.9%	(4,750)	

In fiscal 2021, we recorded \$23.2 million and \$16.4 million in non-cash impairment charges to write down goodwill in the Home Meridian segment and the Shenandoah division of the Domestic Upholstery segment, respectively. We also recorded \$4.8 million in non-cash impairment charges to write down tradenames in the Home Meridian segment. See Note 8 to our Consolidated Financial Statements for additional details on these impairment charges.

### Intangible Asset Amortization

	Fifty-two weeks ended				\$ Change	% Change
	January 30, 2022	% Net Sales	January 31, 2021	% Net Sales		
Intangible asset amortization	\$ 2,384	0.4%	\$ 2,384	0.4%	\$ -	0.0%

Intangible asset amortization expense was unchanged compared to the prior year period. See Note 8 Intangible Assets and Goodwill to our Consolidated Financial Statements for additional information about our amortizable intangible assets.

### Operating Profit/(Loss) and Margin

	Fifty-two weeks ended				\$ Change	% Change
	January 30, 2022	%Segment Net Sales	January 31, 2021	%Segment Net Sales		
Hooker Branded	\$ 30,667	15.3%	\$ 22,827	14.1%	\$ 7,840	34.3%
Home Meridian	(21,260)	-7.6%	(26,071)	-9.2%	4,811	18.5%
Domestic Upholstery	4,304	4.2%	(12,418)	-14.8%	16,722	134.7%
All Other	1,132	9.6%	1,298	11.3%	(166)	-12.8%
Consolidated	\$ 14,843	2.5%	\$ (14,364)	-2.7%	\$ 29,207	203.3%

Consolidated operating profitability increased both in absolute terms and as a percentage of net sales in fiscal 2022 compared to the same prior-year period due to the factors discussed above.



### Interest Expense, net

#### Fifty-two Weeks Ended

	<u>January 30, 2022</u>		<u>January 31, 2021</u>		<u>\$ Change</u>	<u>% Change</u>
		<u>% Net Sales</u>		<u>% Net Sales</u>		
Interest expense, net	\$ 110	0.0%	\$ 540	0.1%	\$ (430)	-79.6%

Consolidated interest expense decreased in fiscal 2022 due to the payoff of our term loans in fiscal 2021 fourth quarter.

### Income Taxes

#### Fifty-two weeks ended

	<u>January 30, 2022</u>		<u>January 31, 2021</u>		<u>\$ Change</u>	<u>% Change</u>
		<u>% Net Sales</u>		<u>% Net Sales</u>		
Consolidated income tax expense/(benefit)	\$ 3,388	0.6%	\$ (4,142)	-0.8%	\$ 7,530	181.8%
Effective Tax Rate	22.4%		28.4%			

We recorded income tax expense of \$3.4 million for fiscal 2022, as compared to income tax benefit of \$4.1 million for fiscal 2021, of which an income tax benefit of \$10.6 million was recorded related to goodwill and trade name impairment charges. The effective tax rates for fiscal 2022 and 2021 were 22.4% and 28.4%, respectively. Our effective tax rate was lower in fiscal 2022 due to change in cash surrender value and the absence of employee retention credit in the current year, which increased the effective tax rate in the prior fiscal year due to a loss before income tax benefits. See Note 15 Income Taxes to our Consolidated Financial Statements for additional information about our income taxes.

### Net Income/(Loss) and Earnings/(Loss) Per Share

#### Fifty-two weeks ended

	<u>January 30, 2022</u>		<u>January 31, 2021</u>		<u>\$ Change</u>	<u>% Change</u>
		<u>% Net Sales</u>		<u>% Net Sales</u>		
<b>Net Income/(Loss)</b>						
Consolidated	\$ 11,718	2.0%	\$ (10,426)	-1.9%	\$ 22,144	212.4%
<b>Diluted earnings/(loss) per share</b>	\$ 0.97		\$ (0.88)			

The analysis and discussion of fiscal 2021 compared to fiscal 2020 results is available in Item 7 of our 2021 Annual Report on Form-10K available through Hooker Furnishings and SEC websites.

## Financial Condition, Liquidity and Capital Resources

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

	<b>Fifty-Two Weeks Ended</b>		
	<b>January 30, 2022</b>	January 31, 2021	February 2, 2020
Net cash provided by operating activities	\$ 19,209	\$ 68,263	\$ 41,429
Net cash used in investing activities	(6,862)	(476)	(4,254)
Net cash used in financing activities	(8,822)	(37,977)	(12,579)
Net increase in cash and cash equivalents	<u>\$ 3,525</u>	<u>\$ 29,810</u>	<u>\$ 24,596</u>

During fiscal 2022, we used a portion of the \$19.2 million generated from operations and \$372,000 in life insurance proceeds to pay \$8.8 million in cash dividends, \$6.7 million in capital expenditures to enhance our systems and facilities and \$560,000 for 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 and to facilitate business continuity.

During fiscal 2021, we used existing cash, a portion of the \$68.3 million generated from operations and \$1.3 million in life insurance proceeds to retire our \$30.1 million in outstanding term loans related to the Home Meridian acquisition, pay \$7.8 million in cash dividends, \$1.2 million in capital expenditures to enhance our systems and facilities and to pay \$555,000 for insurance premiums on Company-owned life insurance policies.

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 for insurance premiums on Company-owned life insurance policies.

### Liquidity, Financial Resources and Capital Expenditures

Our sources of liquidity are:

- 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.

The most significant components of our working capital are inventory, accounts receivable and cash and cash equivalents reduced by accounts payable and accrued expenses.

Our primary cash needs are for imported finished goods and raw materials for our domestic upholstery operations and lease payments on our distribution centers, administrative facilities and showrooms. Our most significant ongoing short-term cash requirements relate primarily to funding operations (including expenditures for inventory, lease payments and labor), quarterly dividend payments and capital expenditures related primarily to our ERP project, showroom renovations and upgrading systems, buildings and equipment. The timing of our working capital needs can vary greatly depending on demand for and availability of raw materials and imported finished goods but is generally the greatest in the mid-summer as a result of inventory build-up for the traditional fall selling season. Long-term cash requirements relate primarily to funding lease payments.

We generally fund short-term and long-term cash requirements with cash from operating activities. We believe our primary sources of liquidity will satisfy our cash requirements over both the short-term (the next twelve months) and long-term.

### *Loan Agreements and Revolving Credit Facility*

We paid off the term loans which were related to the Home Meridian acquisition at the end of fiscal 2021 and currently have the Existing Revolver. The Existing Revolver is based on successive past amendments to previous BofA banking agreements which are collectively referred to as the “Previous Agreements.” Details of our Existing Revolver are outlined below:

- The Existing Revolver is available between January 27, 2021 and February 1, 2026 or such earlier date as the availability may terminate or such later date as BofA may from time to time in its sole discretion designate in any extension notice;
- During the availability period, BofA will provide a line of credit to the maximum amount of the Existing Revolver;
- The initial amount of the Existing Revolver is \$35 million;
- The sublimit of the Existing Revolver available for the issuance of letters of credit was increased to \$10 million;
- The actual daily amount of undrawn letters of credit is subject to a quarterly fee equal to a per annum rate of 1%;
- We may, on a one-time basis, request an increase in the Existing Revolver by an amount not to exceed \$30 million at BofA’s discretion; and
- Any amounts outstanding under the Existing Revolver bear interest at a rate, equal to the then current LIBOR monthly rate (adjusted periodically) plus 1.00%. We must also pay a quarterly unused commitment fee at a rate of 0.15% determined by the actual daily amount of credit outstanding during the applicable quarter.

The loan covenants agreed to under the Second Amended and Restated Loan Agreement continue to apply to us. They include customary representations and warranties and require 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.

They also limit our right to incur other indebtedness, make certain investments and create liens upon our assets, subject to certain exceptions, among other restrictions. They do 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 agreements.

We were in compliance with each of these financial covenants at January 30, 2022 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 January 30, 2022, we had an aggregate \$27.9 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of \$7.1 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the Existing Revolver as of January 30, 2022. There were no additional borrowings outstanding under the Existing Revolver as of January 30, 2022.

### *Capital Expenditures*

We expect to spend approximately \$8 million in capital expenditures in fiscal 2023 to maintain and enhance our operating systems and facilities. Of those amounts, we expect to spend approximately:

- \$3.5 million on showroom renovations for both the legacy Hooker divisions and the Home Meridian segment. The showroom for the Hooker legacy will be moved to a location to maximize interior design traffic and to showcase Sunset West products in an outdoor setting. The Home Meridian renovation will support new initiatives including the new 'Portfolio' sales program aimed at retailers who prefer to buy from our warehouse rather than container direct; and
- \$3.5 million on implementation costs for a new common, cloud-based Enterprise Resource Planning platform which we expect to be online in our legacy Hooker divisions in the second half of our 2023 fiscal-year, with other segments following thereafter.

### *Enterprise Resource Planning*

During calendar 2021, our Board of Directors approved an upgrade to our current ERP system and implementation efforts began shortly thereafter. We expect to implement the ERP upgrade in our legacy Hooker divisions in the second half of fiscal 2023, with the Home Meridian segment and the Shenandoah division following afterwards. To complete the ERP system implementation as anticipated, we will be required to expend significant financial and human resources. We anticipate spending approximately \$5.5 million over the course of this project, with a significant amount of time invested by our associates.

### Dividends

We declared and paid dividends of \$0.74 per share or approximately \$8.8 million in fiscal 2022, an increase of 12.1% or \$0.08 per share compared to \$0.66 per share in fiscal 2021.

On March 1, 2022, our Board of Directors declared a quarterly cash dividend of \$0.20 per share, payable on March 31, 2022 to shareholders of record at March 17, 2022.

Our Board of Directors will continue to evaluate the appropriateness of the current dividend rate considering our performance and economic conditions in future quarters.

### **COVID-19**

As discussed under "Item 1A. Risk Factors," COVID-19 was recognized as a global pandemic by the World Health Organization.

We continue to 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, many of our administrative staff are telecommuting for at least part of the work week. 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. Testing, treatment and vaccinations for COVID-19 are 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.

As vaccination rates have increased and infection rates have stabilized and started to decline, more admin staff are returning to the office for at least partial workweeks. Domestic travel and limited international travel has resumed and we have adjusted social distancing and masking protocols to the current public health guidelines.

## **Outlook**

We are concerned about ongoing global logistics constraints and economic headwinds affecting the consumer that could impact short-term demand, such as inflation, high gas prices and the war in Ukraine. We expect production capacity of our Asian suppliers to improve significantly, reaching full capacity at some point during the fiscal 2023 first quarter; although we don't believe the full financial impact of this improvement will be felt until sometime in the fiscal 2023 second quarter.

We continue to be encouraged by long-term trends such as demand for housing, the renewed and sustainable focus on home interiors and exteriors, and the Millennial generation entering their prime earning and household formation years. We were also very encouraged by the recently concluded Spring High Point market. Attendance was up significantly compared to both the Fall 2021 and June 2021 markets and new products were very well received with major placements across all brands, including new placements of Home Meridian's licensed products.

While we have worked through a broad spectrum of challenges during the past year, our team has continued to focus on multiple strategic growth initiatives, many of which we expect will positively impact us in the next six to twelve months. One such initiative is the integration of Sunset West, a leading manufacturer of outdoor furniture, which we acquired on the first day of our 2023 fiscal year. The acquisition immediately positioned us in the growing outdoor furniture segment of the industry with one of the most respected brands in the category and gives Sunset West access to our East Coast distribution system, our High Point showroom and retail and interior design customer base. We were very encouraged by the strong reception Sunset West received at its recent High Point market debut. As we integrate Sunset West and move past the current headwinds, we expect faster growth from Sunset West than our existing businesses as it is able to leverage the full capabilities of our organization. We are confident in our team's ability to execute our strategies to grow profitably and to adapt successfully to unexpected challenges.

## **Critical Accounting Policies and Estimates**

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our consolidated financial statements. Critical accounting estimates are those that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition and results of operations. Specific areas requiring the application of management's estimates and judgments include, among others, revenue recognition, assumptions pertaining to valuation of goodwill and intangible assets and useful lives of long-lived assets. Accordingly, a different financial presentation could result depending on the judgments, estimates or assumptions that are used. However, we do not believe that actual results will deviate materially from our estimates related to our accounting policies described below but 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. Therefore, we consider an understanding of the variability and judgment required in making these estimates and assumptions to be critical in fully understanding and evaluating our reported financial results.

## **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.

## **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.

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 operations 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*

The adverse economic effects brought on by the COVID-19 pandemic, including reductions in our sales, earnings and market value, as well as other changing market dynamics, required that we perform a valuation of our intangible assets during the interim period. The calculation methodology for the fair value of our Home Meridian segment and the Shenandoah division of our Domestic Upholstery segment included three approaches: the Discounted Cash Flow Method (DCF) which was given the largest weighting, the Guideline Public Company Method (GPCM) based on the consideration of the facts of the Company's peer competitors and the Guideline Transaction Method (GTM) based on consideration of transactions with varying risk profiles, geographies and market conditions. The income approach, specifically the relief from royalty method, was used as the valuation methodology for our trade names and trademarks, based on cash flow projections and growth rates for each trade name for five years in the future, and a royalty rate benchmark for companies with similar activities. As a result of our intangible asset valuation analysis, in the first quarter of fiscal 2021, we recorded \$44.3 million non-cash impairment charges including \$23.2 million to Home Meridian goodwill, \$16.4 million to Shenandoah goodwill and \$4.8 million to certain of Home Meridian segment's trade names.

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.

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 January 30, 2022, based on our internal valuation, the fair values of our Bradington-Young, Home Meridian, Sam Moore and Shenandoah non-amortizable trademarks and trade names exceeded their carrying values.



Upon the adoption of ASU 2017-04, we perform our annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. 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. Based on our internal goodwill impairment analysis as described above, we have concluded that Shenandoah goodwill in the Domestic Upholstery segment is not impaired as of January 30, 2022.

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.

Our other significant accounting policies are described in Note 2 – Summary of Significant Accounting Policies to our Consolidated Financial Statements beginning at page F-10 in this report.

### **Concentrations of Sourcing Risk**

In fiscal 2022, imported products sourced from Vietnam and China accounted for 88% of our import purchases and our top five suppliers in Vietnam and China accounted for 42% of our fiscal 2022 import purchases. A disruption in our supply chain, or from Vietnam, China or Malaysia 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. For example, in the summer of calendar 2021, our suppliers in Vietnam and Malaysia were temporarily closed or operated at substantially reduced levels due to a COVID-related lockdown. We faced supply chain constraints including but not limited to slower-than-expected re-openings, capacity limitations and production delays at some of our suppliers, along with the reduced shipping container and ocean vessel space availability. Home Meridian segment shipping and sales were immediately impacted as the majority of its business is container direct customers. In the fourth quarter of fiscal 2022, Hooker Branded segment sales were also impacted due to low inventory receipts in the second half of fiscal 2022 which consequently resulted in out-of-stocks. In some cases, we were able to provide substitutions using inventory on hand, in-transit and from our domestic warehouses, but not enough to entirely mitigate the lost sales. 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. If we are 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, China or Malaysia 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**

Borrowings under the Existing Revolver bears interest based on LIBOR plus 1.0%. As such, this debt instrument exposes us to market risk for changes in interest rates. There was no outstanding balance under our Existing Revolver as of January 30, 2022, other than amounts reserved for standby letters of credit in the amount of \$7.1 million.

#### **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 January 30, 2022. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of January 30, 2022, 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 January 30, 2022, 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 January 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

None.

## **ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

Not Applicable.

**Hooker Furnishings 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 7, 2022 (the "2022 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 2022 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 2022 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 2022 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 2022 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 2022 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 2022 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 2022 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 2022 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 Two - Ratification of Selection of Independent Registered Public Accounting Firm" in the 2022 Proxy Statement and is incorporated herein by reference.

**Hooker Furnishings 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 January 30, 2022 and January 31, 2021

Consolidated Statements of Operations for the fifty-two-week periods ended January 30, 2022, January 31, 2021 and February 2, 2020

Consolidated Statements of Comprehensive Income/(Loss) for the fifty-two-week periods ended January 30, 2022, January 31, 2021 and February 2, 2020

Consolidated Statements of Cash Flows for the fifty-two-week periods ended January 30, 2022, January 31, 2021 and February 2, 2020

Consolidated Statements of Shareholders' Equity for the fifty-two-week periods ended January 30, 2022, January 31, 2021 and February 2, 2020

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:

3.1 Amended and Restated Articles of Incorporation of the Company, as amended September 16, 2021 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended October 31, 2021)

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 (incorporated by reference to Exhibit 4.3 of the Company's Annual Report on Form 10-K (SEC File No. 000-25349) for the year ended February 2, 2020).
- 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 (now Anne Smith) 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 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(k) 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(l) 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) 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(b) 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)

- 10.2(c) Second Amendment to the Second Amended and Restated Loan Agreement, dated as of November 4, 2020, 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 10-Q (SEC File No. 000-25349) filed on December 10, 2020)
- 10.2(d) Third Amendment to Second Amended and Restated Loan Agreement, dated as of January 27, 2021, 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 January 28, 2021)
- 10.3 Asset Purchase Agreement dated January 31, 2022 by and among the Company, Sunset West, Wes Stewart, Heath Malone and Martin Jamroz (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K (SEC File No. 000-25349) filed on February 1, 2022)
- 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 January 30, 2022, formatted in Interactive Extensible Business Reporting Language ("XBRL"): (i) consolidated balance sheets, (ii) consolidated statements of operations, (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)
- 104 Cover page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

\*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 FURNISHINGS CORPORATION

April 15, 2022

By: /s/ Jeremy R. Hoff

\_\_\_\_\_  
Jeremy R. Hoff  
Chief Executive Officer and Director  
(Principal 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/ Jeremy R. Hoff</u> Jeremy R. Hoff	Chief Executive Officer and Director (Principal Executive Officer)	April 15, 2022
<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 15, 2022
<u>/s/ W. Christopher Beeler, Jr.</u> W. Christopher Beeler, Jr.	Director	April 15, 2022
<u>/s/ Maria C. Duey</u> Maria C. Duey	Director	April 15, 2022
<u>/s/ Paulette Garafalo</u> Paulette Garafalo	Director	April 15, 2022
<u>/s/ Tonya H. Jackson</u> Tonya H. Jackson	Director	April 15, 2022
<u>/s/ E. Larry Ryder</u> E. Larry Ryder	Director	April 15, 2022
<u>/s/ Ellen C. Taaffe</u> Ellen C. Taaffe	Director	April 15, 2022
<u>/s/ Henry G. Williamson, Jr</u> Henry G. Williamson, Jr.	Director (Board Chair)	April 15, 2022



**HOOKER FURNISHINGS CORPORATION AND SUBSIDIARIES**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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To the Shareholders of  
Hooker Furnishings 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 January 30, 2022.

The effectiveness of the Company's internal control over financial reporting as of January 30, 2022 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report which is included herein.



Jeremy R. Hoff  
Chief Executive Officer and Director  
(Principal Executive Officer)  
April 15, 2022



Paul A. Huckfeldt  
Senior Vice President – Finance and Accounting  
and Chief Financial Officer  
(Principal Financial and Accounting Officer)  
April 15, 2022

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Hooker Furnishings Corporation:

### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Hooker Furnishings Corporation and subsidiaries (the Company) as of January 30, 2022 and January 31, 2021, the related consolidated statements of operations, comprehensive income/(loss), shareholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2022, 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 January 30, 2022 and January 31, 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended January 30, 2022, in conformity with U.S. generally accepted accounting principles.

### *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.

### *Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### A. Customer allowances for the Clubs channel of the Home Meridian segment

As discussed in Notes 2 and 5 to the consolidated financial statements, the customer allowances balance as of January 30, 2022 was \$7.3 million, which included allowances related to the Clubs channel of the Home Meridian segment. These allowances are for unprocessed claims received and anticipated future claims related to products sold in the Clubs channel. Estimates of these anticipated future claims are based on historical experience with the Clubs channel customers.

We identified the evaluation of the customer allowances for the Clubs channel of the Home Meridian segment as a critical audit matter. Subjective and challenging auditor judgment was required to evaluate the Company's customer allowances estimate given the Company's historical volatility of customer allowance claims in the Clubs channel.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's process to estimate and record the customer allowances, including the assumption related to the use of historical experience with the Clubs channel customers. We evaluated the estimated customer allowances by testing the completeness, accuracy and relevance of underlying historical customer allowances data used by management to develop the customer allowances and by performing sensitivity analyses to assess the impact of changes in certain assumptions on the determination of the customer allowances.

**KPMG LLP**

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

Raleigh, North Carolina  
April 15, 2022

## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Hooker Furnishings Corporation:

### *Opinion on Internal Control Over Financial Reporting*

We have audited Hooker Furnishings Corporation and subsidiaries' (the Company) internal control over financial reporting as of January 30, 2022, 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 January 30, 2022, 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 January 30, 2022 and January 31, 2021, the related consolidated statements of operations, comprehensive income/(loss), shareholders' equity, and cash flows for each of the years in the three-year period ended January 30, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated April 15, 2022 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.

KPMG LLP

Raleigh, North Carolina  
April 15, 2022

**HOOKER FURNISHINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands)

<b>As of</b>	<b>January 30, 2022</b>	<b>January 31, 2021</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 69,366	\$ 65,841
Trade accounts receivable, net (See notes 4 and 5)	73,727	83,290
Inventories (see note 6)	75,023	70,159
Income tax recoverable	4,361	-
Prepaid expenses and other current assets	5,237	4,432
Total current assets	<u>227,714</u>	<u>223,722</u>
Property, plant and equipment, net (See note 7)	28,058	26,780
Cash surrender value of life insurance policies (See note 9)	26,479	25,365
Deferred taxes (See note 15)	11,612	14,173
Operating leases right-of-use assets (See note 10)	51,854	34,613
Intangible assets, net (See note 8)	23,853	26,237
Goodwill (See note 8)	490	490
Other assets	4,499	893
Total non-current assets	<u>146,845</u>	<u>128,551</u>
Total assets	<u>\$ 374,559</u>	<u>\$ 352,273</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade accounts payable	\$ 30,916	\$ 32,213
Accrued salaries, wages and benefits	7,141	7,136
Income tax accrual (See note 15)	-	501
Customer deposits	7,145	4,256
Current portion of lease liabilities (See note 10)	7,471	6,650
Other accrued expenses	4,264	3,354
Total current liabilities	<u>56,937</u>	<u>54,110</u>
Deferred compensation (See note 12)	9,924	11,219
Lease liabilities (See note 10)	46,570	29,441
Total long-term liabilities	<u>56,494</u>	<u>40,660</u>
Total liabilities	<u>113,431</u>	<u>94,770</u>
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, 11,922 and 11,888 shares issued and outstanding on each date	53,295	53,323
Retained earnings	207,884	204,988
Accumulated other comprehensive loss	(51)	(808)
Total shareholders' equity	<u>261,128</u>	<u>257,503</u>
Total liabilities and shareholders' equity	<u>\$ 374,559</u>	<u>\$ 352,273</u>

See accompanying Notes to Consolidated Financial Statements.

**HOOKER FURNISHINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

For the 52 Week Periods Ended January 30, 2022, January 31, 2021 and February 2, 2020

	2022	2021	2020
Net sales	\$ 593,612	\$ 540,081	\$ 610,824
Cost of sales	<u>491,910</u>	<u>427,333</u>	<u>496,866</u>
Gross profit	101,702	112,748	113,958
Selling and administrative expenses	84,475	80,410	88,867
Goodwill impairment charges	-	39,568	-
Trade name impairment charges	-	4,750	-
Intangible asset amortization	<u>2,384</u>	<u>2,384</u>	<u>2,384</u>
Operating income/(loss)	14,843	(14,364)	22,707
Other income, net	373	336	458
Interest expense, net	<u>110</u>	<u>540</u>	<u>1,238</u>
Income/(loss) before income taxes	15,106	(14,568)	21,927
Income tax expense/(benefit)	<u>3,388</u>	<u>(4,142)</u>	<u>4,844</u>
Net income/(loss)	<u>\$ 11,718</u>	<u>\$ (10,426)</u>	<u>\$ 17,083</u>
Earnings/(loss) per share:			
Basic	<u>\$ 0.99</u>	<u>\$ (0.88)</u>	<u>\$ 1.44</u>
Diluted	<u>\$ 0.97</u>	<u>\$ (0.88)</u>	<u>\$ 1.44</u>
Weighted average shares outstanding:			
Basic	<u>11,852</u>	<u>11,822</u>	<u>11,784</u>
Diluted	<u>11,970</u>	<u>11,822</u>	<u>11,838</u>
Cash dividends declared per share	<u>\$ 0.74</u>	<u>\$ 0.66</u>	<u>\$ 0.61</u>

See accompanying Notes to Consolidated Financial Statements.

**HOOKER FURNISHINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)**  
(In thousands)

**For the 52 Week Periods Ended January 30, 2022, January 31, 2021 and February 2, 2020**

	2022	2021	2020
Net Income/(Loss)	\$ 11,718	\$ (10,426)	\$ 17,083
Other comprehensive income/(loss):			
Amortization of actuarial gain / (loss)	994	(125)	(740)
Income tax effect on amortization	(237)	30	176
Gain on pension plan settlement	-	-	(520)
Income tax effect on settlement	-	-	124
Adjustments to net periodic benefit cost	<u>757</u>	<u>(95)</u>	<u>(960)</u>
Total Comprehensive Income/(Loss)	<u>\$ 12,475</u>	<u>\$ (10,521)</u>	<u>\$ 16,123</u>

See accompanying Notes to Consolidated Financial Statements.



**HOOKER FURNISHINGS CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

For the 52 Week Periods Ended January 30, 2022, January 31, 2021 and February 2, 2020

	2022	2021	2020
<b>Operating Activities:</b>			
Net income/(loss)	\$ 11,718	\$ (10,426)	\$ 17,083
Adjustments to reconcile net income to net cash provided by operating activities:			
Goodwill and intangible asset impairment charges	-	44,318	-
Depreciation and amortization	7,814	6,778	7,100
Gain on pension settlement	-	-	(520)
Gain on disposal of assets	(18)	-	(271)
Deferred income tax expense/(benefit)	2,323	(11,262)	1,940
Non-cash restricted stock and performance awards	(28)	1,741	1,296
Provision for doubtful accounts and sales allowances	45	4,686	(435)
Gain on life insurance policies	(1,008)	(1,207)	(831)
Changes in assets and liabilities:			
Trade accounts receivable	9,518	(323)	25,339
Inventories	(4,863)	22,654	12,391
Income tax recoverable	(4,361)	751	(751)
Prepaid expenses and other current assets	(4,400)	515	(557)
Trade accounts payable	(1,312)	6,686	(15,349)
Accrued salaries, wages and benefits	76	2,204	(3,070)
Accrued income taxes	(501)	501	(3,159)
Customer deposits	2,890	904	328
Operating lease liabilities	708	888	299
Other accrued expenses	908	(856)	645
Deferred compensation	(300)	(289)	(49)
Net cash provided by operating activities	<u>19,209</u>	<u>68,263</u>	<u>41,429</u>
<b>Investing Activities:</b>			
Purchases of property, plant and equipment	(6,692)	(1,210)	(5,129)
Proceeds received on notes receivable	-	-	1,449
Proceeds from sale of property and equipment	18	-	16
Premiums paid on life insurance policies	(560)	(555)	(590)
Proceeds received on life insurance policies	372	1,289	-
Net cash used in investing activities	<u>(6,862)</u>	<u>(476)</u>	<u>(4,254)</u>
<b>Financing Activities:</b>			
Cash dividends paid	(8,822)	(7,838)	(7,211)
Payments for long-term debt	-	(30,139)	(5,368)
Net cash used in financing activities	<u>(8,822)</u>	<u>(37,977)</u>	<u>(12,579)</u>
<b>Net increase in cash and cash equivalents</b>	<b>3,525</b>	<b>29,810</b>	<b>24,596</b>
<b>Cash and cash equivalents at the beginning of year</b>	<b>65,841</b>	<b>36,031</b>	<b>11,435</b>
<b>Cash and cash equivalents at the end of year</b>	<b><u>\$ 69,366</u></b>	<b><u>\$ 65,841</u></b>	<b><u>\$ 36,031</u></b>
<i>Supplemental schedule of cash flow information:</i>			
Income taxes paid, net	5,888	5,872	6,818
Interest paid, net	\$ -	\$ 444	\$ 993
<i>Supplemental schedule of noncash investing activities:</i>			
Increase in lease liabilities arising from obtaining right-of-use assets	24,513	2,236	625
Increase in property and equipment through accrued purchases	15	33	5

See accompanying Notes to Consolidated Financial Statements.

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

(In thousands, except per share data)

For the 52 Week Periods Ended January 30, 2022, January 31, 2021 and February 2, 2020

	Common Stock		Retained Earnings	Accumulated Other Comprehensive	Total Shareholders' Equity
	Shares	Amount		Income / (Loss)	
Balance at February 3, 2019	11,785	\$ 49,549	\$ 213,380	\$ 247	\$ 263,176
Net income			\$ 17,083		\$ 17,083
Gain on pension settlement, net of tax of \$124				(396)	(396)
Unrealized loss on defined benefit plan, net of tax of \$176				(564)	(564)
Cash dividends paid and accrued (\$0.61 per share)			(7,211)		(7,211)
Restricted stock grants, net of forfeitures	53	344			344
Restricted stock compensation cost		790			790
Recognition of PSUs as equity-based awards		899			899
Balance at February 2, 2020	11,838	\$ 51,582	\$ 223,252	\$ (713)	\$ 274,121
Net loss			\$ (10,426)		\$ (10,426)
Unrealized loss on defined benefit plan, net of tax of \$30				\$ (95)	(95)
Cash dividends paid and accrued (\$0.66 per share)			(7,838)		(7,838)
Restricted stock grants, net of forfeitures	50	\$ 169			169
Restricted stock compensation cost		809			809
Performance-based restricted stock units cost		763			763
Balance at January 31, 2021	11,888	\$ 53,323	\$ 204,988	\$ (808)	\$ 257,503
Net income			\$ 11,718		\$ 11,718
Unrealized gain on defined benefit plan, net of tax of \$237				\$ 757	757
Cash dividends paid and accrued (\$0.74 per share)			(8,822)		(8,822)
Restricted stock grants, net of forfeitures	34	\$ (126)			(126)
Restricted stock compensation cost		1,074			1,074
Performance-based restricted stock units cost		502			502
PSU awards		(1,478)			(1,478)
Balance at January 30, 2022	11,922	\$ 53,295	\$ 207,884	\$ (51)	\$ 261,128

See accompanying Notes to Consolidated Financial Statements.

**HOOKER FURNISHINGS 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 January 30, 2022

**NOTE 1 – RECENTLY ADOPTED ACCOUNTING STANDARDS**

In August 2018, the Financial Accounting Standards Board (“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. We adopted this guidance in the fiscal 2022 first quarter. The adoption of ASU 2018-14 did not have a material impact on our consolidated financial statements or disclosures.

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

**Nature of Business**

Hooker Furnishings 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 Furnishings 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 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**

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.

These trade accounts receivable are reported net of customer allowances and an allowance for doubtful accounts.

Reserves for customer allowances comprise the majority of the reduction of our gross trade accounts receivable to the estimated fair value reported on the face of our financial statements. We regularly review and revise customer allowances based on unprocessed claims received and current and historical activity and any agreements made with specific customers. In the Home Meridian segment, Clubs channel customers drive most of the customer allowance activity due to their consumer-facing product return policies. We base anticipated future claims on historical experience with these customers.

We regularly review and revise accounts receivable for doubtful accounts based upon historical bad debts. 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.

## **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 9 for details.

## **Inventories**

Inventories, consisting of finished furniture for sale, raw materials, manufacturing supplies and furniture in process, are stated at the lower of cost, or market value, with cost determined using the last-in, first-out (LIFO) method. Under this method, inventory is valued at cost, which is determined by applying a cumulative index to current year inventory dollars. We review inventories on hand and record an allowance for slow-moving and obsolete inventory based on historical experience and expected sales.

## **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 is 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 ten years, some of which include options to extend the leases for up to ten 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 acquisition, 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 seventy-four life insurance policies on certain of our current and former executives and other key employees. These policies had a carrying value of \$26.7 million at January 30, 2022 and have a face value of approximately \$55 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.

### **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 2022, 2021 and 2020 were \$1.9 million, \$2.1 million, and \$3.4 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 operations and comprehensive income.

## 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:

- 2022 fiscal year and comparable terminology mean the fiscal year that began February 1, 2021 and ended January 30, 2022;
- 2021 fiscal year and comparable terminology mean the fiscal year that began February 3, 2020 and ended January 31, 2021;
- 2020 fiscal year and comparable terminology mean the fiscal year that began February 4, 2019 and ended February 2, 2020.

## NOTE 4 – DOUBTFUL ACCOUNTS AND CUSTOMER ALLOWANCES

The activity in the allowance for doubtful accounts was:

	Fifty-Two Weeks Ended		
	January 30, 2022	January 31, 2021	February 2, 2020
Balance at beginning of year	\$ 2,338	\$ 903	\$ 908
Non-cash charges to cost and expenses	(76)	1,262	417
Less uncollectible receivables written off, net of recoveries	(246)	173	(422)
Balance at end of year	<u>\$ 2,016</u>	<u>\$ 2,338</u>	<u>\$ 903</u>

The activity in customer allowances was:

	Fifty-Two Weeks Ended		
	January 30, 2022	January 31, 2021	February 2, 2020
Balance at beginning of year	\$ 6,993	\$ 3,493	\$ 4,267
Charges to cost and expenses	23,766	29,243	31,815
Less allowances applied	(23,305)	(25,666)	(32,511)
Less uncollectible receivables written off, net of recoveries	(170)	(77)	(78)
Balance at end of year	<u>\$ 7,284</u>	<u>\$ 6,993</u>	<u>\$ 3,493</u>



## NOTE 5 – ACCOUNTS RECEIVABLE

	<u>January 30, 2022</u>	<u>January 31, 2021</u>
Gross accounts receivable	\$ 83,027	\$ 92,621
Customer allowances	(7,284)	(6,993)
Allowance for doubtful accounts	(2,016)	(2,338)
Trade accounts receivable	<u>\$ 73,727</u>	<u>\$ 83,290</u>

## NOTE 6 – INVENTORIES

	<u>January 30, 2022</u>	<u>January 31, 2021</u>
Finished furniture	\$ 89,066	\$ 81,290
Furniture in process	2,314	1,397
Materials and supplies	<u>13,179</u>	<u>9,639</u>
Inventories at FIFO	104,559	92,326
Reduction to LIFO basis	(29,536)	(22,167)
Inventories	<u>\$ 75,023</u>	<u>\$ 70,159</u>

If the first-in, first-out (FIFO) method had been used in valuing all inventories, net income would have been \$17.4 million in fiscal 2022, net loss would have been \$11.1 million in fiscal 2021, and net income would have been \$19.5 million in fiscal 2020. We recorded LIFO expense of \$7.4 million in fiscal 2022, LIFO income of \$1.3 million in fiscal 2021, and LIFO expense of \$3.1 million in fiscal 2020.

At January 30, 2022 and January 31, 2021, we had \$8.9 million and \$6.7 million, respectively, in consigned inventories, which are included in the “Finished furniture” line in the table above.

At January 30, 2022, we held \$11.1 million in inventory outside of the United States, in Vietnam and China. At January 31, 2021, we held \$11.3 million in inventory outside of the United States, in Vietnam and China.

## NOTE 7 – PROPERTY, PLANT AND EQUIPMENT

	Depreciable Lives <i>(In years)</i>	<u>January 30, 2022</u>	<u>January 31, 2021</u>
Buildings and land improvements	15 - 30	\$ 32,030	\$ 31,316
Computer software and hardware	3 - 10	15,648	15,012
Machinery and equipment	10	10,390	9,314
Leasehold improvements	Term of lease	10,984	10,005
Furniture and fixtures	3 - 8	5,829	2,614
Other	5	<u>676</u>	<u>651</u>
Total depreciable property at cost		75,557	68,912
Less accumulated depreciation		<u>(49,077)</u>	<u>(44,098)</u>
Total depreciable property, net		26,480	24,814
Land		1,077	1,077
Construction-in-progress		<u>501</u>	<u>889</u>
Property, plant and equipment, net		<u>\$ 28,058</u>	<u>\$ 26,780</u>

Depreciation expense for fiscal 2022, 2021 and 2020 was \$5.4 million, \$4.4 million and \$4.7 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:

	Fifty-Two Weeks Ended		
	January 30, 2022	January 31, 2021	February 2, 2020
Balance beginning of year	\$ 3,211	\$ 4,277	\$ 5,123
Additions	65	33	286
Amortization expense	(1,053)	(1,099)	(1,132)
Disposals	-	-	-
Balance end of year	<u>\$ 2,223</u>	<u>\$ 3,211</u>	<u>\$ 4,277</u>

## NOTE 8 – 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*, we perform our annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. 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 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.

The adverse economic effects brought on by the COVID-19 pandemic, including reductions in our sales, earnings and market value, as well as other changing market dynamics, required that we perform a valuation of our intangible assets in the 2021 first quarter. The calculation methodology for the fair value of our Home Meridian segment's and the Shenandoah division of our Domestic Upholstery segment's goodwill included three approaches: the Discounted Cash Flow Method (DCF) which was given the largest weighting, the Guideline Public Company Method (GPCM) based on the consideration of the facts of the Company's peer competitors and the Guideline Transaction Method (GTM) based on consideration of transactions with varying risk profiles, geographies and market conditions. The income approach, specifically the relief from royalty method, was used as the valuation methodology for our trade names and trademarks, based on cash flow projections and growth rates for each trade name for five years in the future provided by management, and a royalty rate benchmark for companies with similar activities. As a result of our intangible asset valuation analysis, in the first quarter of fiscal 2021, we recorded \$44.3 million non-cash impairment charges including \$23.2 million to Home Meridian goodwill, \$16.4 million to Shenandoah goodwill and \$4.8 million to certain of Home Meridian segment's trade names.

Based on our internal analyses at January 30, 2022, the fair values of our non-amortizable trademarks and trade names exceeded their carrying values and we concluded that Shenandoah goodwill in the Domestic Upholstery segment is not impaired.

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

		Fifty-Two Weeks Ended					
		January 30, 2022			January 31, 2021		
Non-amortizable Intangible Assets	Segment	Beginning Balance	Impairment Charges	Net Book Value	Beginning Balance	Impairment Charges	Net Book Value
Goodwill	Domestic Upholstery	\$ 490	\$ -	\$ 490	\$ 16,871	\$ (16,381)	\$ 490
Goodwill	Home Meridian	-	-	-	23,187	(23,187)	-
Total Goodwill		<u>490</u>	<u>-</u>	<u>490</u>	40,058	(39,568)	490
Trademarks and trade names - Home Meridian	Home Meridian	6,650	-	6,650	11,400	(4,750)	6,650
Trademarks and trade names - Bradington-Young	Domestic Upholstery	861	-	861	861	-	861
Trademarks and trade names - Sam Moore	Domestic Upholstery	396	-	396	396	-	396
Total Trademarks and trade names		<u>\$ 7,907</u>	<u>\$ -</u>	<u>\$ 7,907</u>	<u>\$ 12,657</u>	<u>\$ (4,750)</u>	<u>\$ 7,907</u>
Total non-amortizable assets		<u>\$ 8,397</u>	<u>\$ -</u>	<u>\$ 8,397</u>	<u>\$ 52,715</u>	<u>\$ (44,318)</u>	<u>\$ 8,397</u>

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 January 31, 2021	\$ 17,672	\$ 658	\$ 18,330
Amortization	(2,324)	(60)	(2,384)
<b>Balance at January 30, 2022</b>	<u>\$ 15,348</u>	<u>\$ 598</u>	<u>\$ 15,946</u>

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

Fiscal Year	Amount
2023	2,384
2024	2,384
2025	2,359
2026	2,359
2027	2,359
2028 and thereafter	4,101
	<u>\$ 15,946</u>

#### NOTE 9 – 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 January 30, 2022, and January 31, 2021, 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.

Our assets measured at fair value on a recurring basis at January 30, 2022 and January 31, 2021, were as follows

Description	Fair value at January 30, 2022				Fair value at January 31, 2021			
	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	\$ -	\$ 26,479	\$ -	\$ 26,479	\$ -	\$ 25,365	\$ -	\$ 25,365

#### NOTE 10 – LEASES

In fiscal 2020, we adopted Accounting Standards Codification Topic 842 *Leases*. We have a sub-lease at one of our warehouses and we recognized sub-lease income of \$890,000, \$576,000 and \$405,000 in fiscal 2022, fiscal 2021 and fiscal 2020, respectively.

The components of lease cost and supplemental cash flow information for leases in fiscal 2022, 2021 and 2020 were:

	Fifty-two Weeks Ended		
	January 30, 2022	January 31, 2021	February 2, 2020
Operating lease cost	\$ 8,144	\$ 8,367	\$ 8,408
Variable lease cost	208	146	153
Short-term lease cost	117	291	581
Total operating lease cost	<u>\$ 8,469</u>	<u>\$ 8,804</u>	<u>\$ 9,142</u>
Operating cash outflows	\$ 7,730	\$ 7,921	\$ 8,725

The right-of-use assets and lease liabilities recorded on our Consolidated Balance Sheets as of January 30, 2022 and January 31, 2021 were:

	January 30, 2022	January 31, 2021
Real estate	\$ 50,749	\$ 33,651
Property and equipment	1,105	962
Total operating leases right-of-use assets	<u>\$ 51,854</u>	<u>\$ 34,613</u>
Current portion of operating lease liabilities	\$ 7,471	\$ 6,650
Long term operating lease liabilities	46,570	29,441
Total operating lease liabilities	<u>\$ 54,041</u>	<u>\$ 36,091</u>

The increase in right-of-use assets and lease liabilities is primarily due to the commencement of the operating lease at our new warehouse facility in Georgia during the fiscal 2022 third quarter. Weighted-average remaining lease term is 8.3 years. We used our incremental borrowing rate which is LIBOR plus 1.5% at the adoption date. The weighted-average discount rate is 1.91%.

The following table reconciles the undiscounted future lease payments for operating leases to the operating lease liabilities recorded in the consolidated balance sheet at January 30, 2022:

<b>Fiscal Year</b>	<b>Undiscounted Future Operating Lease Payments</b>
2023	\$ 8,414
2024	7,098
2025	7,140
2026	7,213
2027	6,850
2028 and thereafter	21,805
Total lease payments	<u>\$ 58,520</u>
Less: impact of discounting	<u>(4,479)</u>
Present value of lease payments	<u><u>\$ 54,041</u></u>

As of January 30, 2022, the Company had an additional lease for a showroom in High Point, North Carolina. This lease is expected to commence in Fall of calendar 2022 with an initial lease term of 10 years and estimated future minimum rental commitments of approximately \$23.7 million. Since the lease has not yet commenced, the undiscounted amounts are not included in the table above.

#### **NOTE 11 – LONG-TERM DEBT**

We paid off the term loans which were related to the Home Meridian acquisition in fiscal 2021 and currently have a \$35 million revolving credit facility (“Existing Revolver”). The Existing Revolver is based on successive past amendments to previous BofA banking agreements which are collectively referred to as the “Previous Agreements.” Details of our Existing Revolver are outlined below:

- The Existing Revolver is available between January 27, 2021 and February 1, 2026 or such earlier date as the availability may terminate or such later date as BofA may from time to time in its sole discretion designate in any extension notice;
- During the availability period, BofA will provide a line of credit to the maximum amount of the Existing Revolver;
- The sublimit of the Existing Revolver available for the issuance of letters of credit was increased to \$10 million;
- The actual daily amount of undrawn letters of credit is subject to a quarterly fee equal to a per annum rate of 1%;
- We may, on a one-time basis, request an increase in the Existing Revolver by an amount not to exceed \$30 million at BofA’s discretion; and
- Any amounts outstanding under the Existing Revolver bear interest at a rate, equal to the then current LIBOR monthly rate (adjusted periodically) plus 1.00%. We must also pay a quarterly unused commitment fee at a rate of 0.15% determined by the actual daily amount of credit outstanding during the applicable quarter.

The loan covenants agreed to under the Second Amended and Restated Loan Agreement continue to apply to us. They include 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.

They also limit our right to incur other indebtedness, make certain investments and create liens upon our assets, subject to certain exceptions, among other restrictions. They do 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 agreements.

We were in compliance with each of these financial covenants at January 30, 2022.

As of January 30, 2022, we had an aggregate \$27.9 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of \$7.1 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the Existing Revolver as of January 30, 2022. There were no additional borrowings outstanding under the Existing Revolver as of January 30, 2022.

## **NOTE 12 – 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 2022, \$1.3 million in fiscal 2021, and \$1.4 million in fiscal 2020.

### **Executive Benefits**

#### 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 Furnishings Corporation; and
- the Pulaski Furniture Corporation Supplemental Executive Retirement Plan (“SERP”) for certain former executives.

#### 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>		
		<u>January 30, 2022</u>	<u>January 31, 2021</u>	
<b>Change in benefit obligation:</b>				
Beginning projected benefit obligation		\$ 10,572	\$ 10,256	
Service cost		133	128	
Interest cost		178	249	
Benefits paid		(904)	(591)	
Actuarial (gain)/ loss		(553)	530	
Ending projected benefit obligation (funded status)		<u>\$ 9,426</u>	<u>\$ 10,572</u>	
<b>Accumulated benefit obligation</b>		<u>\$ 9,277</u>	<u>\$ 10,421</u>	
<b>Discount rate used to value the ending benefit obligations:</b>		1.75%	1.75%	
<b>Amount recognized in the consolidated balance sheets:</b>				
Current liabilities (Accrued salaries, wages and benefits line)		\$ 877	\$ 877	
Non-current liabilities (Deferred compensation line)		8,549	9,695	
Total		<u>\$ 9,426</u>	<u>\$ 10,572</u>	
		<b>Fifty-Two Weeks Ended</b>		
		<u>January 30, 2022</u>	<u>January 31, 2021</u>	<u>February 2, 2020</u>
<b>Net periodic benefit cost</b>				
Service cost		\$ 133	\$ 128	\$ 104
Interest cost		178	249	351
Net loss		402	338	149
Net periodic benefit cost		<u>\$ 713</u>	<u>\$ 715</u>	<u>\$ 604</u>
<b>Other changes recognized in accumulated other comprehensive income</b>				
Net (gain) / loss arising during period		(553)	530	716
Amortizations:				
Gain (loss)		(402)	(338)	(149)
Total recognized in other comprehensive loss (income)		<u>(955)</u>	<u>192</u>	<u>567</u>
<b>Total recognized in net periodic benefit cost and accumulated other comprehensive income</b>		<u>\$ (242)</u>	<u>\$ 907</u>	<u>\$ 1,171</u>
<b>Assumptions used to determine net periodic benefit cost:</b>				
Discount rate		1.75%	2.50%	3.75%
Increase in future compensation levels		4.00%	4.00%	4.00%
<b>Estimated Future Benefit Payments:</b>				
Fiscal 2023		\$ 877		
Fiscal 2024		957		
Fiscal 2025		957		
Fiscal 2026		957		
Fiscal 2027		783		
Fiscal 2028 through fiscal 2032		4,126		

For the SRIP, the discount rate used to determine the fiscal 2022 net periodic cost was 1.75%, based on the Mercer yield curve and the plan's expected benefit payments. At January 30, 2022, combining the Mercer yield curve and the plan's expected benefit payments resulted in a rate of 1.75%. This rate was used to value the ending benefit obligations.

At January 30, 2022, the actuarial gain related to the SRIP amounted to \$553,000, net of tax of \$237,000. At January 31, 2021, the actuarial losses related to the SRIP amounted to \$530,000, net of tax of \$338,000. The estimated actuarial gain that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the 2023 fiscal year is \$83,310. There is no expected prior service (cost) or credit amortization.

		<b>SERP</b> <b>(Supplemental Executive Retirement Plan)</b>		
		<u>January 30,</u> <u>2022</u>	<u>January 31,</u> <u>2021</u>	
<b>Change in benefit obligation:</b>				
Beginning projected benefit obligation		\$ 1,681	\$ 1,860	
Service cost		-	-	
Interest cost		34	46	
Benefits paid		(145)	(158)	
Actuarial (gain)/loss		(39)	(67)	
Ending projected benefit obligation (funded status)		<u>\$ 1,531</u>	<u>\$ 1,681</u>	
<b>Accumulated benefit obligation</b>		<u>\$ 1,531</u>	<u>\$ 1,681</u>	
<b>Discount rate used to value the ending benefit obligations:</b>		2.10%	2.10%	
<b>Amount recognized in the consolidated balance sheets:</b>				
Current liabilities (Accrued salaries, wages and benefits line)		\$ 156	\$ 156	
Non-current liabilities (Deferred compensation line)		1,375	1,525	
Total		<u>\$ 1,531</u>	<u>\$ 1,681</u>	
		<u>Fifty-Two Weeks Ended</u>		
		<u>January 30,</u> <u>2022</u>	<u>January 31,</u> <u>2021</u>	<u>February 2,</u> <u>2020</u>
<b>Net periodic benefit cost</b>				
Service cost		\$ -	\$ -	\$ -
Interest cost		34	46	67
Net gain		-	-	(5)
Net periodic benefit cost		<u>\$ 34</u>	<u>\$ 46</u>	<u>\$ 62</u>
<b>Other changes recognized in accumulated other comprehensive income</b>				
Net (gain)/loss arising during period		(39)	(67)	168
Amortizations:				
Gain (Loss)		-	-	5
Total recognized in other comprehensive loss (income)		<u>(39)</u>	<u>(67)</u>	<u>173</u>
<b>Total recognized in net periodic benefit cost and accumulated other comprehensive income</b>		<u>\$ (5)</u>	<u>\$ (21)</u>	<u>\$ 235</u>
<b>Assumptions used to determine net periodic benefit cost:</b>				
Discount rate		2.80%	2.60%	3.90%
Increase in future compensation levels		N/A	N/A	N/A
<b>Estimated Future Benefit Payments:</b>				
Fiscal 2023		\$ 155		
Fiscal 2024		151		
Fiscal 2025		145		
Fiscal 2026		139		
Fiscal 2027		133		
Fiscal 2028 through fiscal 2032		553		

For the SERP, the discount rate assumption used to measure the projected benefit obligations is set by reference to a certain hypothetical AA-rated corporate bond spot-rate yield curve constructed by our actuary, Aon ("Aon") and the plan's projected cash flows, rounded to the nearest 10 bps. At January 31, 2021, combining the Aon AA Above Median yield curve and the plan's expected benefit payments created a rate of 2.10%. This rate was used to value the ending benefit obligations. At January 30, 2022, combining the Aon AA Above Median yield curve and the plan's expected benefit payments created a rate of 2.80%. The change in the discount rate from 2.10% to 2.80% decreased liabilities.



At January 30, 2022, the actuarial gain related to the SERP was \$39,000. At January 31, 2021, the actuarial gain related to the SERP was \$67,000.

#### NOTE 13 – 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 2022 were \$37.20 and \$40.00, during fiscal 2021 were \$13.92, \$19.20 and \$29.34, during fiscal 2020 were \$29.77, \$29.21 and \$19.87, respectively.

The restricted stock awards outstanding as of January 30, 2022 had an aggregate grant-date fair value of \$1.7 million, after taking vested and forfeited restricted shares into account. As of January 30, 2022, we have recognized non-cash compensation expense of approximately \$996,000 related to these non-vested awards and \$2.6 million for awards that have vested. The remaining \$692,000 of grant-date fair value for unvested restricted stock awards outstanding at January 30, 2022 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 January 30, 2022:

	<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 January 30, 2022</u>
Previous Awards (vested)				\$ 2,580	
Restricted shares Issued on April 17, 2019	15,939	29.80	475	356	21
Forfeited	(3,275)		(98)		
Partial vested due to separation	(415)				
Restricted shares Issued on May 8, 2019	1,027	29.21	30	27	3
Restricted shares Issued on April 7, 2020	23,484	13.92	327	167	108
Forfeited	(3,718)		(52)		
Restricted shares Issued on October 19, 2020	1,022	29.34	30	13	17
Restricted shares Issued on April 8, 2021	16,613	37.20	618	154	402
Forfeited	(1,677)		(62)		
Restricted shares Issued on June 3, 2021	12,000	40.00	480	279	141
Forfeited	(1,500)		(60)		
<b>Awards outstanding at January 30, 2022:</b>	<b><u>59,500</u></b>		<b><u>\$ 1,688</u></b>	<b><u>\$ 996</u></b>	<b><u>\$ 692</u></b>

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 January 30, 2022:

	<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 January 30, 2022</u>
Previous Awards (vested)				\$ 1,062	
RSUs Awarded on April 17, 2019	10,196	28.05	286	178	12
Forfeited	(3,436)		(96)		
Partial vested due to separation	(2,549)				
RSUs Awarded on April 7, 2020	17,672	\$ 12.01	212	76	50
Forfeited	(7,183)		(86)		
Partial vested due to separation	(1,437)				
RSUs Awarded on April 8, 2021	8,186	35.05	287	61	160
Forfeited	(1,882)		(66)		
RSUs for retention Awarded on April 8, 2021	4,865	35.05	171	31	83
Forfeited	(1,613)		(57)		
<b>Awards outstanding at January 30, 2022:</b>	<b><u>22,819</u></b>		<b><u>\$ 651</u></b>	<b><u>\$ 346</u></b>	<b><u>\$ 305</u></b>

We have issued Performance-based Restricted Stock Units (“PSUs”) to our named executive officers 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. PSUs awarded in fiscal 2019 and fiscal 2020 were forfeited as the performance targets were not met. The following table presents PSU activities for the year ended January 30, 2022:

	<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 January 30, 2022</u>
Previous Awards (vested)				-	
PSUs Awarded on April 7, 2020	69,075	13.92	962	409	128
Forfeited	(30,532)		(425)		
PSUs Awarded on April 8, 2021	20,243	37.20	753	204	409
Forfeited	(3,764)		(140)		
<b>Awards outstanding at January 30, 2022:</b>	<b><u>55,022</u></b>		<b><u>\$ 1,150</u></b>	<b><u>\$ 613</u></b>	<b><u>\$ 537</u></b>

## NOTE 14 – 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:

	<u>January 30, 2022</u>	<u>January 31, 2021</u>	<u>February 2, 2020</u>
Restricted shares	59,500	54,747	45,946
RSUs and PSUs	<u>77,841</u>	<u>140,911</u>	<u>73,060</u>
	<u><u>137,341</u></u>	<u><u>195,658</u></u>	<u><u>119,006</u></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:

	<u>Fifty-Two Weeks Ended</u>		
	<u>January 30, 2022</u>	<u>January 31, 2021</u>	<u>February 2, 2020</u>
Net income/(loss)	\$ 11,718	\$ (10,426)	\$ 17,083
Less: Dividends on unvested restricted shares	46	36	25
Net earnings allocated to unvested restricted stock	61	-	60
Earnings available for common shareholders	<u>\$ 11,611</u>	<u>\$ (10,462)</u>	<u>\$ 16,998</u>
Weighted average shares outstanding for basic earnings per share	11,852	11,822	11,784
Dilutive effect of unvested restricted stock awards	<u>118</u>	<u>*</u>	<u>54</u>
Weighted average shares outstanding for diluted earnings per share	<u>11,970</u>	<u>11,822</u>	<u>11,838</u>
Basic earnings/(loss) per share	<u>\$ 0.99</u>	<u>\$ (0.88)</u>	<u>\$ 1.44</u>
Diluted earnings/(loss) per share	<u>\$ 0.97</u>	<u>\$ (0.88)</u>	<u>\$ 1.44</u>

\*Due to the fiscal 2021 net loss, approximately 119,000 shares would have been antidilutive and are therefore excluded from the calculation of earnings per share.

## NOTE 15 – INCOME TAXES

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

	<b>Fifty-Two Weeks Ended</b>		
	<b>January 30, 2022</b>	January 31, 2021	February 2, 2020
<b>Current expense</b>			
Federal	\$ 650	\$ 5,858	\$ 2,312
Foreign	107	108	255
State	307	1,154	334
Total current expense	<u>1,064</u>	<u>7,120</u>	<u>2,901</u>
<b>Deferred taxes</b>			
Federal	1,980	(9,554)	1,645
State	344	(1,708)	298
Total deferred taxes	<u>2,324</u>	<u>(11,262)</u>	<u>1,943</u>
Income tax expense / (benefit)	<u>\$ 3,388</u>	<u>\$ (4,142)</u>	<u>\$ 4,844</u>

Total tax expense for fiscal 2022 was \$3.6 million, of which \$3.4 million expense was allocated to continuing operations and \$200,000 tax expense was allocated to other comprehensive income. Total tax benefit for fiscal 2021 was \$4.2 million, of which \$4.1 million benefit was allocated to continuing operations and \$ 30,000 tax benefit was allocated to other comprehensive income. 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.

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

	<b>Fifty-Two Weeks Ended</b>		
	<b>January 30, 2022</b>	January 31, 2021	February 2, 2020
Income taxes at statutory rate	21.0%	21.0%	21.0%
Increase (decrease) in tax rate resulting from:			
State taxes, net of federal benefit	3.4	3.0	2.4
Officer's life insurance	-1.3	1.7	-1.1
Expiration of capital loss	2.0	0.0	0.0
Change in valuation allowance	-1.9	0.0	0.0
Consolidated Appropriation Act provisions	0.0	1.8	0.0
Other	-0.8	0.9	-0.2
Effective income tax rate	<u>22.4%</u>	<u>28.4%</u>	<u>22.1%</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>January 30, 2022</b>	January 31, 2021
<b>Assets</b>		
Intangible assets	\$ 7,212	\$ 8,057
Deferred compensation	2,807	2,765
Allowance for bad debts	2,079	2,235
Employee benefits	643	848
Loss and credit carryover	88	411
Accrued liabilities	320	511
Deferred rent	618	444
Other	194	369
Total deferred tax assets	<u>13,961</u>	<u>15,640</u>
Valuation allowance	<u>(88)</u>	<u>(411)</u>
	<u>13,873</u>	<u>15,229</u>
<b>Liabilities</b>		
Property, plant and equipment	1,361	775
Inventories	900	281
Total deferred tax liabilities	<u>2,261</u>	<u>1,056</u>
Net deferred tax assets	<u>\$ 11,612</u>	<u>\$ 14,173</u>

At January 30, 2022 and January 31, 2021 our net deferred asset was \$11.6 and \$14.2 million, respectively. The decrease in the valuation allowance of \$323,000 was primarily due to the expiration of a capital loss carryforward. We expect to fully realize the benefit of the deferred tax assets, with the exception of the foreign tax credit carry forward, in future periods when the amounts become deductible. The foreign tax credit carry forward is \$88,000 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 disclosure. We do not have unrecognized tax benefits as of January 30, 2022.

Tax years ending February 3, 2019 through January 30, 2022 remain subject to examination by federal and state taxing authorities.

#### **NOTE 16 – 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. (Fiscal 2020 results shown below have been recast based on the re-composition of our operating segments during the 2020 fourth quarter.) 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.

	<b>Fifty-Two Weeks Ended</b>					
	<u>January 30, 2022</u>	<u>% Net Sales</u>	<u>January 31, 2021</u>	<u>% Net Sales</u>	<u>February 2, 2020</u>	<u>% Net Sales</u>
<b>Net Sales</b>						
Hooker Branded	\$ 200,692	33.8%	\$ 162,442	30.1%	\$ 161,990	26.4%
Home Meridian	278,902	47.0%	282,423	52.3%	340,630	55.8%
Domestic Upholstery	102,283	17.2%	83,678	15.5%	95,670	15.7%
All Other	11,735	2.0%	11,538	2.1%	12,534	2.1%
Consolidated	<u>\$ 593,612</u>	<u>100%</u>	<u>\$ 540,081</u>	<u>100%</u>	<u>\$ 610,824</u>	<u>100%</u>
<b>Gross Profit</b>						
Hooker Branded	\$ 63,146	31.5%	\$ 51,832	31.9%	\$ 51,462	31.8%
Home Meridian	15,213	5.5%	39,832	14.1%	36,936	10.8%
Domestic Upholstery	19,471	19.0%	17,121	20.5%	21,120	22.1%
All Other	3,872	33.0%	3,963	34.4%	4,440	35.4%
Consolidated	<u>\$ 101,702</u>	<u>17.1%</u>	<u>\$ 112,748</u>	<u>20.9%</u>	<u>\$ 113,958</u>	<u>18.7%</u>
<b>Operating Income/(Loss)</b>						
Hooker Branded	\$ 30,667	15.3%	\$ 22,827	14.1%	\$ 21,512	13.3%
Home Meridian	(21,260)	-7.6%	(26,071)	-9.2%	(7,169)	-2.1%
Domestic Upholstery	4,304	4.2%	(12,418)	-14.8%	6,637	6.9%
All Other	1,132	9.6%	1,298	11.3%	1,727	13.8%
Consolidated	<u>\$ 14,843</u>	<u>2.5%</u>	<u>\$ (14,364)</u>	<u>-2.7%</u>	<u>\$ 22,707</u>	<u>3.7%</u>
<b>Capital Expenditures</b>						
Hooker Branded	\$ 558		\$ 377		\$ 690	
Home Meridian	4,829		347		496	
Domestic Upholstery	1,295		475		3,914	
All Other	10		11		29	
Consolidated	<u>\$ 6,692</u>		<u>\$ 1,210</u>		<u>\$ 5,129</u>	
<b>Depreciation &amp; Amortization</b>						
Hooker Branded	\$ 2,530		\$ 1,809		\$ 1,930	
Home Meridian	2,594		2,160		2,218	
Domestic Upholstery	2,678		2,797		2,938	
All Other	12		12		14	
Consolidated	<u>\$ 7,814</u>		<u>\$ 6,778</u>		<u>\$ 7,100</u>	
<b>Assets</b>						
	<u>As of January 30, 2022</u>	<u>% Total Assets</u>	<u>As of January 31, 2021</u>	<u>% Total Assets</u>		
Hooker Branded	\$ 170,968	48.8%	\$ 174,475	53.5%		
Home Meridian	130,890	37.4%	100,497	30.9%		
Domestic Upholstery	47,232	13.5%	49,370	15.2%		
All Other	1,126	0.3%	1,204	0.4%		
Consolidated Assets	<u>\$ 350,216</u>	<u>100%</u>	<u>\$ 325,546</u>	<u>100%</u>		
Consolidated Goodwill and Intangibles	24,343		26,727			
Total Consolidated Assets	<u>\$ 374,559</u>		<u>\$ 352,273</u>			

Sales by product type are as follows:

	Net Sales (in thousands)					
	2022		2021		2020	
Casegoods	\$ 348,548	59%	\$ 329,906	61%	\$ 397,192	65%
Upholstery	245,064	41%	210,175	39%	213,632	35%
	<u>\$ 593,612</u>	<u>100%</u>	<u>\$ 540,081</u>	<u>100%</u>	<u>\$ 610,824</u>	<u>100%</u>

No significant long-lived assets were held outside the United States at either January 30, 2022 or January 31, 2021. International customers accounted for 2.0% of consolidated invoiced sales in fiscal 2022 and 2021, and 1.6% in fiscal 2020. We define international sales as sales outside of the United States and Canada.

## NOTE 17 – 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 \$10.1 million in fiscal 2022, \$10.7 million in fiscal 2021, and \$11.2 million in fiscal 2020. Future minimum annual commitments under leases and operating agreements are \$9.5 million in fiscal 2023, \$8.2 million in fiscal 2024, \$8.2 million in fiscal 2025, \$8.3 million in fiscal 2026 and \$7.8 million in fiscal 2027.

We had letters of credit outstanding totaling \$7.1 million on January 30, 2022. We utilize letters of credit to collateralize certain imported inventory purchases and certain insurance arrangements.

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 18 – CONCENTRATIONS OF RISK

### Imported Products Sourcing

We source imported products through multiple vendors, located in nine 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 Furnishings. In fiscal 2022, imported products sourced from Vietnam and China accounted for 88% of our import purchases and our top five suppliers in those countries accounted for 42% of our fiscal 2022 import purchases. A disruption in our supply chain from Vietnam, China or Malaysia 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 32% of our raw materials supply purchases for domestic upholstered furniture manufacturing operations in fiscal 2022. One supplier accounted for 9.2% of our raw material purchases in fiscal 2022. 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 8% of our consolidated sales in fiscal 2022. Our top five customers accounted for 26% of our fiscal 2022 consolidated sales. The loss of any one or more of these customers could adversely affect our earnings, financial condition and liquidity. At January 30, 2022, 25% of our consolidated accounts receivable is concentrated in our top five customers.

## NOTE 19- 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 with 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 \$784,000 in lease payments to these entities during fiscal 2022.

## NOTE 20- SUBSEQUENT EVENTS

### Cash Dividend

On March 1, 2022, our Board of Directors declared a quarterly cash dividend of \$0.20 per share, payable on March 31, 2022 to shareholders of record at March 17, 2022.

### Sunset West Acquisition

On January 31, 2022, the first day of our 2023 fiscal year, we entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with Sunset HWM, LLC (“Sunset West”) and its three members (the “Sunset West Members”) to acquire substantially all of the assets of Sunset West (the “Sunset Acquisition”). Simultaneously, we closed on the transaction by paying \$23.5 million in cash and \$2 million subject to an escrow arrangement and possible earn-out payments to the Sunset West Members up to an aggregate of \$4 million with the closing cash consideration subject to adjustment for customary working capital estimates. Under the Asset Purchase Agreement, the Company also assumed specified liabilities of Sunset West.

Sunset West is a leading West Coast-based manufacturer of outdoor furniture with its headquarters in Vista, California. The transaction enables us to immediately gain market share in the growing outdoor furniture segment of the industry with one of the most respected brands in the category.

### *Fair Value Estimates of Assets Acquired and Liabilities Assumed*

The consideration and components of our initial fair value allocation of the purchase price paid at closing and in the subsequent Net Working Capital Adjustment consisted of the following:

#### Purchase price consideration

Cash paid for assets acquired	\$	23,500
Net working capital excess to working capital target		411
Escrow Fee		(1)
Earnout		4,000
Total purchase price	\$	<u>27,910</u>

#### Fair value estimates of assets acquired and liabilities assumed:

Net working capital	\$	578
Fixed assets		101
Intangible assets		8,170
Goodwill		19,061
Total purchase price	\$	<u>27,910</u>

Substantially all of these amounts are subject to subsequent adjustment as we continue to gather information during the measurement period. Certain intangible assets were acquired as part of this transaction. Trademarks, trade names and customer relationships have been assigned preliminary fair values subject to additional analysis during the measurement period. While we are still analyzing Sunset West’s operations and the requirements of ASC 280: *Segment Reporting*, we anticipate Sunset West will be included in the Domestic Upholstery segment.





Light scale combines with tactile surfaces for a sophisticated and modern silhouette in the Commerce & Market Metal Desk by Hooker Furniture Casegoods. Crafted of Pine Solids and Metal, the wood top has a beautiful starburst veneer, and the charcoal gray base and stretcher are made of textured metal.

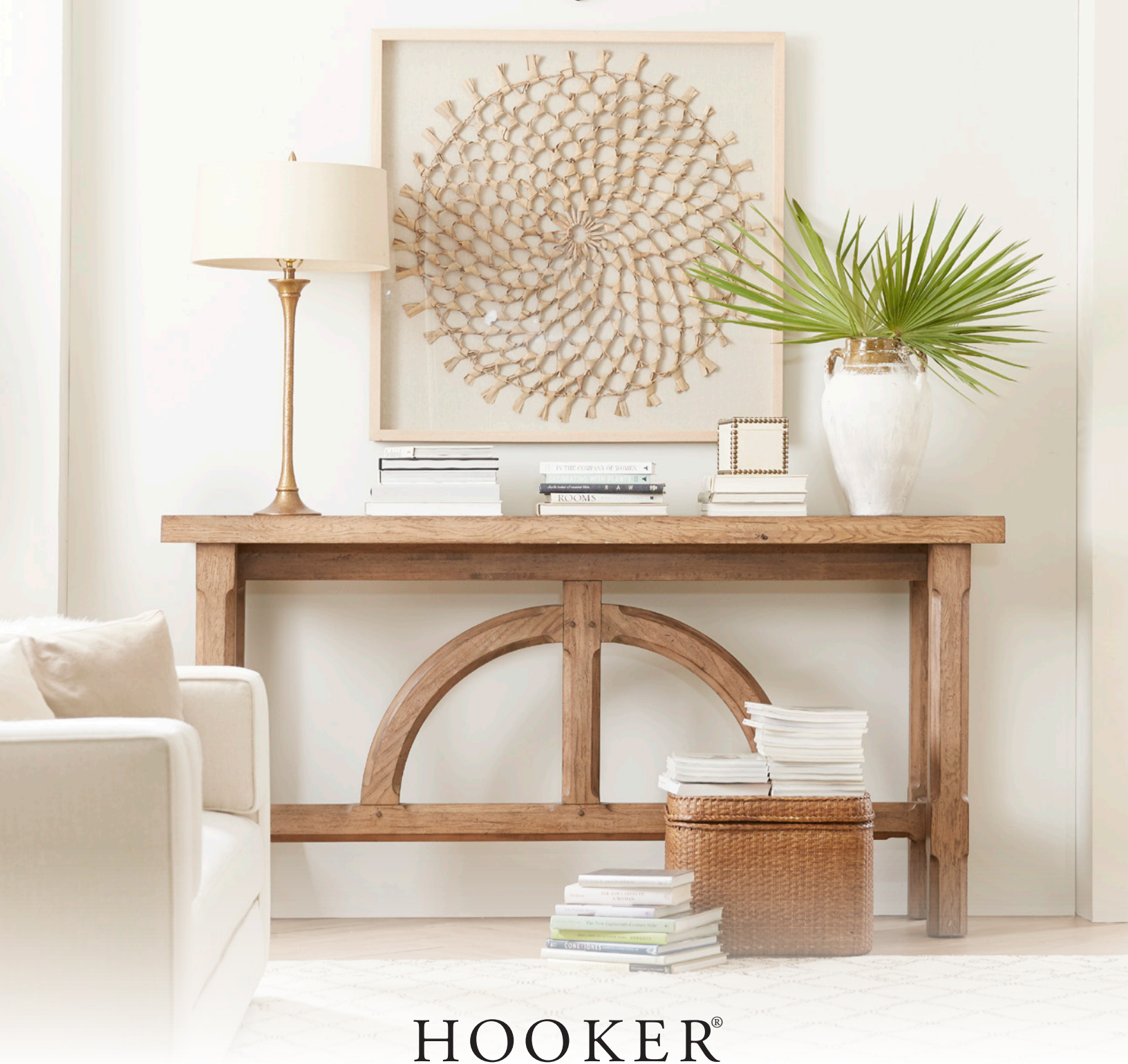
***About the front and back cover photo:***

The contemporary Redondo collection by Sunset West is crafted of hand-brushed aluminum, paired with the Arts Award-winning Milano Armless Club Chair, featuring an architectural yet surprisingly comfortable silhouette, hand-woven in outdoor rope.

Unveiled at the April 2021 High Point Market, the Commerce & Market brand targets the next generation of furniture buyers. Interior designers were front-of-mind when the Hooker Furniture team developed the dynamic palette and flexible applications of pieces within the new brand. The assortment of modern and updated designs presented within the brand include a variety of materials, styles and color palettes to inject a younger sensibility.

**HOOKER<sup>®</sup>**  
FURNISHINGS





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## FURNISHINGS

Hooker Casegoods • PRI • Shenandoah • Bradington-Young • SLH  
Accentrics Home • Sam Moore • Pulaski • Hooker Upholstery • SLF  
H Contract • Sunset West

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