HOOKER FURNITURE CORP
Form 10-K
April 19, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **February 3, 2019**

Commission file number **000-25349**

HOOKER FURNITURE CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**54-0251350**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

440 East Commonwealth Boulevard, Martinsville, VA 24112

(Address of principal executive offices, Zip Code)

(276) 632-2133

(Registrant's telephone number, including area code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, no par value	**NASDAQ Global Select Market**

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated Filer	Accelerated Filer
Non-accelerated Filer	Smaller reporting company
Emerging growth company	

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $514.7 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of April 12, 2019:

Common stock, no par value	**11,785,147**
(Class of common stock)	*(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 12, 2019 are incorporated by reference into Part III.

Table of Contents

Hooker Furniture Corporation

TABLE OF CONTENTS

All references to 2019, 2018, 2017, 2016 and 2015 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 2019 ending on February 3, 2019. Our quarterly periods are based on thirteen-week "reporting periods" (which end on a Sunday) rather than quarterly periods consisting of three calendar months. As a result, each quarterly period generally is thirteen weeks, or 91 days, long, except as noted below. In some years (generally once every six years) the fourth quarter will be fourteen weeks long and the fiscal year will consist of fifty-three weeks. The 2019 fiscal year that ended on February 3, 2019 was a 53-week fiscal year.

All references to the "Company," "we," "us" and "our" in this document refer to Hooker Furniture Corporation and its consolidated subsidiaries, unless specifically referring to segment information. All references to the "Hooker", "Hooker Division", "Hooker Brands" or "traditional Hooker" divisions or companies refer to the current components of our Hooker Branded segment and the domestic upholstery operations contained in All Other: Bradington-Young, Sam Moore, and Shenandoah Furniture.

During fiscal 2018, we acquired substantially all of the assets and assumed certain liabilities of Shenandoah Furniture, Inc. The results of operations of Shenandoah are included in our results beginning on September 29, 2017 (the date of the acquisition). Consequently, prior-year information before September 29, 2017 for Shenandoah is not included in the financial statements presented in this report. We acquired the assets and assumed certain liabilities of Home Meridian International, Inc. on February 1, 2016, the first day of our 2017 fiscal year. Consequently, Home Meridian's results are not included in our results prior to the 2017 fiscal year.

References to the "Shenandoah acquisition" refer to the acquisition of substantially all of the assets of Shenandoah Furniture, Inc. on September 29, 2017. References to the "HMI acquisition" refer to the acquisition of substantially all of the assets of Home Meridian International, Inc. on February 1, 2016.

References in this document to "SFI" refer to the counterparties to the asset purchase agreement, Shenandoah Furniture, Inc. and its two former shareholders, entered into on September 6, 2017. References in this document to "Shenandoah" or "Shenandoah Furniture" refer to the business operations of SFI acquired by us on September 29, 2017. References in this document to "HMI" refer to Home Meridian International, Inc., the counter-party to the asset purchase agreement we entered into on January 6, 2016. References in this document to "Home Meridian" or "Home Meridian segment" refer to the business operations and operating segment that was created upon the closing of the asset purchase agreement on February 1, 2016.

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 “antici negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy.
Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Those risks and uncertainties include but are not limited to:

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

adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products by foreign governments or the U.S. government, such as the current U.S. administration imposing a 10% tariff on certain goods imported into the United States from China, including almost all furniture and furniture components manufactured in China, with the potential for additional or increased tariffs in the future;

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;

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

our inability to collect amounts owed to us;

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

the interruption, inadequacy, security breaches or integration failure of our information systems or information technology infrastructure, related service providers or the internet or other related issues including unauthorized disclosures of confidential information or inadequate levels of cyber-insurance or risks not covered by cyber insurance;

disruptions and damage (including due to weather) affecting our Virginia, North Carolina or California warehouses, our Virginia or North Carolina administrative facilities or our representative offices or warehouses in Vietnam and China;

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

risks associated with our reliance on offshore sourcing and the cost of imported goods, including fluctuation in the prices of purchased finished goods, ocean freight costs and warehousing costs and the risk that a disruption in our offshore suppliers could adversely affect our ability to timely fill customer orders;

higher than expected employee medical and workers' compensation costs that may increase the cost of our high-deductible healthcare and workers compensation plans;

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

product liability claims;

risks related to our recently terminated Pension Plan, including future plan settlement charges, possible additional cash contributions or other costs or expenses; changes in actuarial assumptions, the interest rate environment, the return on plan assets and future funding obligations, which can affect future funding obligations, costs and plan liabilities;

risks related to our other defined benefit plans;

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

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

price competition in the furniture industry;

difficulties in forecasting demand for our imported products;

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

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

risks associated with domestic manufacturing operations, including fluctuations in capacity utilization and the prices and availability of key raw materials, as well as changes in transportation, warehousing and domestic labor costs, availability of skilled labor, and environmental compliance and remediation costs;

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

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

Table of Contents

- competition from non-traditional outlets, such as internet and catalog retailers;

- changes in consumer preferences, including increased demand for lower-quality, lower-priced furniture due to, among other things, fluctuating consumer confidence, amounts of discretionary income available for furniture purchases and the availability of consumer credit; and

- higher than expected costs associated with product quality and safety, including regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products.

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.

Table of Contents

Hooker Furniture Corporation

Part I

ITEM 1. BUSINESS

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

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

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

We believe our acquisition of Home Meridian has better positioned us in some of the fastest growing and advantaged channels of distribution, including e-commerce, warehouse membership clubs and contract furniture. While growing faster than industry average, these channels tend to operate at lower margins. This acquisition has provided the Home Meridian segment's leadership with greater financial flexibility by virtue of Hooker's strong balance sheet and, consequently, has afforded it greater operational focus.

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

Reportable Segments

Furniture sales account for all of our net sales. For financial reporting purposes and as described further below, we are organized into two reportable segments, Hooker Branded and Home Meridian. Our other businesses are aggregated into "All Other". See Note 17 to our consolidated financial statements for additional financial information regarding our operating segments.

Products

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

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

Table of Contents

All Other consists of:
- 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;
- 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; and
- 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.

Sourcing

Imported Products

We have sourced products from foreign manufacturers for nearly thirty years, predominantly from Asia. Imported casegoods and upholstered furniture together accounted for approximately 84% of our net sales in fiscal 2019, 87% of our net sales in fiscal 2018, and 90% of our net sales in fiscal 2017. The decrease in imported casegoods and upholstered furniture sales as a percentage of total sales is primarily due to the Shenandoah acquisition on September 29, 2017, as that business' products are entirely domestically manufactured.

Our imported furniture business is subject to inherent risks in importing products manufactured abroad, including, but not limited to, supply disruptions and delays, currency exchange rate fluctuations, transportation-related issues, economic and political developments and instability, as well as the laws, policies and actions of foreign governments and the United States. These laws, policies and actions may include regulations affecting trade or the application of tariffs, much like the current U.S. administration's imposition of a 10% tariff on certain goods imported into the United States from China, including almost all furniture and furniture components manufactured in China during fiscal 2019. See Item 1A, "Risk Factors" for additional information on our risks related to imported products.

Because of the large number and diverse nature of the foreign suppliers from which we source our imported products, we have flexibility in the sourcing of products among any particular supplier or country. However, a disruption in our supply chain from a major supplier or from Vietnam or China in general, could significantly compromise our ability to fill customer orders for products manufactured at that factory or in that country. We believe we could, most likely at higher cost, source most of the products currently sourced in Vietnam or China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for up to six months. If we were to be unsuccessful in obtaining those products from other sources or at a comparable cost, then a disruption in our supply chain from a major furniture supplier, or from Vietnam or China in general, could decrease our sales, earnings and liquidity. Given the sourcing capacity available in China, Vietnam and other low-cost producing countries, we believe the risks from these potential supply disruptions are manageable.

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

Table of Contents

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 approximately 28% of our raw materials purchases for domestic upholstered furniture manufacturing operations in fiscal 2019. One supplier accounted for 7.5% of such raw material purchases in fiscal 2019. Should disruptions with this supplier occur, we believe we could successfully source these products from other suppliers without significant disruption to our operations.

Customers

Our home furnishings products are sold through a variety of retailers including independent furniture stores, department stores, mass merchants, national chains, warehouse clubs, catalog merchants, interior designers and e-commerce retailers. No customer accounted for more than 10% of our consolidated sales in fiscal 2019. Our top five customers accounted for nearly one-third of our fiscal 2019 consolidated sales. The loss of any one or more of these customers would have a material adverse impact on our business. 1.2% of our sales in fiscal 2019 were to international customers, which we define as sales outside of the United States and Canada.

Competition

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

Warehousing and Distribution

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

Working Capital Practices

Inventory: We generally import casegoods inventory and certain upholstery items in amounts that enable us to meet the delivery requirements of our customers, our internal in-stock goals and minimum purchase requirements from our sourcing partners. However, during fiscal 2019 we accelerated the delivery and subsequently increased inventory levels of some imported products from China due to the threat of the 10% tariff on those products and the threat of subsequent increased tariffs. However, a large percentage of products sold are not warehoused by us but ship directly to our customers and thus not included as inventory. We do not carry significant amounts of domestically produced upholstery inventory or hospitality products, as most of these products are built to order and are shipped shortly after their manufacture.

Table of Contents

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 products. 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 is generally due upon proof of lading onto a US-bound vessel and invoice presentation; however, payment terms, depending on supplier, can stretch up to 45 days from invoice date. Payment terms for domestic raw materials and non-inventory related charges vary but are generally 30 days from invoice date.

Order Backlog

At February 3, 2019, our backlog of unshipped orders was as follows:

Order Backlog
(Dollars in 000s)

	February 3, 2019		January 28, 2018	
Reporting Entity	**Dollars**	**Weeks**	Dollars	Weeks
Hooker Branded	**$11,259**	**3.3**	$15,189	4.7
Home Meridian	**79,024**	**10.8**	76,563	10.9
All Other	**13,677**	**6.2**	14,527	8.5
Consolidated	**$103,960**	**8.1**	$106,279	8.9

For the Hooker Branded segment and All Other, we consider unshipped order backlogs to be one helpful indicator of sales for the upcoming 30-day period, but because of our relatively quick delivery and our cancellation policies (discussed under Warehousing and Distribution, above), we do not consider order backlogs to be a reliable indicator of expected long-term sales. We consider the Home Meridian segment's backlog to be one helpful indicator of that segment's sales for the upcoming 90-day period. Due to (i) Home Meridian's sales volume, (ii) the average sales order sizes of its mass, club and mega account channels of distribution, (iii) the custom nature of many of its products and

(iv) the project nature of its hospitality business, that segment's average order sizes tend to be larger and consequently, its order backlog tends to be larger.

Seasonality

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

Environmental Matters

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

Employees

As of February 3, 2019, we had 1,263 full-time employees, of which 235 were employed in our Hooker Branded segment, 387 were employed in our Home Meridian segment and 641 were employed in All Other. None of our employees are represented by a labor union. We consider our relations with our employees to be good.

Patents and Trademarks

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

Governmental Regulations

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

Additional Information

You may visit us online at hookerfurniture.com, bradington-young.com, sammoore.com, homemeridian.com, pulaskifurniture.com, slh-co.com, and hcontractfurniture.com. We make available, free of charge through our Hooker Furniture website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports, and other documents as soon as practical after they are filed with or furnished to the Securities and Exchange Commission. A free copy of our annual report on Form 10-K may also be obtained by contacting Robert W. Sherwood, Vice President - Credit, Secretary and Treasurer at BSherwood@hookerfurniture.com or by calling 276-632-2133.

ITEM 1A. RISK FACTORS

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

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

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

Effective September 24, 2018, the current U.S. administration imposed a 10% tariff on certain goods imported into the United States from China, including all furniture and furniture components manufactured in China, with tariffs originally scheduled to increase to 25% in 2019. In December, the President agreed to suspend further trade action for 90 days and in February 2019 to further suspend trade action, to continue negotiations and to leave the tariff at the 10% rate for the time being. In fiscal 2019, 44% of our imported purchases were from China. 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.

Table of Contents

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

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

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

In fiscal 2019, imported products sourced from Vietnam and China accounted for nearly all of our import purchases and our top five suppliers in Vietnam and China account for approximately half of our fiscal 2019 import purchases. 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. A disruption in our supply chain, or from Vietnam or China in general, could significantly impact our ability to fill customer orders for products manufactured in those countries. If such a disruption were to occur, we believe that we would have sufficient inventory on hand and in transit to our U.S. warehouses in Virginia, North Carolina and California to adequately meet demand for several months or slightly longer with an additional month’s worth of demand available for immediate shipment from our warehouses in Asia. We believe we could, most likely at higher cost, source most of the products currently sourced in Vietnam or China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for up to six months before the impact of remedial measures would be reflected in our results. If we were to be unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain from our largest import furniture suppliers, or from Vietnam or China in general, could adversely affect our sales, earnings, financial condition and liquidity.

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

Ocean freight costs on imported products currently represent a significant portion of the cost of our imported products. Ocean freight rates on our imported products remain near historical lows due to a myriad of factors including sluggish global growth, low petroleum prices and overcapacity among ocean freight carriers. While we believe ocean freight rates are at or near the lower range of possible costs, we are unable to predict how much longer these low rates will persist. Increased rates in the future would likely adversely affect earnings, financial condition and liquidity.

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

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

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

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

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

For imported products, we generally negotiate firm pricing with our foreign suppliers in U.S. Dollars, typically for periods of at least one year. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk but could choose to do so in the future. Since we transact our imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar could increase the price we must pay for imported products beyond the negotiated periods. These price changes could decrease our sales, earnings, financial condition and liquidity during affected periods.

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

In the past, inflation concerns, and to a lesser extent quality and supplier viability concerns, affecting some of our imported product suppliers located in China prompted us to source more of our products from lower cost suppliers located in other countries, such as Vietnam. As 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, which could adversely affect our sales, earnings, financial condition and liquidity.

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

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

A material part of our sales and accounts receivable are concentrated in a few customers. The loss of several large customers through business consolidations, failures or other reasons could adversely affect our business.

Although no customer accounted for more than 10% of our consolidated sales in fiscal 2019, our top five customers accounted for nearly one-third of our fiscal 2019 consolidated sales. Nearly half of our consolidated accounts receivable is concentrated in our top five customers. Should any one of these receivables become uncollectible, it would have an immediate and material adverse impact on our financial condition and liquidity. The loss of any one or more of these customers could adversely affect our sales, earnings, financial condition and liquidity. The loss of several of our major customers through business consolidations, failures or otherwise, could adversely affect our sales, earnings, financial condition and liquidity and the resulting loss in sales may be difficult or impossible to replace. 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.

Table of Contents

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. Some of our customers have experienced, and may in the future experience, credit-related issues. 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. Should more customers than we anticipate experience liquidity issues, or if payment is not received on a timely basis, we may have difficulty collecting amounts owed to us by these customers, which could adversely affect our sales, earnings, financial condition and liquidity.

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

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

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

If our product offerings do not meet applicable safety standards or consumers' expectations regarding safety, we could experience decreased sales, increased costs and/or be exposed to legal and reputational risk. Events that give rise to actual, potential or perceived product safety concerns could expose us to regulatory enforcement action and/or private litigation. Reputational damage caused by real or perceived product safety concerns or failure to prevail in private litigation against us could negatively affect our business, sales, earnings, financial condition and liquidity.

We incurred significant debt to provide permanent financing for the Shenandoah acquisition and HMI acquisition.

We borrowed $60 million for the Home Meridian acquisition in fiscal year 2017 and additional $12 million for the Shenandoah acquisition in fiscal year 2018 with term loans. Principal and interest payments on the borrowed funds were $19.3 million in fiscal 2019 and are expected to be $6.3 million in fiscal 2020 (assuming no interest rate changes). We are subject to interest rate volatility due to the variable interest rates on these term loans. Among other risks, our debt:

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

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

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

Table of Contents

A disruption affecting our domestic facilities could disrupt our business.

The warehouses in which we store our inventory in Virginia, North Carolina and California are critical to our success. Our corporate and divisional headquarters, which house our administration, sourcing, sales, finance, merchandising, customer service and logistics functions for our imported and domestic products are located in Virginia and North Carolina. Our domestic upholstery manufacturing facilities are located in Virginia and North Carolina. Any disruption affecting our domestic facilities, for even a relatively short period of time, could adversely affect our ability to ship our imported furniture products and disrupt our business, which could adversely affect our sales, earnings, financial condition and liquidity.

Our recently terminated pension plan could negatively impact our operating results and cash flows.

We assumed the liabilities of the Pulaski Furniture Corporation Pension Plan (“Pension Plan”) for former Pulaski Furniture Corporation employees upon completion of the Home Meridian acquisition on February 1, 2016. No benefits have accrued under the Pension Plan since it was frozen in March 1995. During the fiscal 2019 third quarter, we fully funded the plan by making a $3 million cash contribution as part of a Pension Plan de-risking strategy and moved assets into generally lower risk investments to preserve asset value. On January 30, 2019, our Board of Directors approved the termination of the Pension Plan. Pension Plan termination is an eighteen to twenty-four-month process that involves seeking certain approvals from both the IRS and the PBGC. We expect to record pension settlement expenses which could adversely affect our earnings. Additionally, there could be excess costs to terminate the plan and market performance could drive down the value of our fixed-income investments, which could cause the Pension Plan to lose its funded status and require us to make additional cash contributions, which could negatively affect our earnings and liquidity. See Note 13 on page F-27 for additional information about the Pension Plan.

Our other defined benefit retirement plan obligations could negatively impact our operating results and cash flows.

We maintain two other defined benefit pension plans (the “Plans”):

- a supplemental retirement income plan (“SRIP”) for certain former and current executives of Hooker Furniture Corporation; and

- the Pulaski Furniture Corporation Supplemental Executive Retirement Plan (“SERP”) for certain former executives, assumed upon completion of the Home Meridian acquisition on February 1, 2016.

The recognition of costs and liabilities associated with these plans for financial reporting purposes is affected by assumptions made by management and used by actuaries engaged by us to calculate the benefit obligations and the expenses recognized for these plans. The inputs used in developing the required estimates are calculated using a number of assumptions, which represent management's best estimate of the future. The assumptions that have the most significant impact on reported results are (i) the discount rate and (ii) mortality rates.

While the plans are frozen and no new participants are being added, we expect to be impacted by changes in actuarial assumptions of both plans, which could adversely affect our financial condition and liquidity. See Note 13 on page F-27 for additional information about the Plans.

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.

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

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

Table of Contents

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.

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

At February 3, 2019, we had $105.3 million in net long-lived assets, consisting primarily of property, plant and equipment, trademarks, trade names and goodwill. Our goodwill, some trademarks and tradenames have indefinite useful lives and, consequently, are not subject to amortization for financial reporting purposes, but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Our definite-lived assets consist of property, plant and equipment and certain intangible assets related to our recent acquisitions and are tested for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. The outcome of impairment testing could result in the write-down of all or a portion of the value of these assets. A write-down of our assets would, in turn, reduce our earnings and net worth. See Notes 9 and 10 for additional information.

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

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

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

The furniture industry is particularly sensitive to cyclical variations in the general economy and to uncertainty regarding future economic prospects. 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. A recovery in our sales could lag significantly behind a general recovery in the economy after an economic downturn, due to, among other things, the postponable nature and relatively significant cost of home furnishings purchases. These events could also impact retailers, our primary customers, possibly adversely affecting our sales, earnings, financial condition and liquidity.

We may lose market share due to competition.

The furniture industry is very competitive and fragmented. We compete with numerous domestic and non-U.S. residential furniture sources. Some competitors have greater financial resources than we have and often offer extensively advertised, well-recognized, branded products. Competition from non-U.S. sources has increased dramatically over the past decade. We may not be able to meet price competition or otherwise respond to competitive pressures, including increases in supplier and production costs. Also, due to the large number of competitors and their wide range of product offerings, we may not be able to continue to differentiate our products (through value and styling, finish and other construction techniques) from those of our competitors. In addition, some large furniture retailers are sourcing directly from non-U.S. furniture factories. Over time, this practice may expand to smaller retailers. As a result, we are continually subject to the risk of losing market share, which could adversely affect our sales, earnings, financial condition and liquidity.

We may incur higher employee costs in the future.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

Set forth below is information with respect to our principal properties at April 19, 2019. We believe all of these properties are well-maintained and in good condition. During fiscal 2019, we estimate our upholstery plants operated at approximately 86% 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 3.9 million square feet of owned space, leased space or properties utilized under third-party operating agreements.

Location	Segment Use	Primary Use	Approximate Size in Square Feet	Owned or Leased
Martinsville, Va.	All segments	Corporate Headquarters	43,000	Owned
Martinsville, Va.	HB, AO	Distribution and Imports	580,000	Owned
Martinsville, Va.	HB, AO	Customer Support Center	146,000	Owned
Martinsville, Va.	HB, AO	Distribution	628,000	Leased
High Point, N.C.	HB, AO	Showroom	80,000	Leased
Cherryville, N.C.	AO	Manufacturing Supply Plant	53,000	Owned
Hickory, N.C.	AO	Manufacturing	91,000	Owned
Hickory, N.C.	AO	Manufacturing and Offices	36,400	Leased
Bedford, Va.	AO	Manufacturing and Offices	327,000	Owned
High Point, N.C.	HM	Showroom	92,750	Leased
High Point, N.C.	HM	Office	23,796	Leased
High Point, N.C.	HM	Warehouse	10,400	Leased
Madison, N.C.	HM	Warehouse	500,000	Leased
Mayodan, N.C.	HM	Warehouse	235,144	Leased
Mayodan, N.C.	HM	Warehouse	200,000	Leased
Redlands, CA.	HM	Warehouse	327,790	Leased
Ho Chi Minh City, VN	HM	Office and Warehouse	4,893	Leased
Haining, China	HM	Warehouse	5,920	Leased
Haining, China	HM	Office	1,690	Leased
Dongguan, China	HM	Office	1,571	Leased
Dongguan, China	HB	Office	1,855	Leased
Thu Dau Mot, VN	HB	Office	1,722	Leased
Valdese, N.C.	AO	Manufacturing and warehousing	102,905	Leased
Mt. Airy, N.C.	AO	Manufacturing and warehousing	104,150	Leased
Martinsville, Va.	AO	Manufacturing and warehousing	92,766	Leased
High Point, N.C.	AO	Office	18,346	Leased

HB=Hooker Branded, HM=Home Meridian, AO=All Other

Set forth below is information regarding principal properties we utilize that are owned and operated by third parties.

Location	Segment Use	Primary Use	Approximate Size in Square Feet
Guangdong, China	HB	Distribution	210,000
Ho Chi Minh City, VN	HB	Distribution	25,000

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

Table of Contents

EXECUTIVE OFFICERS OF

HOOKER FURNITURE CORPORATION

Hooker Furniture's executive officers and their ages as of April 19, 2019 and the calendar year each joined the Company are as follows:

Name	Age	Position	Year Joined Company
Paul B. Toms, Jr.	64	Chairman and Chief Executive Officer	1983
Paul A. Huckfeldt	61	Chief Financial Officer and Senior Vice President - Finance and Accounting	2004
Anne M. Jacobsen	57	Chief Administration Officer	2008
D. Lee Boone	56	Co-President - Home Meridian Segment	2016
Michael W. Delgatti, Jr.	65	President - Hooker Domestic Upholstery & Emerging Channels	2009
Jeremy R. Hoff	45	President - Hooker Branded Segment	2017
Douglas Townsend	52	Co-President - Home Meridian Segment	2016

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

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

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

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

Michael W. Delgatti, Jr. has been President of Hooker Domestic Upholstery and Emerging Channel since April 2018. Mr. Delgatti served as President- Hooker Furniture Corporation from February 2014 to January 2017, President – Hooker Upholstery from August 2011 to January 2014 and Executive Vice-President of Corporate Sales from September 2012 to January 2014. Mr. Delgatti joined the Company in January of 2009 as Executive Vice-President of Hooker Upholstery.

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

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

Table of Contents

Hooker Furniture Corporation

Part II

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

Our stock is traded on the NASDAQ Global Select Market under the symbol "HOFT". As of February 3, 2019, we had approximately 5,700 beneficial shareholders. We currently expect that future regular quarterly dividends will be declared and paid in the months of March, June, September and December. Although we presently intend to continue to declare regular cash dividends on a quarterly basis for the foreseeable future, the determination as to the payment and the amount of any future dividends will be made by the Board of Directors on a quarterly basis and will depend on our then-current financial condition, capital requirements, results of operations and any other factors then deemed relevant by the Board of Directors.

Purchase of Equity Securities by the Issuer and Affiliated Purchasers

During the fiscal 2013 first quarter, our Board of Directors authorized the repurchase of up to $12.5 million of the Company's common shares. No shares have been repurchased since fiscal 2013. Approximately $11.8 million remains available under the board's authorization as of February 3, 2019. For additional information regarding this repurchase authorization, see the "Share Repurchase Authorization" section in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Performance Graph

The following graph compares cumulative total shareholder return for the Company with a broad performance indicator, the Russell 2000® Index, and an industry index, the Household Furniture Index, for the period from February 2, 2014 to February 3, 2019.

(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 SIC Codes 2510 and 2511, which includes home furnishings companies that are publicly traded in the United States or Canada. At February 3, 2019, Zacks Investment Research, Inc. reported that these two SIC Codes consisted of Nova Lifestyle, Inc., La-Z-Boy, Inc., Leggett & Platt, Inc., Flexsteel Industries, Inc., Hooker Furniture Corporation, Sleep Number Corp., Kimball International, Inc., Luvu Brands, Inc., Tempur Sealy International, Inc., Compass Diversified Holdings, Natuzzi Spa, Purple Innovation, Inc., Bassett Furniture Industries, Inc., Ethan Allen Interiors, Inc., HG Holdings, Inc., Horrison Resources, Inc., The Rowe Companies, and Dorel Industries.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

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

	Fiscal Year Ended (1)				
	February 3, 2019	January 28, 2018	January 29, 2017	January 31, 2016	February 1, 2015
		(In thousands, except per share data)			
Income Statement Data:					
Net sales	**$683,501**	$620,632	$577,219	$246,999	$244,350
Cost of sales	**536,014**	485,815	451,098	178,311	181,550
Casualty loss (2)	**500**	-	-	-	-
Gross profit	**146,987**	134,817	126,121	68,688	62,800
Selling and administrative expenses (3)	**91,928**	87,279	83,186	43,959	43,464
Intangible asset amortization (4)	**2,384**	2,084	3,134	-	-
Operating income (3)	**52,675**	45,454	39,801	24,729	19,336
Other income (expense), net (3)	**369**	1,566	349	(206)	115
Interest Expense, net	**1,454**	1,248	954	64	53
Income before income taxes	**51,590**	45,772	39,196	24,459	19,398
Income taxes	**11,717**	17,522	13,909	8,274	6,820
Net income	**39,873**	28,250	25,287	16,185	12,578
Per Share Data:					
Basic earnings per share	**$3.38**	$2.42	$2.19	$1.50	$1.17
Diluted earnings per share	**$3.38**	$2.42	$2.18	$1.49	$1.16
Cash dividends per share	**0.57**	0.50	0.42	0.40	0.40
Net book value per share (5)	**22.37**	19.53	17.16	14.46	13.30
Weighted average shares outstanding (basic) (6)	**11,759**	11,633	11,531	10,779	10,736
Balance Sheet Data:					
Cash and cash equivalents	**$11,435**	$30,915	$39,792	$53,922	$38,663
Trade accounts receivable	**112,557**	92,803	92,578	28,176	32,245
Inventories	**105,204**	84,459	75,303	43,713	44,973
Working capital	**170,516**	153,162	147,856	111,462	100,871
Total assets	**369,716**	350,058	318,696	181,653	170,755
Long-term debt (including current maturities) (7)	**35,508**	53,425	47,710	-	-
Shareholders' equity	**263,176**	229,460	197,927	156,061	142,909

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

(2) Represents the insurance deductible for a casualty loss experienced at one of our Hooker Branded segment facilities in fiscal 2019.

(3) Amounts for fiscal 2018, 2017, 2016 and 2015 have been adjusted to reflect the reclassifications from Selling and administrative expenses (“S&A”) to Other income (expense), net of certain benefits costs as a result of adopting ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* This accounting standard requires bifurcation of net benefit cost such that all benefit costs except service cost are reported outside of operating costs. Amounts reclassified from S&A to Other income (expense), net were ($30,000), $581,000, $467,000 and $288,000 for fiscal 2018, 2017, 2016 and 2015, respectively.

Table of Contents

(4) We recorded amortization expense of $2.4 million ($1.8 million, or $0.16 per share after tax) in fiscal 2019 on amortizable intangible assets recorded as a result of Home Meridian and Shenandoah acquisitions.

(5) Net book value per share is derived by dividing “shareholders’ equity” by the number of common shares issued and outstanding, excluding unvested restricted shares, all determined as of the end of each fiscal period.

(6) Weighted average outstanding shares outstanding changed materially as a result of issuing 716,910 shares of common stock to the designees of HMI as partial consideration for the Home Meridian acquisition and 176,018 shares of common stock to the shareholders of SFI as partial consideration for the Shenandoah acquisition.

(7) Long-term debt (including current maturities) consists of term loans incurred to fund a portion of the Home Meridian and Shenandoah acquisitions.

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

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

All of our recent public filings made with the Securities and Exchange Commission (“SEC”) which are available, without charge, at www.sec.gov and at http://investors.hookerfurniture.com;

The forward-looking statements disclaimer contained prior to Item 1 of this report, which describe the significant risks and uncertainties that could cause actual results to differ materially from those forward-looking statements made in this report, including those contained in this section of our annual report on Form 10-K;

The company-specific risks found in Item 1A. “Risk Factors” of this report. This section contains critical information regarding significant risks and uncertainties that we face. If any of these risks materialize, our business, financial condition and future prospects could be adversely impacted; and

Our commitments and contractual obligations and off-balance sheet arrangements described on page 34 and in Note 18 on page F-39 of this report. These sections describe commitments, contractual obligations and off-balance sheet arrangements, some of which are not reflected in our consolidated financial statements.

In Management’s Discussion and Analysis, we analyze and explain the annual changes in some specific line items in the consolidated financial statements for fiscal 2019 compared to fiscal 2018 and for fiscal 2018 compared to fiscal 2017. We also provide information regarding the performance of each of our operating segments and All Other.

Unless otherwise indicated, references to the “Company”, "we," "our" or "us" refer to Hooker Furniture Corporation and its consolidated subsidiaries, unless specifically referring to segment information. All references to the “Hooker”, “Hooker Division”, “Hooker Brands” or “traditional Hooker” divisions or companies refer to the current components of our Hooker Branded segment and the domestic upholstery operations contained in All Other: Bradington-Young, Sam Moore, and Shenandoah Furniture.

References to the “Shenandoah acquisition” refer to our acquisition of substantially all of the assets of Shenandoah Furniture, Inc. on September 29, 2017. References to the “HMI acquisition” refer to the acquisition of substantially all of the assets of Home Meridian International, Inc. on February 1, 2016.

Overview

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

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

Table of Contents

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

We believe our acquisition of Home Meridian has better positioned us in some of the fastest growing and advantaged channels of distribution, including e-commerce, warehouse membership clubs, and contract furniture. While growing faster than industry average, these channels tend to operate at lower margins. This acquisition has provided the Home Meridian segment's leadership with greater financial flexibility by virtue of Hooker's strong balance sheet and, consequently, has afforded it greater operational focus.

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

Executive Summary- Fiscal 2019 Results of Operations

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

Consolidated net sales for fiscal 2019 increased 10.1% or $62.9 million to $683.5 million as compared to fiscal 2018 due to sales increases in both of our reportable segments and All Other, as well as one additional week of sales in the current fiscal year. Home Meridian net sales increased by $22.4 million or 6.1% in fiscal 2019. Hooker Branded segment net sales increased 7.2% or $12.0 million due to strong sales in the imported casegoods and upholstery business. All Other net sales increased by 32.3% or $28.6 million mostly due to the absence of Shenandoah's results in the first eight months of fiscal 2018, as well as steady sales growth at Bradington Young and H Contract.

Consolidated net income for fiscal 2019 increased $11.6 million or over 40% as compared to the prior year, due to higher earnings on increased sales, as well as the tax rate reduction due to the recently enacted Tax Cuts and Job Act of 2017, along with $1.8 million income tax expense to value our deferred tax assets recorded in the fourth quarter of fiscal 2018.

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

Gross profit. Consolidated gross profit increased $12.2 million or 9.0% primarily due to sales increases in the Hooker Branded segment and All Other, partially offset by a $500,000 casualty loss recorded in the third quarter, which represented the deductible on our property insurance policy. Gross profit decreased slightly as a percentage of net sales as compared to the prior year period due principally to increased core cost of goods sold and warehousing and distribution expenses in the Home Meridian segment.

Selling and administrative expenses. Consolidated selling and administrative (S&A) expenses increased in absolute terms due to the addition of Shenandoah’s operations and due to higher compensation, benefits, and selling expenses. These increases were partially offset by a company-owned life insurance gain recognized in the first quarter of fiscal 2019, the absence of Shenandoah acquisition-related costs in the current year and a customer write-off in the prior year. S&A expenses decreased as a percentage of net sales due to higher sales.

Intangible asset amortization expense. Consolidated intangible amortization expense increased $300,000 due to the addition of Shenandoah’s acquisition-related intangibles, partially offset by the absence of amortization expense on some shorter-lived Shenandoah acquisition-related intangible assets which were recorded in the fiscal 2018 second-half.

Operating income. In fiscal 2019, consolidated operating income increased $7.2 million or 15.9% and as a percentage of net sales compared to fiscal 2018 due to the factors discussed above and in greater detail in the analysis below.

Table of Contents

Review

We were pleased with our operating results for the year, despite the imposition of tariffs on goods imported from China in the fourth quarter of the year. Net sales increased 10.1% due to both organic growth of about 6% over fiscal 2018 and the addition of a full year of sales at Shenandoah included in All Other. Our diversification strategy also proved its value as we faced challenges in some business units, while others returned to healthy growth after periods of slowness. Net income improved over 40% compared to the prior year. Like many US corporate taxpayers, net income was favorably impacted by the Tax and Jobs Act of 2017, but we are also pleased to report a 15.9% improvement in operating income for the year, with significant increases in both the Hooker Branded segment and in All Other, which includes our domestically-produced upholstery divisions and H Contract furnishings for senior living facilities.

Hooker Branded segment net sales increased $12.0 million or 7.2% in fiscal 2019, with Hooker Casegoods reporting an upper single digit sales increase and Hooker Upholstery reporting a double-digit sales increase. We attribute this growth to reenergized segment leadership and well-received product offerings. Hooker Branded segment orders increased in the single digits for the year and benefitted from increased sales into advantaged distribution channels and what we believe to be exceptional product offerings.

The Home Meridian segment finished fiscal 2019 with a $22.4 million or 6.1% net sales increase, despite a slow start to fiscal 2019 due to vendor interruptions in Asia and decreased sales due to quality challenges with certain products that surfaced in late fiscal 2019. Home Meridian's 6.1% net sales increase was driven by net sales increases in the hospitality and e-commerce distribution channels, partially offset by weakness in other distribution channels. The majority of the Home Meridian segment's sales are "container direct" sales which are sales shipped from our Asian manufacturing partners directly to our retailers rather than stocked in our US warehouses. This fact prevented us from building inventory levels before the 10% tariff became effective. Increased product cost resulting from the tariff and unfavorable customer mix negatively impacted the Home Meridian segment's gross margin.

All Other net sales increased $28.6 million or 32.3% primarily due to the inclusion of Shenandoah's full year sales, and to a lesser extent due to steady sales growth at Bradington-Young and H Contract. In fiscal 2019, Bradington Young orders and net sales increased by 7.2% and 8.2%, respectively, due to increased sales of higher-priced luxury-motion products. H Contract continued to grow with orders up over 12% for the year and backlog up 73% compared to prior year end as of the end of fiscal 2019. These increases were partially offset by decreased sales at Sam Moore. Sam Moore management implemented cost reductions and better controlled operating expenses, which yielded increased operating margins in fiscal 2019.

Our fiscal 2019 operating results also benefited from $1.0 million gain on company-owned life insurance recognized during the first quarter of fiscal 2019 and the absence of $700,000 Shenandoah-acquisition related costs recorded in prior year period, partially offset by $500,000 casualty loss related to a roof-collapse at one of our Martinsville area warehouses which represented the deductible on our property insurance policy, recorded in the second quarter of fiscal 2019 and increased intangible asset amortization expense due to the addition of Shenandoah acquisition related intangible assets.

Our cash and cash equivalents decreased nearly $20 million to $11.4 million as of February 3, 2019. We strategically increased our inventory levels to support sales growth and in an effort to import product ahead of the imposition of the tariffs during the fourth quarter. We also paid $19.3 million principal and interest including $10 million unscheduled payment to pay off the Shenandoah acquisition related term loans and paid $6.7 million in dividends to our shareholders. In the third quarter of fiscal 2019, our Board of Directors approved the increase of our quarterly dividend to $0.15 per share. With an aggregate $27.7 million available under our Existing Revolver to fund working capital and pending cash receipts from increased trade receivables at year-end, we are confident in our financial condition.

Table of Contents

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:

	Fifty-three weeks ended February 3, 2019		Fifty-two weeks ended January 28, 2018		Fifty-two weeks ended January 29, 2017	
Net sales	**100.0**	**%**	100.0	%	100.0	%
Cost of sales	**78.5**		78.3		78.2	
Gross profit	**21.5**		21.7		21.8	
Selling and administrative expenses	**13.4**		14.1		14.4	
Intangible asset amortization	**0.3**		0.3		0.5	
Operating income	**7.7**		7.3		6.9	
Other income (expense), net	**0.1**		0.3		0.1	
Interest expense, net	**0.2**		0.2		0.2	
Income before income taxes	**7.5**		7.4		6.8	
Income taxes	**1.7**		2.8		2.4	
Net income	**5.8**		4.6		4.4	

Fiscal 2019 Compared to Fiscal 2018

Net Sales

	Fifty-three weeks ended February 3, 2019	% Net Sales		Fifty-two weeks ended January 28, 2018	% Net Sales		$ Change	% Change	
Hooker Branded	**$ 178,710**	**26.2**	**%**	$166,754	26.9	%	$11,956	7.2	%
Home Meridian	**387,825**	**56.7**	**%**	365,472	58.9	%	22,353	6.1	%
All Other	**116,966**	**17.1**	**%**	88,406	14.2	%	28,560	32.3	%
Consolidated	**$ 683,501**	**100.0**	**%**	$620,632	100.0	%	$62,869	10.1	%

Unit Volume and Average Selling Price (“ASP”)

Unit Volume	**FY19 % Increase/ -Decrease vs. FY18**		**Average Selling Price**	**FY19 % Increase/ -Decrease vs. FY18**	
Hooker Branded	**6.5**	%	Hooker Branded	**0.2**	%
Home Meridian	**3.5**	%	Home Meridian	**3.7**	%
All Other	**-3.9**	%	All Other	**6.7**	%
Consolidated	**3.5**	%	Consolidated	**2.9**	%

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

Table of Contents

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

Hooker Branded segment net sales increased $12.0 million or 7.2% primarily due to higher sales volume as the result of strong orders and expanded channels of distribution. Good in-stock positions on best-sellers supported steady shipments. Net sales also benefitted from favorable advertising costs, product mix, and increased sales of Hooker Upholstery sectionals, which had higher ASP.

Home Meridian segment net sales increased $22.4 million or 6.1% driven by higher unit volumes and ASP. We raised our selling prices in response to the previously mentioned tariff and increased product costs. Sales volume increased in four out of five business units due to increased sales into emerging channels. The net sales increase was partially offset by a sales decline in traditional channels and unfavorable returns and allowances in the fourth quarter of fiscal 2019.

All Other's net sales increased $28.6 million or 32.3% compared to fiscal 2018. Most of the increase was attributable to a full year of Shenandoah's net sales being included in fiscal 2019 (as compared to only four months in the prior year) and to a lesser extent, strong sales at Bradington-Young and H Contract, partially offset by a sales decrease at Sam Moore. ASP increased due to increased sales of higher-priced Bradington-Young luxury motion products. All Other's unit volume decreased due to the volume decline at Sam Moore.

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

	Average Net Sales Per Shipping Day		
	Fifty-three weeks ended February 3, 2019	Fifty-two weeks ended January 28, 2018	**% Change**
Hooker Branded	**$698**	$ 664	**5.1 %**
Home Meridian	**1,515**	1,456	**4.0 %**
All Other	**457**	352	**29.8 %**
Consolidated	**$2,670**	$ 2,472	**8.0 %**
Shipping Days	**256**	251	

Gross Profit

	Fifty-three weeks ended February 3, 2019	% Segment Net Sales		Fifty-two weeks ended January 28, 2018	% Segment Net Sales		$ Change	% Change	
Hooker Branded	**$ 58,122**	**32.5**	**%**	$53,007	31.8	%	$5,115	9.6	%
Home Meridian	**62,850**	**16.2**	**%**	62,325	17.1	%	525	0.8	%
All Other	**26,015**	**22.2**	**%**	19,485	22.0	%	6,530	33.5	%
Consolidated	**$ 146,987**	**21.5**	**%**	$134,817	21.7	%	$12,170	9.0	%

Table of Contents

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

Hooker Branded segment gross profit increased in absolute terms and as a percentage of net sales due to higher sales and lower product costs. Hooker Branded gross profit also benefited from favorable customer mix, driven by growth of ecommerce sales. The improved margin was negatively impacted by higher product costs, increased warehousing and freight costs due to increased inventory levels and a $500,000 casualty loss we recognized early this year.

Home Meridian segment gross profit increased slightly in absolute terms due to additional sales, but decreased as a percentage of net sales. Lower-margin orders due to unfavorable customer mix, inflation of product cost due to the implementation of the 10% tariff and higher product costs negatively impacted Home Meridian's gross profit.

All Other gross profit increased in absolute terms primarily due to the addition of a full year of Shenandoah's results in fiscal 2019. Bradington Young and H Contract combined also contributed $1.0 million to gross profit increase, due to strong sales in these divisions. Despite a sales decline at Sam Moore, its gross profit stayed essentially flat in absolute terms and increased as a percentage of net sales. All Other gross profit increased as a percentage of net sales due to moderately lower direct labor and material costs.

Selling and Administrative Expenses

	Fifty-three weeks ended February 3, 2019	**% Segment Net Sales**	Fifty-two weeks ended January 28, 2018	% Segment Net Sales	$ Change	% Change
Hooker Branded	**$ 32,854**	**18.4 %**	$ 30,868	18.5 %	$ 1,986	6.4 %
Home Meridian	**42,688**	**11.0 %**	43,164	11.8 %	(476)	-1.1 %
All Other	**16,386**	**14.0 %**	13,247	15.0 %	3,139	23.7 %
Consolidated	**$ 91,928**	**13.4 %**	$ 87,279	14.1 %	$ 4,649	5.3 %

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

Hooker Branded segment S&A expenses increased in absolute terms and was primarily driven by higher compensation costs due to increased headcount, higher employee medical costs, and higher bonus and selling expenses due to increased sales and increased income. These increases were partially offset by a $1.0 million gain on company-owned life insurance recognized during the fiscal 2019 first quarter and the absence of $700,000 Shenandoah-acquisition related costs recorded in prior year period. Hooker Branded segment S&A expenses decreased as a percentage of net sales due to higher net sales.

Home Meridian segment S&A expenses decreased in absolute terms and as a percentage of net sales due to decreased bonus expense due to lower sales and earnings as compared to budget, decreased selling expenses on lower-margin orders, and lower bad debt expense in the current year due to the absence of a customer balance written off during the prior year period. These decreases were partially offset by increased employee compensation and benefits expenses.

All Other S&A expenses increased in absolute terms due primarily to the inclusion of a full year of Shenandoah's operations in fiscal 2019. The increase was also driven by higher compensation, higher employee medical costs and higher professional services due to increased compliance costs. Sam Moore S&A expenses decreased compared to the prior year period due to lower sales and better spending control.

Table of Contents

Intangible Asset Amortization

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

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

Operating Income

	Fifty-three weeks ended February 3, 2019	%Segment Net Sales	Fifty-two weeks ended January 28, 2018	%Segment Net Sales	$ Change	% Change
Hooker Branded	**$ 25,269**	**14.1 %**	$ 22,139	13.3 %	$ 3,130	14.1 %
Home Meridian	**18,828**	**4.9 %**	17,828	4.9 %	1,000	5.6 %
All Other	**8,578**	**7.3 %**	5,487	6.2 %	3,091	56.3 %
Consolidated	**$ 52,675**	**7.7 %**	$ 45,454	7.3 %	$ 7,221	15.9 %

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

Interest Expense, net

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

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

Table of Contents

Income Taxes

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

We recorded income tax expense of $11.7 million for fiscal 2019 compared to $17.5 million for the same prior year period. The effective tax rates for the fiscal 2019 and 2018 were 22.7% and 38.3%, respectively. Our effective tax rate was lower in fiscal 2019 as a result of the recently enacted Tax Cuts and Jobs Act of 2017 as well as the absence of $1.8 million for the re-measurement of deferred tax assets and liabilities recorded in the fourth quarter of fiscal 2018, partially offset by increased state income taxes. We adopted ASU 2014-09 and ASU 2018-02 in the first quarter of fiscal 2019. The adoptions resulted in the reclassification of $120,000 from federal tax payable and $111,000 from Accumulated Other Comprehensive Income, both to retained earnings. See Note 2 "Summary of Significant Accounting Policies" for additional information on the adoptions of these accounting standards.

Net Income and Earnings Per Share

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

Fiscal 2018 Compared to Fiscal 2017

The Shenandoah acquisition closed on September 29, 2017. Consequently, Shenandoah's results are not included in our results prior to September 30, 2017. Additionally, fiscal 2018 and 2017 results have been recast based on the re-composition of our operating segments during the 2018 fourth quarter.

Net Sales

	Fifty-two weeks ended January 28, 2018	% Net Sales	Fifty-two weeks ended January 29, 2017	% Net Sales	$ Change	% Change
Hooker Branded	**$166,754**	**26.9 %**	$158,685	27.5 %	$8,069	5.1 %
Home Meridian	**365,472**	**58.9 %**	344,635	59.7 %	20,837	6.0 %
All Other	**88,406**	**14.2 %**	73,899	12.8 %	14,507	19.6 %
Consolidated	**$620,632**	**100.0 %**	$577,219	100.0 %	$43,413	7.5 %

Table of Contents

Unit Volume and Average Selling Price

Unit Volume	**FY18 % Increase/ -Decrease vs. FY17**		**Average Selling Price**	**FY18 % Increase/ -Decrease vs. FY17**	
Hooker Branded	**5.3**	%	Hooker Branded	**0.0**	%
Home Meridian	**14.8**	%	Home Meridian	**-7.4**	%
All Other	**19.5**	%	All Other	**-0.5**	%
Consolidated	**13.8**	%	Consolidated	**-5.4**	%

Consolidated net sales increased in all reportable segments in fiscal 2018, led by increases in the Home Meridian segment and in All Other. Nearly 80% of All Other's net sales increase was due to inclusion of Shenandoah's post-acquisition sales in the last four months of the 2018 fiscal year. The increases in consolidated unit sales were partially offset by a decline in consolidated average selling prices (ASP). The Home Meridian segment's unit volume increased primarily due to increased sales to mega and e-commerce accounts, which experienced significant year-over-year sales increases. The decrease in Home Meridian segment ASP was attributable to customer mix and growth in ecommerce sales, which tend to be lower priced products. Hooker Branded segment unit volume increased due to sales growth at Hooker Upholstery and increased Hooker Casegoods shipments in the fourth quarter. Unit volume in All Other increased primarily due to the inclusion of Shenandoah's post-acquisition sales, and to a lesser extent, increased sales at Bradington-Young.

Gross Profit

	Fifty-two weeks ended January 28, 2018	% Segment Net Sales		Fifty-two weeks ended January 29, 2017	% Segment Net Sales		$ Change	% Change	
Hooker Branded	**$53,007**	**31.8**	%	$51,653	32.6	%	$ 1,354	2.6	%
Home Meridian	**62,325**	**17.1**	%	57,289	16.6	%	5,036	8.8	%
All Other	**19,485**	**22.0**	%	17,179	23.2	%	2,306	13.4	%
Consolidated	**$134,817**	**21.7**	%	$126,121	21.8	%	$ 8,696	6.9	%

Consolidated gross profit increased in absolute terms and stayed flat as percentage of net sales in fiscal year 2018 due to increased net sales and gross profit in both reportable segments and in All Other. Home Meridian segment gross profit increased both in absolute terms and as a percentage of net sales primarily due to increased net sales and countermeasures management implemented to improve the margin. All Other gross profit increased due primarily to the addition of Shenandoah's results. Hooker Branded segment gross profit increased due to net sales increases, lower product costs and a one-time vendor concession due to a prior year quality issue at Hooker Upholstery, partially offset by decreased Hooker casegoods gross profit due to increased cost of goods sold and returns and allowances.

Selling and Administrative Expenses

	Fifty-two weeks ended January 28, 2018	% Segment Net Sales	Fifty-two weeks ended January 29, 2017	% Segment Net Sales	$ Change	% Change
Hooker Branded	**$ 30,868**	**18.5 %**	$ 31,182	19.7 %	$ (314)	-1.0 %
Home Meridian	**43,164**	**11.8 %**	39,468	11.5 %	3,696	9.4 %
All Other	**13,247**	**15.0 %**	12,536	17.0 %	711	5.7 %
Consolidated	**$ 87,279**	**14.1 %**	$ 83,186	14.4 %	$ 4,093	4.9 %

Table of Contents

Consolidated selling and administrative (S&A) expenses increased in absolute terms primarily due to higher compensation, benefits and bonus expenses, the addition of Shenandoah's operations for the last four months of our fiscal year and $800,000 in Shenandoah acquisition-related costs in the current year. These increases were partially offset by the absence of $1.2 million in Home Meridian acquisition-related costs from the prior year. Home Meridian segment S&A expenses increased primarily due to higher compensation and bonus expense on improved earnings, increased professional services due to increased compliance costs and higher bad debt expense due to the write-off of a customer balance during fiscal 2018. All Other S&A expense increased in absolute terms but decreased as a percentage of net sales. The increase was attributable to the inclusion of Shenandoah expenses, partially offset by decreased S&A at Sam Moore, due primarily to lower selling expenses, and at Homeware due to its closure in 2018. Hooker Branded segment S&A decreased in both absolute terms and as a percentage of net sales, due to the absence of approximately $1.2 million in HMI acquisition-related expenses and lower bad debts expense, partially offset by the inclusion of approximately $800,000 in Shenandoah acquisition-related costs, increased salaries and benefits expense, and increased selling expenses at Hooker Upholstery due to higher sales.

Intangible Asset Amortization

	Fifty-two Weeks Ended January 28, 2018	**% Net Sales**	Fifty-two Weeks Ended January 29, 2017	% Net Sales	$ Change	% Change
Intangible asset amortization	**$ 2,084**	**0.3 %**	$ 3,134	0.5 %	$ (1,050)	100.0 %

Intangible asset amortization expense was higher in the prior year period due to the short amortization period of some of Home Meridian's acquisition-related intangible assets. The decrease was partially offset by intangible asset amortization expense recognized on Shenandoah acquisition-related intangibles. See Note 10. Intangible Assets for additional information on our amortizable intangible assets.

Operating Income

Fifty-two weeks ended January 28, 2018	Fifty-two weeks ended January 29, 2017	$ Change	% Change

		%Segment Net Sales			%Segment Net Sales				
Hooker Branded	**$ 22,139**	**13.3**	**%**	$ 20,472	12.9	%	$ 1,667	8.1	%
Home Meridian	**17,828**	**4.9**	**%**	14,687	4.3	%	3,141	21.4	%
All Other	**5,487**	**6.2**	**%**	4,642	6.3	%	845	18.2	%
Consolidated	**$ 45,454**	**7.3**	**%**	$ 39,801	6.9	%	$ 5,653	14.2	%

Operating profitability increased both in absolute terms and as a percentage of net sales in fiscal 2018 compared to the same prior-year period due to the factors discussed above.

Interest Expense, net

	Fifty-two Weeks Ended January 28, 2018	% Net Sales		Fifty-two Weeks Ended January 29, 2017	% Net Sales		$ Change	% Change	
Interest expense, net	**$ 1,248**	**0.2**	**%**	$ 954	0.2	%	$ 294	30.8	%

Consolidated interest expense in fiscal year 2018 increased primarily due to increases in the interest rates on our variable-rate term loans and interest expense on the new term loan in connection with the Shenandoah acquisition.

Table of Contents

Income Taxes

	Fifty-two weeks ended January 28, 2018	% Net Sales	Fifty-two weeks ended January 29, 2017	% Net Sales	$ Change	% Change
Consolidated income tax expense	**$ 17,522**	**2.8 %**	$ 13,909	2.4 %	$ 3,613	26.0 %
Effective Tax Rate	**38.3 %**		35.5 %			

We recorded income tax expense of $17.5 million during fiscal 2018, compared to $13.9 million for fiscal 2017, due primarily to additional tax expense of $1.8 million for the re-measurement of deferred tax assets and liabilities as the result of the Tax Cuts and Jobs Act. The effective income tax rates for the two fiscal years were 38.3% and 35.5%, respectively. Our effective tax rate was higher in fiscal 2018 due to the Tax Act impact and proceeds received on officer life insurance in fiscal 2017 that did not recur in fiscal 2018.

Net Income and Earnings Per Share

Net Income	**Fifty-two weeks ended January 28, 2018**	% Net Sales	Fifty-two weeks ended January 29, 2017	% Net Sales	$ Change	% Change
Consolidated	**$ 28,250**	**4.6 %**	$ 25,287	4.4 %	$ 2,963	11.7 %
Diluted earnings per share	**$ 2.42**		$ 2.18			

Financial Condition, Liquidity and Capital Resources

Summary Cash Flow Information – Operating, Investing and Financing Activities

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017
Net cash provided by operating activities	**$ 9,662**	$ 27,746	$ 31,240
Net cash used in investing activities	**(4,511)**	(36,483)	(88,061)
Net cash (used in) provided by financing activities	**(24,631)**	(140)	42,691
Net decrease in cash and cash equivalents	**$ (19,480)**	$ (8,877)	$ (14,130)

During fiscal 2019, $9.7 million generated from operations, $1.2 million life insurance proceeds and cash on hand helped make $17.9 million in principal payments on our term loans, $6.7 million in cash dividends, $5.2 million capital expenditures, and $652,000 insurance premiums on Company-owned life insurance policies. Company-owned life insurance policies are in place to compensate us for the loss of key employees, to facilitate business continuity and to serve as a funding mechanism for certain executive benefits.

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

During fiscal 2017, cash generated from operations, cash on hand, term-loan proceeds and insurance proceeds helped fund the HMI acquisition, pay $12.3 million in long-term debt payments, pay $4.9 million in cash dividends and fund $2.5 million of capital expenditures to enhance our business systems and facilities and to pay $715,000 in premiums on Company-owned life insurance policies.

Table of Contents

Liquidity, Financial Resources and Capital Expenditures

Our financial resources include:

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

We believe these resources are sufficient to meet our business requirements through fiscal 2020 and for the foreseeable future, including:

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

Loan Agreements and Revolving Credit Facility

We currently have one unsecured term loan and one secured term loan outstanding and a revolving credit facility. The term loans are related to the Home Meridian acquisition. A second unsecured term loan, used to partially fund the Shenandoah acquisition, was paid off during fiscal 2019. Details of our loan agreements and revolving credit facility are outlined below.

Original Loan Agreement

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

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

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

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

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

New Loan Agreement

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

- amended and restated the Original Loan Agreement detailed above such that our existing $30 million unsecured revolving credit facility (the "Existing Revolver"), Unsecured Term Loan, and Secured Term Loan all remain outstanding under the New Loan Agreement; and

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

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

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

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

We were in compliance with each of these financial covenants at February 3, 2019 and expect to remain in compliance with existing covenants for the foreseeable future.

Due to our strong cash position, we paid off remaining amounts due under the New Unsecured Term Loan in fiscal 2019. As of February 3, 2019, $18.4 million was outstanding under the Unsecured Term Loan, and $17.1 million was outstanding under the Secured Term Loan.

Revolving Credit Facility Availability

As of February 3, 2019, we had an aggregate $27.7 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of $2.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of February 3, 2019. There were no additional borrowings outstanding under the Existing Revolver as of February 3, 2019.

Capital Expenditures

We expect to spend between $4 million to $6 million in capital expenditures in fiscal 2020 to maintain and enhance our operating systems and facilities.

Table of Contents

Share Repurchase Authorization

During fiscal 2013, our Board of Directors authorized the repurchase of up to $12.5 million of the Company's common shares. The authorization does not obligate us to acquire a specific number of shares during any period and does not have an expiration date, but it may be modified, suspended or discontinued at any time at the discretion of our Board of Directors. Repurchases may be made from time to time in the open market, or through privately negotiated transactions or otherwise, in compliance with applicable laws, rules and regulations, and subject to our cash requirements for other purposes, compliance with the covenants under the loan agreement for our revolving credit facility and other factors we deem relevant. No shares were purchased during fiscal 2019. Approximately $11.8 million remains available for future purchases under the authorization as of February 3, 2019.

Dividends

We declared and paid dividends of $0.57 per share or approximately $6.7 million in fiscal 2019. On March 3, 2019 our Board of Directors declared a quarterly cash dividend of $0.15 per share, payable on March 29, 2019 to shareholders of record at March 18, 2019.

Commitments and Contractual Obligations

As of February 3, 2019, our commitments and contractual obligations were as follows:

	Cash Payments Due by Period (In thousands)				
	Less than 1 Year	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Long Term Debt (1)	$5,857	$29,651	$-	$-	$35,508
Deferred compensation payments (2)	684	2,080	2,148	5,023	9,935
Operating leases (3)	7,778	12,546	6,022	588	26,934
Total contractual cash obligations	$14,319	$44,277	$8,170	$5,611	$72,377

(1) These amounts represent obligations due under the Unsecured Term Loan and the Secured Term Loan. See Note 12 to the consolidated financial statements beginning on page F-25 for additional information about our long-term debt obligations.

(2)

These amounts represent estimated cash payments to be paid to participants in our SRIP through fiscal year 2043, which is 15 years after the last current SRIP plan participant is assumed to have retired. SERP benefits are paid over the lifetimes of plan participants, so the year of final payment is unknown. The present value of these benefits (the actuarially derived projected benefit obligation for the SRIP and SERP) were approximately $9.6 million and $1.8 million, respectively, at February 3, 2019, and are shown on our consolidated balance sheets, with $684,000 recorded in current liabilities and $10.7 million recorded in long-term liabilities. Under the SRIP, the monthly retirement benefit for each participant, regardless of age, would become fully vested and the present value of that benefit would be paid to each participant in a lump sum upon a change in control of the Company as defined in the plan. See Note 13 to the consolidated financial statements beginning on page F-27 for additional information about the SRIP and SERP.

(3) These amounts represent estimated cash payments due under operating leases for real estate utilized in our operations and warehouse and office equipment.

Off-Balance Sheet Arrangements

Standby letters of credit in the aggregate amount of $2.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of February 3, 2019. See the “Commitments and Contractual Obligations” table above and Note 18 to the consolidated financial statements included in this annual report on Form 10-K for additional information on our off-balance sheet arrangements.

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

Table of Contents

Recently Issued Accounting Pronouncements

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

In June 2016, the FASB issued ASU 2016-13*, Financial Instruments—Credit Losses (Topic 326)*. This update seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments, including trade receivables, and other commitments to extend credit held by a reporting entity at each reporting date. The amendments require an entity to replace the incurred loss impairment methodology in current GAAP with a methodology that reflects current expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The amendments will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which guidance is effective, which is a modified-retrospective approach. We are currently evaluating the effects of adopting this standard will have on our consolidated financial statements and results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which, among other things, requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. ASU 2016-02 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*; and ASU No. 2018-11, *Targeted Improvements*. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The lease liability recognized will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. We adopted the new standard on February 4, 2019 and will use the effective date as our date of initial application. The new standard provides a number of optional practical expedients in transition. We have elected the package of practical expedients, which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. We do not expect to elect the use-of hindsight or the practical expedient pertaining to land easements; the latter not being applicable to us. To date, we identified all of our leases, the majority of which are for real estate used in our operations, completed our search for embedded leases in our contracts and agreements and completed the calculations of the right-of-use asset and lease liability. While our calculations are subject to revision, we currently expect to record a right-of-use asset and a lease liability of approximately $45 million upon adoption. The new standard also provides practical expedients for an entity's ongoing accounting. We currently expect to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

Outlook

We have been able to mitigate much of the impact of the 10% tariff, thanks to the cooperation of our supply partners and our customers. With the possibility of the tariff increasing to 25% at a future date, we will continue to work to mitigate the impact of the tariffs by re-sourcing manufacturing in non-tariff countries, without compromising the quality and service our customers expect.

Our management team remains focused on building a responsive, focused organization, which drives success and high performance, but is instilled with the culture and values that have contributed to our success for nearly ninety-five years. Adaptation, the ability to react to challenges in the short-term and change strategies, or develop new strategies over the longer-term, are an important part of that culture. We believe we have an organization ready to face a changing global market and to leverage change into new opportunities for growth.

Many long-term macro-economic indicators are positive and developments in the housing market, including more affordable mortgage rates, a near-record level of home remodeling activity and the highest rate of homeownership in five years are especially encouraging. However, we have seen a softening of demand and retail activity in the first two months of fiscal 2020. For the fiscal 2019 fourth quarter, incoming orders were essentially flat, but in fiscal February and March, incoming orders were down in the low double digits on a consolidated basis, with backlogs similarly deflated versus the same period in the prior year. Based on industry dynamics and the macro-economic outlook for the year, we expect these are short-term headwinds and remain confident in our business model and strategies and our strategic execution. We believe our diversified business model allows us to perform well through economic fluctuations and we are making the investments needed in products, programs, systems and people to continue to perform at a high level.

Table of Contents

Critical Accounting Policies and Estimates

Our significant accounting policies are described in “Note 2 – Summary of Significant Accounting Policies” to the consolidated financial statements beginning at page F-11 in this report. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe that actual results will deviate materially from our estimates related to our accounting policies described below. However, because application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties, actual results could differ materially from these estimates.

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

Revenue Recognition. We recognize revenue pursuant to Accounting Standards Codification 606, which requires revenue to be recognized at an amount that reflects the consideration we expect to be entitled to receive in exchange for transferring goods or services to our customers. Our policy is to record revenue when control of the goods transfers to the customer. We have a present right to payment at the time of shipment as customers are invoiced at that time. We believe the customer obtains control of goods at the time of shipment, which is typically when title passes. While the customer may not enjoy immediate physical possession of the products, the customers’ right to re-direct shipment indicates control. In the very limited instances when products are sold under consignment arrangements, we do not recognize revenue until control over such products has transferred to the end consumer. Orders are generally non-cancellable once loaded into a shipping trailer or container.

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

Net sales are comprised of gross revenues from sales of home furnishings and hospitality furniture products and are recorded net of allowances for trade promotions, estimated product returns, rebate advertising programs and other discounts. Physical product returns are very rare due to the high probability of damages to our products in return transit. Other revenues, primarily royalties, are immaterial to our overall results. Payment is typically due within 30-60 days of shipment for customers qualifying for payment terms. Collectability is reasonably assured since we extend credit to customers for whom we have performed credit evaluations and/or from whom we have received a down payment or deposit. Due to the highly-customized nature of our hospitality products, we typically require substantial prepayments on these orders, with the balance due within 30 days of delivery.

Table of Contents

Impairment of Long-Lived Assets

Tangible and Definite Lived Intangible Assets

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

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

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

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

Intangible Assets and Goodwill

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

Table of Contents

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

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

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

At February 3, 2019, the fair values of our Bradington-Young, Home Meridian, Sam Moore and Shenandoah trademarks and trade names exceeded their carrying values.

The goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test outlined in ASC Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing quantitative assessment. The quantitative assessment involves estimating the implied fair value of our goodwill using projected future cash flows that are discounted using a weighted average cost of capital analysis that reflects current market conditions. Management judgment is a significant factor in the goodwill impairment evaluation process. The computations require management to make estimates and assumptions, the most critical of which are potential future cash flows and the appropriate discount rate. Based on our qualitative assessment as described above, we have concluded that our goodwill is not impaired as of February 3, 2019.

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

Concentrations of Sourcing Risk

In fiscal 2019, imported products sourced from Vietnam and China accounted for nearly all of our import purchases and our top five suppliers in Vietnam and China account for approximately half of our fiscal 2019 import purchases. A disruption in our supply chain, or from Vietnam or China in general, could significantly impact our ability to fill customer orders for products manufactured in those countries. If such a disruption were to occur, we believe that we would have sufficient inventory on hand and in transit to our U.S. warehouses in Virginia, North Carolina and California to adequately meet demand for several months or slightly longer with an additional month’s worth of demand available for immediate shipment from our warehouses in Asia. We believe that we could, most likely at higher cost, source most of the products currently sourced in Vietnam or China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for up to six months before the impact of remedial measures would be reflected in our results. If we were to be unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain from our largest import furniture suppliers, or from Vietnam or China in general, could adversely affect our sales, earnings, financial condition and liquidity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes, raw materials price risk and changes in foreign currency exchange rates, which could impact our results of operations or financial condition. We manage our exposure to this risk through our normal operating activities.

Table of Contents

Interest Rate Risk

In conjunction with the Shenandoah acquisition, we entered into new financing arrangements as described in "Note 12 Long-Term Debt" included in Part II, Item 8. “Financial Statements” of this Form 10-K. Borrowings under the revolving credit facility and the Unsecured Term Loan bear interest based on LIBOR plus 1.5% and borrowings under the Secured Term Loan bear interest based on LIBOR plus 0.5%. As such, these debt instruments expose us to market risk for changes in interest rates. There was no outstanding balance under our revolving credit facility as of February 3, 2019, other than standby letters of credit in the amount of $2.3 million. However, as of February 3, 2019, $35.5 million was outstanding under our term loans. A 1% increase in the LIBOR rate would result in an annual increase in interest expense on our terms loans of approximately $328,000.

Raw Materials Price Risk

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

Currency Risk

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

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

ITEM 8.   FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended February 3, 2019. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of February 3, 2019, 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 Annual Report on Internal Control over Financial Reporting

In accordance with Section 404 of the Sarbanes-Oxley Act and SEC rules thereunder, management has conducted an assessment of our internal control over financial reporting as of February 3, 2019, based on the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's report regarding that assessment is included on page F-2 of this report, with our consolidated financial statements, and is incorporated herein by reference.

Report of Registered Public Accounting Firm

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended February 3, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

Hooker Furniture Corporation

Part III

In accordance with General Instruction G (3) of Form 10-K, most of the information called for by Items 10, 11, 12, 13 and 14 of Part III will be incorporated by reference to the Company's definitive Proxy Statement for its Annual Meeting of Shareholders scheduled to be held June 12, 2019 (the "2019 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 2019 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 "Executive Officers of Hooker Furniture Corporation" 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 "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2019 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 2019 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 2019 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 2019 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 2019 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 2019 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 2019 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 2019 Proxy Statement and is incorporated herein by reference.

Table of Contents

Hooker Furniture Corporation

Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

Management's Report on Internal Control Over Financial Reporting

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of February 3, 2019 and January 28, 2018.

Consolidated Statements of Income for the fifty-three-week period ended February 3, 2019 and the fifty-two-week periods ended January 28, 2018 and January 29, 2017.

Consolidated Statements of Comprehensive Income for the fifty-three-week period ended February 3, 2019 and the fifty-two-week periods ended January 28, 2018 and, January 29, 2017.

Consolidated Statements of Cash Flows for the fifty-three-week period ended February 3, 2019 and the fifty-two-week periods ended January 28, 2018 and, January 29, 2017.

Consolidated Statements of Shareholders' Equity for the fifty-three-week period ended February 3, 2019 and the fifty-two-week periods ended January 28, 2018 and, January 29, 2017.

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

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

(b) Exhibits:

2.1	Asset Purchase Agreement by and between the Company and Home Meridian International, Inc., dated as of January 5, 2016 (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K (SEC File No. 000-25349) filed on January 7, 2016)
2.2	Asset Purchase Agreement, dated as of September 6, 2017, by and among Hooker Furniture Corporation, Shenandoah Furniture Corporation, Gideon C. Huddle and Candace H. Payne (incorporated by reference to Exhibit 2.1 of the Company's Form 8-K (SEC File No. 000-25349) filed on September 29, 2017)
3.1	Amended and Restated Articles of Incorporation of the Company, as amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 28, 2003)
3.2	Amended and Restated Bylaws of the Company as amended December 10, 2013 (incorporated by reference to Exhibit 3.2 of the Company's Form 10-K (SEC File No. 000-25349) for the fiscal year ended February 2, 2014)
4.1	Amended and Restated Articles of Incorporation of the Company (See Exhibit 3.1)
4.2	Amended and Restated Bylaws of the Company (See Exhibit 3.2)
	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)*

Table of Contents

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(g)	Employment Agreement, dated August 22, 2011, between Michael W. Delgatti, Jr. and the Company(incorporated by reference to Exhibit 10.1(l) of the Company's Form 10-K (SEC File No. 000-25349) filed on April 13, 2012)*
10.1(h)	Employment Agreement, dated January 5, 2016, between George Revington and the Company (incorporated by reference to Exhibit 10.1(l) of the Company's Form 10-K (SEC File No. 000-25349) filed on April 15, 2016)*
10.1(i)	Employment Agreement, dated June 4, 2018, between Anne Jacobsen and the Company (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)*
10.1(j)	Employment Agreement, dated June 25, 2018, between Donald Lee Boone and the Company (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)*
10.1(k)	Employment Agreement, dated June 4, 2018, between Jeremy Hoff and the Company (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)*
10.1(l)	Employment Agreement, dated June 4, 2018, between Douglas Townsend and the Company (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q (SEC File No. 000-25349) filed on December 6, 2018)*
10.1(m)	Form of Performance Share Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on May 11, 2018)*
10.2(a)	Amended and Restated Loan Agreement, dated as of February 1, 2016, between Bank of America, N.A., the Company, Bradington-Young, LLC and Same Moore Furniture LLC (incorporated by referenced to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on February 2, 2016)

10.2(b)	Security Agreement (Assignment of Life Insurance Policy as Collateral), dated as of February 1, 2016, between Bank of America, N.A. and the Company (incorporated by referenced to Exhibit 10.2 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on February 2, 2016)
10.2 (c)	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 (d)	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. (filed herewith)

43

Table of Contents

21	List of Subsidiaries: Bradington-Young LLC, a North Carolina limited liability company Home Meridian Group, LLC, a North Carolina limited liability company Sam Moore Furniture LLC, a Virginia limited liability company
23	Consent of Independent Registered Public Accounting Firm (filed herewith)
31.1	Rule 13a-14(a) Certification of the Company’s principal executive officer (filed herewith)
31.2	Rule 13a-14(a) Certification of the Company’s principal financial officer (filed herewith)
32.1	Rule 13a-14(b) Certification of the Company’s principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following financial statements from the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2019, formatted in Extensible Business Reporting Language (“XBRL”): (i) consolidated balance sheets, (ii) consolidated statements of income, (iii) consolidated statements of comprehensive income, (iv) consolidated statements of cash flows, (v) consolidated statements of shareholders’ equity and (vi) the notes to the consolidated financial statements, tagged as blocks of text (filed herewith)

*Management contract or compensatory plan

ITEM 16. FORM 10-K SUMMARY

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOOKER FURNITURE CORPORATION

April 19, 2019 By: /s/ Paul B. Toms, Jr.
Paul B. Toms, Jr.
Chairman and Chief Executive Officer

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

Signature	Title	Date
/s/ Paul B. Toms, Jr. Paul B. Toms, Jr.	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	April 19, 2019
/s/ Paul A. Huckfeldt Paul A. Huckfeldt	Senior Vice President - Finance and Accounting and Chief Financial Officer (Principal Financial and Accounting Officer)	April 19, 2019
/s/ W. Christopher Beeler, Jr. W. Christopher Beeler, Jr.	Director	April 19, 2019
/s/ Paulette Garafalo Paulette Garafalo	Director	April 19, 2019
/s/ John L. Gregory, III John L. Gregory, III	Director	April 19, 2019
/s/ Tonya H. Jackson Tonya H. Jackson	Director	April 19, 2019
/s/ E. Larry Ryder E. Larry Ryder	Director	April 19, 2019

/s/ Ellen C. Taaffe Ellen C. Taaffe	Director	April 19, 2019
/s/ Henry G. Williamson, Jr. Henry G. Williamson, Jr.	Director	April 19, 2019

45

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders of

Hooker Furniture Corporation

Martinsville, Virginia

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of February 3, 2019.

The effectiveness of the Company's internal control over financial reporting as of February 3, 2019 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report which is included herein.

Paul B. Toms, Jr.

Chairman and Chief Executive Officer

(Principal Executive Officer)

April 19, 2019

Paul A. Huckfeldt

Senior Vice President – Finance and Accounting and Chief Financial Officer

(Principal Financial and Accounting Officer)

April 19, 2019

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Hooker Furniture Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Hooker Furniture Corporation and subsidiaries (the Company) as of February 3, 2019 and January 28, 2018, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended February 3, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 3, 2019 and January 28, 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended February 3, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 19, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

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

Basis for Opinion

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

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

/s/ KPMG LLP

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

Raleigh, North Carolina
April 19, 2019

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Hooker Furniture Company:

Opinion on Internal Control Over Financial Reporting

We have audited Hooker Furniture Corporation and subsidiaries’ (the Company) internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of February 3, 2019 and January 28, 2018, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended February 3, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated April 19, 2019 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Raleigh, North Carolina
April 19, 2019

Table of Contents

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

As of	February 3, 2019	January 28, 2018
Assets		
Current assets		
Cash and cash equivalents	**$11,435**	$30,915
Trade accounts receivable, net (See notes 6 and 7)	**112,557**	92,803
Inventories (see note 8)	**105,204**	84,459
Prepaid expenses and other current assets	**5,735**	5,314
Total current assets	**234,931**	213,491
Property, plant and equipment, net	**29,482**	29,249
Cash surrender value of life insurance policies (See note 11)	**23,816**	23,622
Deferred taxes (See note 16)	**4,522**	3,264
Intangible assets, net (See note 10)	**35,755**	38,139
Goodwill (See notes 4 and 10)	**40,058**	40,058
Other assets	**1,152**	2,235
Total non-current assets	**134,785**	136,567
Total assets	**$369,716**	$350,058
Liabilities and Shareholders' Equity		
Current liabilities		
Current portion of term loans	**$5,829**	$7,528
Trade accounts payable	**40,838**	32,685
Accrued salaries, wages and benefits	**8,002**	9,218
Income tax accrual (See note 16)	**3,159**	3,711
Customer deposits	**3,023**	4,293
Other accrued expenses	**3,564**	2,894
Total current liabilities	**64,415**	60,329
Long term debt (See note 12)	**29,628**	45,778
Deferred compensation (See note 13)	**11,513**	11,164
Pension plan (See note 13)	**-**	2,441
Other liabilities	**984**	886
Total long-term liabilities	**42,125**	60,269
Total liabilities	**106,540**	120,598
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, **11,785** and 11,762 shares issued and outstanding on each date	**49,549**	48,970
Retained earnings	**213,380**	180,122
Accumulated other comprehensive income	**247**	368

Total shareholders' equity	**263,176**	229,460
Total liabilities and shareholders' equity	**$369,716**	$350,058

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

For the 53 Week Period Ended February 3, 2019 and the 52 Week Periods Ended January 28, 2018 and January 29, 2017.

	2019	2018	2017
Net sales	**$683,501**	$620,632	$577,219
Cost of sales	**536,014**	485,815	451,098
Casualty loss	**500**	-	-
Gross profit	**146,987**	134,817	126,121
Selling and administrative expenses	**91,928**	87,279	83,186
Intangible asset amortization	**2,384**	2,084	3,134
Operating income	**52,675**	45,454	39,801
Other income, net	**369**	1,566	349
Interest expense, net	**1,454**	1,248	954
Income before income taxes	**51,590**	45,772	39,196
Income taxes	**11,717**	17,522	13,909
Net income	**$39,873**	$28,250	$25,287
Earnings per share:			
Basic	**$3.38**	$2.42	$2.19
Diluted	**$3.38**	$2.42	$2.18
Weighted average shares outstanding:			
Basic	**11,759**	11,633	11,531
Diluted	**11,783**	11,663	11,563
Cash dividends declared per share	**$0.57**	$0.50	$0.42

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

For the 53 Week Period Ended February 3, 2019 and the 52 Week Periods Ended January 28, 2018 and January 29, 2017.

	2019	2018	2017
Net Income	**$39,873**	$28,250	$25,287
Other comprehensive income (loss):			
Amortization of actuarial (loss) gain	**(305)**	(144)	551
Income tax effect on amortization	**73**	26	(204)
Adjustments to net periodic benefit cost	**(232)**	(118)	347
Reclassification of tax effects due to the adoption of ASU 2018-02	**111**	-	-
Total Comprehensive Income	**$39,752**	$28,132	$25,634

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

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

For the 53 Week Period Ended February 3, 2019 and the 52 Week Periods Ended January 28, 2018 and January 29, 2017.

	2019	2018	2017
Operating Activities:			
Net income	**$39,873**	$28,250	$25,287
Adjustments to reconcile net income to net cash			
provided by operating activities:			
Depreciation and amortization	**7,442**	6,647	8,000
(Gain)/Loss on disposal of assets	**(73)**	571	(72)
Proceeds from Casualty Loss	**409**	-	-
Deferred income tax (benefit) expense	**(1,221)**	4,110	(2,224)
Non-cash restricted stock and performance awards	**1,284**	1,175	1,157
Provision for doubtful accounts and sales allowances	**(799)**	(531)	2,188
Gain on life insurance policies	**(748)**	(582)	(964)
Changes in assets and liabilities:			
Trade accounts receivable	**(17,982)**	2,908	(20,467)
Inventories	**(21,323)**	(6,776)	6,016
Prepaid expenses and other current assets	**267**	(1,067)	(115)
Trade accounts payable	**8,130**	(4,623)	4,662
Accrued salaries, wages and benefits	**(1,643)**	129	1,950
Accrued income taxes	**(672)**	(612)	3,966
Customer deposits	**(1,270)**	(339)	1,147
Other accrued expenses	**604**	(696)	2,303
Deferred compensation	**(2,757)**	(1,151)	(1,715)
Other long-term liabilities	**141**	333	121
Net cash provided by operating activities	**9,662**	27,746	31,240
Investing Activities:			
Acquisitions	**-**	(32,773)	(86,062)
Purchases of property, plant and equipment	**(5,214)**	(3,166)	(2,454)
Proceeds received on notes receivable	**119**	120	146
Proceeds from sale of property and equipment	**11**	9	2
Premiums paid on life insurance policies	**(652)**	(673)	(715)
Proceeds received on life insurance policies	**1,225**	-	1,022
Net cash used in investing activities	**(4,511)**	(36,483)	(88,061)
Financing Activities:			
Proceeds from long-term debt	**-**	12,000	60,000
Payments for long-term debt	**(17,917)**	(6,285)	(12,290)
Debt issuance cost	**-**	(39)	(165)
Cash dividends paid	**(6,714)**	(5,816)	(4,854)

Net cash (used in) provided by financing activities	**(24,631)**	(140)	42,691
Net decrease in cash and cash equivalents	**(19,480)**	(8,877)	(14,130)
Cash and cash equivalents at the beginning of year	**30,915**	39,792	53,922
Cash and cash equivalents at the end of year	**$11,435**	$30,915	$39,792
Supplemental schedule of cash flow information:			
Interest paid, net	**$1,338**	$1,135	848
Income taxes paid, net	**13,613**	14,122	$12,164
Supplemental schedule of noncash investing activities:			
Acquisition cost paid in common stock	**$-**	$8,396	20,267
Increase in property and equipment through accrued purchases	**23**	58	-

See accompanying Notes to Consolidated Financial Statements.

F-8

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except per share data)

For the 53 Week Period Ended February 3, 2019 and the 52 Week Periods Ended January 28, 2018 and January 29, 2017.

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance at January 31, 2016	10,818	$ 18,667	$ 137,255	$ 139	$ 156,061
Net income			25,287		25,287
Unrealized gain on defined benefit plan, net of tax of $204				347	347
Cash dividends paid and accrued ($0.42 per share)			(4,854)		(4,854)
Stock issued for acquisition	717	20,267			20,267
Restricted stock grants, net of forfeitures	28	423			423
Restricted stock compensation cost		396			396
Balance at January 29, 2017	11,563	$ 39,753	$ 157,688	$ 486	$ 197,927
Net income			28,250		28,250
Unrealized loss on defined benefit plan, net of tax of $26				(118)	(118)
Cash dividends paid and accrued ($0.50 per share)			(5,816)		(5,816)
Stock issued for acquisition	176	8,396			8,396
Restricted stock grants, net of forfeitures	23	432			432
Restricted stock compensation cost		389			389
Balance at January 28, 2018	11,762	$ 48,970	$ 180,122	$ 368	$ 229,460
Net income			**$ 39,873**		**$ 39,873**
Prior year adjustment for ASU 2014-09 and 2018-02			**99**	**$ 111**	**210**
Unrealized loss on defined benefit plan, net of tax of $73				**(232)**	**(232)**
Cash dividends paid and accrued ($0.57 per share)			**(6,714)**		**(6,714)**
Restricted stock grants, net of forfeitures	**23**	**$ (30)**			**(30)**
Restricted stock compensation cost		**$ 609**			**609**
Balance at February 3, 2019	**11,785**	**$ 49,549**	**$ 213,380**	**$ 247**	**$ 263,176**

See accompanying Notes to Consolidated Financial Statements.

F-9

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

For the Fifty-Three Weeks Ended February 3, 2019

NOTE 1 – ACCOUNTING STANDARDS ADOPTED IN FISCAL 2019

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

In May 2017, the FASB issued ASU 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09").* ASU 2017-09 was issued to provide clarity and reduce diversity in practice, cost and complexity when applying the guidance in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments in this ASU provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Essentially, an entity will not have to account for the effects of a modification if: (a) the fair value of the modified award is the same immediately before and after the modification; (b) the vesting conditions of the modified award are the same immediately before and after the modification; and (c) the classification of the modified award as either an equity instrument or liability instrument is the same immediately before and after the modification. We adopted the amendments in ASU 2017-09 as of the beginning of our 2019 fiscal year on January 29, 2018. The adoption of this guidance did not have an impact upon our financial condition or results of operations.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU 2017-07")Previously net benefit cost was reported as an employee cost within operating income. The amendment requires the bifurcation of net benefit cost. The service cost component will be presented with the other employee compensation costs in operating income. The other components will be reported separately outside of operations and will not be eligible for capitalization. The amendment is effective for public entities for the annual reporting period beginning after December 15, 2017. The guidance is required to be applied on a retrospective basis for the presentation of the service cost component and the other components of net benefit cost (including gains and losses on curtailments and settlements, and termination benefits paid through plans), and on a prospective basis for the capitalization of only the service cost component of net benefit cost. Amounts capitalized into assets prior to the date of adoption should not be adjusted through a cumulative effect adjustment, but should continue to be recognized in the normal course, as for example, inventory is sold or fixed assets are depreciated. We adopted ASU 2017-17 as of the beginning of our 2019 fiscal year on January 29, 2018. Please see Note 13 Employee Benefit Plans for the impact on our financial statements.

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

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

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). This new standard replaced most existing revenue recognition guidance in GAAP and codified guidance under FASB Topic 606. The underlying principle of this new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration that the entity expects to be entitled to receive in exchange for those goods or services. We adopted ASU No. 2014-09 as of January 29, 2018 using the modified retrospective method. As a result of adopting Topic 606, we recorded an increase to retained earnings of approximately $210,000, net of tax, as of January 29, 2018, due to the cumulative effect related to the change in accounting for shipments with synthetic FOB destination shipping terms. Results for the reporting period beginning after January 29, 2018 are presented under Topic 606, while prior period amounts continue to be reported in accordance with the Company's historic accounting practices under previous guidance. However, given the nature of our products and our sales terms and conditions, with the exception of sales with synthetic FOB destination shipping terms which are immaterial, the timing and amount of revenue recognized based on the underlying principles of ASU No. 2014-09 are consistent with our revenue recognition policy under previous guidance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

Consolidation

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

Operating Segments

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

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

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

Table of Contents

For financial reporting purposes, we are organized into two operating segments and “All Other”, which includes the remainder of our businesses:

- **Hooker Branded**, consisting of the operations of our imported Hooker Casegoods and Hooker Upholstery businesses;
- **Home Meridian**, a business acquired at the beginning of fiscal 2017, is a stand-alone, mostly autonomous business that serves a different type or class of customer than do our other operating segments and at much lower margins; and
- **All Other**, which includes the domestic upholstery manufacturing operations of Bradington-Young, Sam Moore, Shenandoah Furniture, H Contract and Homeware, two businesses started in 2013. None of these operating segments were individually reportable; therefore, we combined them in “All Other” in accordance with ASC 280.

Cash and Cash Equivalents

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

Trade Accounts Receivable

Accounts receivable are reported net of the allowance for doubtful accounts and sales-related allowances. Substantially all of our trade accounts receivable are due from retailers and dealers that sell residential home furnishings or commercial purchasers of our hospitality and senior living products, and consist of a large number of entities with a broad geographic dispersion. We perform credit evaluations of our customers and generally do not require collateral. We regularly review and revise accounts receivable for doubtful accounts and customer allowances based upon historical bad debts and customer allowances and any agreements with specific customers. If the financial condition of a customer or customers were to deteriorate, resulting in an impairment of their ability to make payments, additional bad debt allowances may be required. In the event a receivable is determined to be potentially uncollectible, we engage collection agencies or law firms to attempt to collect amounts owed to us after all internal collection attempts have ended. Once we have determined the receivable is uncollectible, it is charged against the allowance for doubtful accounts.

Business Combinations-Purchase Price Allocation

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

Fair Value Measurements

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

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Observable inputs other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

Fair Value of Financial Instruments

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

Inventories

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

Property, Plant and Equipment

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

Impairment of Long-Lived Assets

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

Intangible Assets and Goodwill

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

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

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

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

Cash Surrender Value of Life Insurance Policies

We own eighty life insurance policies on certain of our current and former executives and other key employees. These policies had a carrying value of $23.8 million at February 3, 2019 and have a face value of approximately $52 million as of that date. Proceeds from the policies are used to fund certain employee benefits and for other general corporate purposes. We account for life insurance as a component of employee benefits cost. Consequently, the cost of the coverage and any resulting gains or losses related to those insurance policies are recorded as a decrease or increase to operating income. Cash payments that increase the cash surrender value of these policies are classified as investing outflows on the Consolidated Statements of Cash Flows, with amounts paid in excess of the increase in cash surrender value included in operating activities. Gains on life insurance policies, which typically occur at the time a policy is redeemed, are included in the reconciliation of net income to net cash used in or provided by operating activities. Substantially all of the cash value of our company owned life insurance is pledged as collateral for our secured term loan.

Table of Contents

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 2019, 2018 and 2017 were $3.3 million, $3.0 million, and $3.2 million, respectively. The costs for other advertising allowance programs are charged against net sales. We also have arrangements with some dealers to reimburse them for a portion of their advertising costs, which provides advertising benefits to us. Costs for these arrangements are expensed as incurred and are netted against net sales in our consolidated statements of income and comprehensive income.

Income Taxes

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

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

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

Earnings Per Share

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

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

Use of Estimates

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

NOTE 3- FISCAL YEAR

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

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

2019 fiscal year and comparable terminology mean the fiscal year that began January 29, 2018 and ended February 3, 2019;
2018 fiscal year and comparable terminology mean the fiscal year that began January 30, 2017 and ended January 28, 2018; and
2017 fiscal year and comparable terminology mean the fiscal year that began February 1, 2016 and ended January 29, 2017.

NOTE 4- ACQUISITIONS

Shenandoah Acquisition

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

	Pro Forma - Unaudited	
	13 Weeks Ended January 29, 2017 (Pro forma)	**52 Weeks Ended January 29, 2017** (Pro forma)
Net Sales	$184,013	$619,569
Net Income	$11,702	$27,896
Basic EPS	$1.00	$2.38
Diluted EPS	$1.00	$2.38

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

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

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

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

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

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

Table of Contents

HMI Acquisition

On February 1, 2016, (the "Closing Date") we completed the previously announced acquisition (the "acquisition") of substantially all of the assets of Home Meridian International, Inc. ("HMI") pursuant to the Asset Purchase Agreement into which we and HMI entered on January 5, 2016 (the "Asset Purchase Agreement"). Upon completion and including post-closing working capital adjustments, we paid $86 million in cash and issued 716,910 shares of our common stock (the "Stock Consideration") to designees of HMI as consideration for the acquisition. The Stock Consideration consisted of (i) 530,598 shares due to the $15 million of consideration payable in shares of our common stock under the Asset Purchase Agreement, and (ii) 186,312 shares issued pursuant to working capital adjustments detailed in the Asset Purchase Agreement. The working capital adjustment was driven by an increase in HMI's accounts receivable due to strong sales towards the end of calendar 2015. The number of shares of common stock issued at closing for the Stock Consideration was determined by reference to the mean closing price of our common stock for the fifteen trading days immediately preceding the Closing Date ($28.27). Under the Asset Purchase Agreement, we also assumed certain liabilities of HMI, including approximately $7.8 million of liabilities related to certain retirement plans. The assumed liabilities did not include the indebtedness (as defined in the Asset Purchase Agreement) of HMI.

In accordance with FASB Accounting Standards Codification 805, *Business Combinations*, the acquisition was accounted for using the acquisition method of accounting. We recorded assets acquired, including identifiable intangible assets, and liabilities assumed, from HMI at their respective fair values at the date of completion of the Acquisition. Any excess of the purchase price over the net fair value of such assets and liabilities was recorded as goodwill.

The following table summarizes our final estimates of the fair values of the identifiable assets acquired and liabilities assumed in the acquisition as of January 29, 2017. Adjustments recorded to our preliminary estimates of the fair values of the identifiable assets acquired and liabilities assumed as of February 1, 2016 were due to (i) the continued refinement of management's estimates, (ii) changes in pre-acquisition account balances due to the timing of HMI's final financial close and (iii) adjustments made to conform the newly acquired entity's accounting policies to our own. These adjustments included the reclassification of accounts receivable-related reserve items from accrued expenses to accounts receivable, the write-off of deferred rent, the reduction of property and equipment and prepaid expenses for items that had been capitalized inconsistent with our capitalization policy and the recognition of accrued salaries and wages to recognize compensated absences.

	(in thousands)
Purchase price consideration	
Cash paid for assets acquired, including working capital adjustment	$ 86,062
Value of shares issued for assets acquired	15,000
Value of shares issued for excess net working capital	5,267
Total purchase price	$ 106,329

Fair value estimates of assets acquired and liabilities assumed:	
Accounts receivable	$ 42,463
Inventory	37,606
Prepaid expenses and other current assets	1,801
Property and equipment	5,292
Intangible assets	27,800
Goodwill	23,187
Accounts payable	(22,784)
Accrued expenses	(316)
Pension plan liabilities and deferred compensation balances	(8,720)
Total purchase price	$ 106,329

Property and equipment were recorded at fair value and primarily consist of leasehold improvements and will be amortized over their estimated useful lives. Goodwill is calculated as the excess of the purchase price over the net assets acquired. The goodwill recognized is attributable to growth opportunities and expected synergies. We expect that all of the goodwill will be deductible for income tax purposes. Intangible assets, net, consist of three separately identified assets:

- Home Meridian tradenames of $11.6 million consisting of:
  - Indefinite-lived intangible assets with an aggregate fair value of $11.4 million. The tradenames are not subject to amortization, but will be evaluated annually and as circumstances dictate, for impairment; and
  - Definite-lived intangible assets with an aggregate fair value of $200,000, which we expect to amortize over an eight-year period.
- Home Meridian customer relationships which are definite-lived intangible assets with an aggregate fair value of $14.4 million. The customer relationships are amortizable and will be amortized over a period of eleven years; and
- Home Meridian order backlog which is a definite-lived intangible asset with an aggregate fair value of $1.8 million which we amortized over five months, with most of the expense recognized in the fiscal 2017 first quarter.

We also assumed the net liability for Home Meridian's legacy pension plans of $8.7 million, which was based on an actuarial valuation performed on February 2, 2016. The market value of pension plan assets, primarily consisting of mutual funds, was $11.6 million on February 2, 2016. Components of net periodic benefit cost for these plans are based on annual actuarial valuations and are included in our condensed consolidated statements of income under selling and administrative expenses.

The following unaudited consolidated pro forma summary has been prepared by adjusting our historical data to give effect to the acquisition as if it had occurred on February 1, 2015:

(in millions except per share data)	**52 Weeks Ended** January 31, 2016 (Pro forma)
Net Sales	$571,720
Net Income	22,831
Basic EPS	2.12
Diluted EPS	2.11

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

Material non-recurring adjustments excluded from the pro forma financial information in the table above consist of amortization of intangible assets, elimination of transaction related costs and an adjustment of the interest rate on short and long-term debt to reflect the interest rates in our amended credit facility.

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

We recorded acquisition related costs of $1.2 million in fiscal 2017. These expenses are included in the "Selling and administrative expenses" line of our condensed consolidated statements of income.

NOTE 5 - Casualty Loss

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

Table of Contents

NOTE 6 – DOUBTFUL ACCOUNTS AND OTHER ACCOUNTS RECEIVABLE ALLOWANCES

The activity in the allowance for doubtful accounts was:

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017
Balance at beginning of year	**$ 1,014**	$ 508	$ 396
Non-cash charges to cost and expenses	**158**	767	823
Less uncollectible receivables written off, net of recoveries	**(264)**	(261)	(711)
Balance at end of year	**$ 908**	$ 1,014	$ 508

The activity in other accounts receivable allowances was:

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017
Balance at beginning of year	**$ 5,117**	$ 6,298	$ 636
Non-cash charges to cost and expenses	**(957)**	(1,272)	5,586
Less uncollectible receivables written off, net of recoveries	**107**	91	76
Balance at end of year	**$ 4,267**	$ 5,117	$ 6,298

NOTE 7 – ACCOUNTS RECEIVABLE

	February 3, 2019	January 28, 2018
Trade accounts receivable	**$117,732**	$98,934
Other accounts receivable allowances	**(4,267)**	(5,117)
Allowance for doubtful accounts	**(908)**	(1,014)
Accounts receivable	**$112,557**	$92,803

NOTE 8 – INVENTORIES

	February 3, 2019	January 28, 2018
Finished furniture	**$112,847**	$92,502
Furniture in process	**1,825**	1,440
Materials and supplies	**10,896**	8,780
Inventories at FIFO	**125,568**	102,722
Reduction to LIFO basis	**(20,364)**	(18,263)
Inventories	**$105,204**	$84,459

If the first-in, first-out (FIFO) method had been used in valuing all inventories, net income would have been $41.5 million in fiscal 2019, $28.1 million in fiscal 2018, and $24.2 million in fiscal 2017. We recorded LIFO expense of $2.1 million in fiscal 2019, LIFO income of $225,000 in fiscal 2018 and $1.6 million in fiscal 2017.

At February 3, 2019 and January 28, 2018, we had $1.3 million and $3.2 million, respectively, in consigned inventories, which are included in the “Finished furniture” line in the table above.

At February 3, 2019, we held $8.1 million in inventory outside of the United States, in China and in Vietnam. At January 28, 2018, we held $10.5 million in inventory outside of the United States, in China and in Vietnam.

Table of Contents

NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

	Depreciable Lives (*In years)*	**February 3, 2019**	January 28, 2018
Buildings and land improvements	15 - 30	**$ 24,588**	$ 24,298
Computer software and hardware	3 - 10	**18,719**	18,302
Machinery and equipment	10	**8,934**	8,586
Leasehold improvements	Term of lease	**9,376**	8,982
Furniture and fixtures	3 - 8	**2,318**	2,186
Other	5	**665**	612
Total depreciable property at cost		**64,600**	62,966
Less accumulated depreciation		**39,925**	35,100
Total depreciable property, net		**24,675**	27,866
Land		**1,067**	1,067
Construction-in-progress		**3,740**	316
Property, plant and equipment, net		**$ 29,482**	$ 29,249

Depreciation expense for fiscal 2019, 2018 and 2017 were $5.0 million, $4.5 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-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017
Balance beginning of year	**$ 5,982**	$ 6,510	$ 6,062
Additions	**373**	630	1,495
Amortization expense	**(1,227)**	(1,151)	(973)
Disposals	**(5)**	(7)	-
Adjustments	**-**	-	(74)

Balance end of year	**$ 5,123**	$ 5,982	$ 6,510

NOTE 10 – INTANGIBLE ASSETS AND GOODWILL

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

Our non-amortizable intangible assets consist of:

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

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

Table of Contents

In accordance with ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, the goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test outlined in ASC Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the quantitative assessment. The quantitative assessment involves estimating the fair value of our goodwill using projected future cash flows that are discounted using a weighted average cost of capital analysis that reflects current market conditions. Management judgment is a significant factor in the goodwill impairment evaluation process. The computations require management to make estimates and assumptions, the most critical of which are the potential future cash flows and an appropriate discount rate. Based on our qualitative assessment as described above, we have concluded that our goodwill is not impaired as of February 3, 2019.

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

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

Non-amortizable Intangible Assets	**Segment**	**February 3, 2019**	January 28, 2018
Goodwill	Home Meridian	**$ 23,187**	$23,187
Goodwill	All Other	**16,871**	16,871
Total Goodwill		**40,058**	40,058
Trademarks and trade names - Home Meridian	Home Meridian	**11,400**	11,400
Trademarks and	All Other	**861**	861

trade names - Bradington-Young			
Trademarks and trade names - Sam Moore	All Other	**396**	396
Total Trademarks and trade names		**$ 12,657**	$12,657
Total non-amortizable assets		**$ 52,715**	**$52,715**

The following table is a rollforward of goodwill for the 2019, 2018 and 2017 fiscal years:

Segment	January 29, 2017	Acquisition	January 28, 2018	Acquisition	**February 3, 2019**
Home Meridian	$23,187	$ -	$23,187	$ -	**$ 23,187**
All Other	-	16,871	16,871	-	**16,871**
	$23,187	$ 16,871	$40,058	$ -	**$ 40,058**

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

	Amortizable Intangible Assets		
	Customer Relationships	**Trademarks**	**Totals**
Balance at January 28, 2018	$24,644	$ 838	$25,482
Amortization	(2,324)	(60)	(2,384)
Balance at February 3, 2019	**$22,320**	**$ 778**	**$23,098**

The weighted-average amortization period for all amortizable intangible assets is 10.2 years. The weighted-average amortization period for customer relationships is 9.9 years and is 16.5 years for our trademarks.

Table of Contents

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

Fiscal Year	**Amount**
2020	2,384
2021	2,384
2022	2,384
2023	2,384
2024	2,384
2025 and thereafter	11,178
	$23,098

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

	February 3, 2019	January 28, 2018
Goodwill	**$ 40,058**	$40,058
Trademarks and tradenames	**13,495**	13,557
Accumulated amortization	**(60)**	(62)
Trademarks and tradenames, net	**13,435**	13,495
Customer relationships	**24,644**	27,600
Accumulated amortization	**(2,324)**	(2,956)
Customer relationships, net	**22,320**	24,644
Total Goodwill and other intangible assets, net	**$ 75,813**	$78,197

NOTE 11 – FAIR VALUE MEASUREMENTS

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

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

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

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

As of February 3, 2019 and January 28, 2018, Company-owned life insurance was measured at fair value on a recurring basis based on Level 2 inputs. The fair value of the Company-owned life insurance is determined by inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Additionally, the fair value of the Company-owned life insurance is marked to market each reporting period and any change in fair value is reflected in income for that period.

As of February 3, 2019, the assets of the Home Meridian segment’s legacy Pension Plan (the “Plan”) were measured at fair value on a recurring basis based on Level 1 inputs. Pension plan assets, held in a trust account by the Plan’s trustee, primarily consist of bond funds. During the fiscal 2019 third quarter, we transferred $3 million to the Pension Plan to reduce the underfunded balance and engaged in a “de-risking” strategy by moving Plan assets into fixed income securities, in order to reduce the volatility of the Plan Assets. As of February 3, 2019, the funded status for this plan was $86,000 shown on the “Other assets” line of our condensed consolidated balance sheets. See Note 13. Employee Benefit Plans for additional information about the Plan.

Our assets measured at fair value on a recurring basis at February 3, 2019 and January 28, 2018, were as follows:

	Fair value at February 3, 2019				Fair value at January 28, 2018			
Description	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
				(In thousands)				
Assets measured at fair value								
Company-owned life insurance	**$-**	**$23,816**	**$ -**	**$23,816**	$-	$23,622	$ -	$23,622
Pension plan assets	**10,992**	**-**	**-**	**10,992**	8,757	-	-	8,757

NOTE 12 – LONG-TERM DEBT

We currently have one unsecured term loan and one secured term loan outstanding and a revolving credit facility. The term loans are related to the Home Meridian acquisition. A second unsecured term loan, used to partially fund the Shenandoah acquisition, was paid off during fiscal 2019. Details of our loan agreements and revolving credit facility are detailed below.

Original Loan Agreement

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

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

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

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

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

Table of Contents

New Loan Agreement

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

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

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

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

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

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

We were in compliance with each of these financial covenants at February 3, 2019.

Principal payments due on our term loans are as follows:

Fiscal Year	**Amount**
2020	5,857
2021	29,651
	$ 35,508

Given that our term loans have a floating rate of interest and our credit profile has not materially changed since the inception of the loans, the carrying amount of our term loans approximates their fair value at February 3, 2019.

During fiscal 2019, we paid off the remaining amounts due under the New Unsecured Term Loan.

As of February 3, 2019, we had an aggregate $27.7 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of $2.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of February 3, 2019. There were no additional borrowings outstanding under the Existing Revolver as of February 3, 2019.

Table of Contents

NOTE 13 – 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 $1.3 million in fiscal 2019, $974,000 in fiscal 2018, and $977,000 in fiscal 2017.

We adopted ASU 2017-07 as of the beginning of our 2019 fiscal year on January 29, 2018. Components of net periodic benefit cost other than the service cost for the SRIP, SERP and the Pension Plan are included in the line item "Other income, net" in our condensed consolidated statements of income. Service cost is included in our condensed consolidated statements of income under "Selling and administrative expenses." The adoption resulted in the reclassification of $30,000 gain and $581,000 expense from Selling and administrative expenses to Other income, net in our fiscal 2018 and 2017 condensed consolidated statements of income.

Executive Benefits

Pension, SRIP and SERP Overview

We maintain three "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 three plans include:

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

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.

Table of Contents

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

	SRIP (Supplemental Retirement Income Plan)		SERP (Supplemental Executive Retirement Plan)	
	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	**Fifty-Three Weeks Ended February 3, 2019**	Fifty-Two Weeks Ended January 28, 2018
Change in benefit obligation:				
Beginning projected benefit obligation	**$9,365**	$ 8,845	**$2,008**	$ 2,302
Service cost	**326**	302		
Interest cost	**341**	345	**70**	83
Benefits paid	**(511)**	(520)	**(185)**	(216)
Actuarial loss (gain)	**101**	393	**(88)**	(160)
Ending projected benefit obligation (funded status)	**$9,622**	$ 9,365	**$1,805**	$ 2,008
Accumulated benefit obligation	**$9,182**	$ 8,727	**$1,805**	$ 2,008
Discount rate used to value the ending benefit obligations:	**3.75 %**	3.75 %	**3.90 %**	3.64 %
Amount recognized in the consolidated balance sheets:				
Current liabilities (Accrued salaries, wages and benefits line)	**$511**	$ 511	**$173**	$ 188
Non-current liabilities (Deferred compensation line*)	**9,111**	8,854	**1,632**	1,820
Total	**$9,622**	$ 9,365	**$1,805**	$ 2,008

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017	**Fifty-Three Weeks Ended 3-Feb 2019**	Fifty-Two Weeks Ended January 28, 2018
Net periodic benefit cost					
Service cost	**$ 326**	$ 302	$ 375	**$ -**	$ -
Interest cost	**341**	345	341	**70**	83
Net loss (gain)	**172**	62	(72)	**-**	-
Net periodic benefit cost	**$ 839**	$ 709	$ 644	**$ 70**	$ 83
Other changes recognized in accumulated other comprehensive income					
Net loss (gain) arising during period	**101**	393	330	**(88)**	(160)

Amortizations:					
Gain (Loss)	**(172)**	(62)	72	**-**	-
Total recognized in other comprehensive loss (income)	**(71)**	331	402	**(88)**	(160)
Total recognized in net periodic benefit cost and accumulated other comprehensive income	**$ 768**	$ 1,040	$ 1,046	**$ (18)**	$ (77)
Assumptions used to determine net periodic benefit cost:					
Discount rate	**3.75 %**	4.00 %	4.3 %	**3.64 %**	3.77 %
Increase in future compensation levels	**4.00 %**	4.00 %	4.0 %	**N/A**	N/A

Estimated Future Benefit Payments:		
Fiscal 2020	**$ 511**	**$ 173**
Fiscal 2021	**873**	**169**
Fiscal 2022	**873**	**165**
Fiscal 2023	**873**	**160**
Fiscal 2024	**960**	**155**
Fiscal 2025 through fiscal 2029	**4,340**	**683**

F-28

Table of Contents

For the SRIP, the discount rate used to determine the fiscal 2019 net periodic cost was 3.75% based on the Moody's Composite Bond Rate as of January 31, 2018. The net periodic benefit cost recognized in other comprehensive income was due to a decreased discount rate from 4.25% at January 29, 2017 to 4.00% at January 28, 2018 as well as increase in projected bonus for executives. The discount rate utilized in each period was the Annualized Moody's Composite Bond Rate rounded to the nearest 0.25%.

For the SERP, the discount rate assumption used to measure the postretirement benefit obligations is set by reference to a certain hypothetical AA-rated corporate bond spot-rate yield curve constructed by our actuary, Aon Hewitt ("Aon"). This yield curve was constructed from the underlying bond price and yield data collected as of the Plan's measurement date and is represented by a series of annualized, individual discount rates with durations ranging from six months to seventy-five years. Aon then applies the yield curve to the actuarially projected cash flow patterns to derive the appropriate discount rate.

Increasing the SRIP discount rate by 1% would decrease the projected benefit obligation at February 3, 2019 by approximately $640,000. Similarly, decreasing the discount rate by 1% would increase the projected benefit obligation at February 3, 2019 by $715,000. Increasing the SERP discount rate by 1% would decrease the projected benefit obligation at February 3, 2019 by approximately $124,000. Similarly, decreasing the discount rate by 1% would increase the projected benefit obligation at February 3, 2019 by $141,000.

At February 3, 2019, the actuarial losses related to the SRIP amounted to $101,000, net of tax of $23,000. At January 28, 2018, the actuarial losses related to the SRIP amounted to $393,000, net of tax of $62,000. The estimated prior service (cost) credit and actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over fiscal 2020 are $0 and $149,000, respectively.

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

The Pension Plan

No benefits have accrued under the Pension Plan since it was frozen in March 1995.

We contributed $110,000 in required contributions to the Pension Plan in the fiscal 2019 first quarter. During the fiscal 2019 third quarter, we transferred $3 million to the Pension Plan to reduce the underfunded balance and engaged in a “de-risking” strategy by moving Plan assets into fixed income securities, in order to reduce the volatility of the Plan Assets.

On January 30, 2019, our Board of Directors voted to terminate the Pension Plan. Pension Plan termination is an eighteen to twenty-four-month process, that involves seeking certain approvals from both the IRS and PBGC. Once we receive the appropriate approvals, an insurance company will be selected to provide annuities for participants at an amount equal to their current monthly pension benefit. Upon settlement of the pension liability, we will reclassify the related pension losses currently recorded in accumulated other comprehensive loss, to the consolidated statements of operations. We expect to record pension settlement expenses against earnings which could adversely affect our earnings. Additionally, there could be excess costs to terminate the plan.

As of February 3, 2019, current Pension Plan assets are invested in bond funds and are measured at fair value using Level 1 inputs, which are quoted prices in active markets.

The Pension Plan discount rate assumption used to measure the postretirement benefit obligations is set by reference to a certain hypothetical AA-rated corporate bond spot-rate yield curve constructed by Aon. This yield curve was constructed from the underlying bond price and yield data collected as of the Pension Plan’s measurement date and is represented by a series of annualized, individual discount rates with durations ranging from six months to seventy-five years. Aon then applies the yield curve to the actuarially projected cash flow patterns to derive the appropriate discount rate.

The vested benefit obligation for the Pension Plan is the actuarial present value of the vested benefits to which the employee is currently entitled, but based on the employee’s expected date of separation or retirement.

Increasing the Pension Plan discount rate by 1% would decrease the projected benefit obligation at February 3, 2019 by approximately $1.1 million. Similarly, decreasing the discount rate by 1% would increase the projected benefit obligation at February 3, 2019 by $1.3 million.

Table of Contents

The expected long-term rate of return on Pension Plan assets ("EROA") is 3.8% as of the Plan's most recent valuation date of February 3, 2019. We select the EROA to use based on input from Aon, our Pension Plan Investment Consultant and Actuary. Aon provides us with a statistical analysis of future expected returns based on the current investment policy target asset mix and Aon's capital market assumptions. We then select the return from Aon's reasonable range recommendation.

Summarized Pension Plan information as of February 3, 2019 (the measurement date) is as follows:

Pulaski Furniture Pension Plan

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
Change in benefit obligation:		
Beginning projected benefit obligation	**$ 11,198**	$ 17,380
Acquisition		
Service cost	**-**	-
Interest cost	**415**	695
Benefits paid	**(708)**	(1,187)
Settlement	**-**	(5,923)
Actuarial loss	**1**	233
Ending projected benefit obligation	**$ 10,906**	$ 11,198
Change in Plan Assets:		
Beginning fair value of plan assets	**$ 8,757**	$ 13,881
Actual return on plan assets	**23**	2,325
Employer contributions	**3,110**	511
Actual expenses paid	**(190)**	(371)
Settlement	**-**	(6,402)
Actual benefits paid	**(708)**	(1,187)
Ending fair value of plan assets	**$ 10,992**	$ 8,757
Funded Status of the Plan	**$ 86**	$ (2,441)
Discount rate used to value the ending benefit obligations:	**3.80 %**	3.82 %
Amount recognized in the consolidated balance sheets:		
Current liabilities (Accrued salaries, wages and benefits line)	**$ 86**	$ -
Non-current liabilities (Deferred compensation line*)	**-**	(2,441)

Net Asset/(Liability)	**$ 86**	$ (2,441)

Table of Contents

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018
Net periodic benefit cost		
Expected administrative expenses	**$ 280**	$ 280
Interest cost	**415**	695
Net loss (gain)	**(575)**	(933)
Net periodic benefit cost	**$ 120**	$ 42
Settlement/Curtailment expense (Income)		(562)
Total net periodic benefit cost (Income)	**$ 120**	$ (520)
Other changes recognized in other comprehensive income		
Net (gain) loss arising during period	**464**	(590)
Amortization:		
(Loss) gain	**-**	562
Total recognized in other comprehensive (income) loss	**464**	(28)
Total recognized in net periodic benefit cost and accumulated other comprehensive income	**$ 584**	$ (548)
Assumptions used to determine net periodic benefit cost:		
Discount rate	**3.82 %**	4.14 %
Increase in future compensation levels	**N/A**	N/A

Estimated Future Benefit Payments:	
Fiscal 2020	**$681**
Fiscal 2021	**681**
Fiscal 2022	**683**
Fiscal 2023	**674**
Fiscal 2024	**693**
Fiscal 2025 through Fiscal 2029	**3,461**

Life Insurance

We also provide a life insurance program for certain executives. The life insurance program provides death benefit protection for these executives during employment up to age 65. Coverage under the program declines when a participating executive attains age 60 and automatically terminates when the executive attains age 65 or terminates employment with us for any reason, other than death, whichever occurs first. The life insurance policies funding this program are owned by the Company with a specified portion of the death benefits payable under those policies endorsed to the insured executives' designated beneficiaries.

Performance Grants

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

Table of Contents

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

During fiscal 2016, the Compensation Committee awarded performance grants for the 2017 fiscal year. The 2016 awards had a three-year performance period that ended on January 29, 2017. The performance criteria for these awards were met and were paid in April 2017. During fiscal 2017, fiscal 2018 and fiscal 2019, the Compensation Committee awarded performance grants that have three-year performance periods ending on January 28, 2018, February 3, 2019 and February 2, 2020, respectively. The following amounts were accrued in our consolidated balance sheets as of the fiscal period-end dates indicated:

	February 3, 2019	January 28, 2018
Performance grants		
Fiscal 2016 grant (Current liabilities, Accrued wages, salaries and benefits)	**$ -**	$ 193
Fiscal 2017 grant (Current liabilities, Accrued wages, salaries and benefits)	**621**	186
Fiscal 2018 grant (Non-current liabilities, Deferred compensation)	**468**	274
Fiscal 2019 grant (Non-current liabilities, Deferred compensation)	**268**	-
Total performance grants accrued	**$ 1,357**	$ 653

NOTE 14 – 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 2019 were \$37.83 and \$46.88, respectively, during fiscal 2018 were \$31.45, \$41.70 and \$39.05, during fiscal year 2017 were \$25.45 and \$24.17, respectively.

The restricted stock awards outstanding as of February 3, 2019 had an aggregate grant-date fair value of \$830,000, after taking vested and forfeited restricted shares into account. As of February 3, 2019, we have recognized non-cash compensation expense of approximately \$476,000 related to these non-vested awards and \$1.4 million for awards that have vested. The remaining \$354,000 of grant-date fair value for unvested restricted stock awards outstanding at February 3, 2019 will be recognized over the remaining vesting periods for these awards.

Table of Contents

For each restricted stock issuance, the following table summarizes restricted stock activity, including the weighted average issue price of those shares on the grant date, the fair value of each grant of restricted stock on the grant date, compensation expense recognized for the unvested shares of restricted stock for each grant and the remaining fair value of the unvested shares of restricted stock for each grant as of February 3, 2019:

	Whole Number of Shares	Grant-Date Fair Value Per Share	Aggregate Grant-Date Fair Value	Compensation Expense Recognized	Grant-Date Fair Value Unrecognized At February 3, 2019
Previous Awards (vested)				$ 1,425	
Restricted shares Issued on April 13, 2016	4,872	$ 25.45	$ 129	93	$ 5
Forfeited	(1,175)		(31)		
Restricted shares Issued on April 13, 2017	4,572	$ 31.45	142	66	42
Forfeited	(1,058)		(34)		
Restricted shares Issued on May 7, 2018	7,972	$ 37.83	301	75	226
Restricted shares Issued on June 8, 2018	6,887	$ 46.88	323	242	81
Awards outstanding at February 3, 2019:	**22,070**		**$ 830**	**$ 476**	**$ 354**

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 activity for the year ended February 3, 2019:

	Whole Number of	Grant-Date Fair Value	Aggregate Grant-Date	Compensation Expense	Grant-Date Fair Value Unrecognized At

	Units	Per Unit	Fair Value	Recognized	February 3, 2019
Previous Awards (vested)				$ 255	
RSUs Awarded on April 13, 2016	7,622	$ 24.26	$ 185	156	$ 6
Forfeited	(3,143)		(23)		
RSUs Awarded on April 15, 2017	6,257	$ 30.03	185	94	42
Forfeited	(2,579)		(49)		
RSUs Awarded on June 4, 2018	6,032	$ 35.86	216	54	162
Awards outstanding at February 3, 2019:	**14,189**		**$ 514**	**$ 304**	**$ 210**

Table of Contents

NOTE 15 – 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.

We have issued restricted stock awards to non-employee directors since 2006 and certain management employees since 2014 and have issued restricted stock units (RSUs) to certain senior executives since fiscal 2012, under the Company's Stock Incentive Plan. We expect to continue to grant these types of awards annually in the future. The following table sets forth the number of outstanding restricted stock awards and RSUs, net of forfeitures and vested shares, as of the fiscal year-end dates indicated:

	February 3, 2019	January 28, 2018	January 29, 2017
Restricted shares	**22,070**	15,777	25,682
Restricted stock units	**14,189**	19,397	20,462
	36,259	35,174	46,144

All restricted shares awarded that have not yet vested are considered when computing diluted earnings per share. Unlike the restricted stock grants issued to our non-employee directors, the transfer of ownership of common shares issued under our RSUs, if any, occurs after the three-year vesting period; however, RSUs are also considered when computing diluted earnings per share.

The following table sets forth the computation of basic and diluted earnings per share:

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017
Net income	**$ 39,873**	$ 28,250	$ 25,287
Less: Dividends on unvested restricted shares	**11**	10	11
Net earnings allocated to unvested restricted stock	**68**	50	56
Earnings available for common shareholders	**$ 39,794**	$ 28,190	$ 25,220

Weighted average shares outstanding for basic earnings per share	**11,759**	11,633	11,531
Dilutive effect of unvested restricted stock awards	**24**	30	32
Weighted average shares outstanding for diluted earnings per share	**11,783**	11,663	11,563
Basic earnings per share	**$ 3.38**	$ 2.42	$ 2.19
Diluted earnings per share	**$ 3.38**	$ 2.42	$ 2.18

In fiscal year 2018, we issued 176,018 shares of common stock to the designees of SFI as partial consideration for the Shenandoah acquisition on September 29, 2017. We issued 716,910 shares of our common stock to designees of Home Meridian as partial consideration for the Home Meridian acquisition on the first day of fiscal 2017.

Table of Contents

NOTE 16 – INCOME TAXES

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

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017
Current expense			
Federal	**$ 10,537**	$ 12,022	$ 14,470
Foreign	**118**	85	86
State	**2,247**	1,390	1,471
Total current expense	**12,902**	13,497	16,027
Deferred taxes			
Federal	**(963)**	4,038	(1,902)
State	**(222)**	(13)	(216)
Total deferred taxes	**(1,185)**	4,025	(2,118)
Income tax expense	**$ 11,717**	$ 17,522	$ 13,909

Total tax expense for fiscal 2019 was $11.6 million, of which $11.7 million expense was allocated to continuing operations and $73,000 tax benefit was allocated to other comprehensive income. Total tax expense for fiscal 2018 was $17.5 million, of which $17.5 million was allocated to continuing operations and $26,000 tax benefit was allocated to other comprehensive income. Total tax expense for fiscal 2017 was $14.1 million, of which $13.9 million was allocated to continuing operations and $204,000 expense was allocated to other comprehensive income.

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

	Fifty-Three Weeks Ended February 3, 2019	Fifty-Two Weeks Ended January 28, 2018	Fifty-Two Weeks Ended January 29, 2017
Income taxes at statutory rate	**21.0 %**	33.9 %	35.0 %
Increase (decrease) in tax rate resulting from:			

State taxes, net of federal benefit	**3.2**		2.0		2.2	
Officer's life insurance	**-0.7**		-0.6		-1.2	
Captive Life Insurance	**0.0**		0.0		-1.3	
Tax Cuts and Jobs Act of 2017	**0.0**		4.0		0.0	
Change in Valuation allowance	**0.0**		0.0		1.3	
Other	**-0.8**		-1.0		-0.5	
Effective income tax rate	**22.7**	**%**	38.3	%	35.5	%

Table of Contents

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

	February 3, 2019	January 28, 2018
Assets		
Deferred compensation	**$ 3,572**	$ 3,226
Allowance for bad debts	**1,236**	1,437
Inventories	**882**	-
Capital loss carryover	**339**	335
Other	**1,120**	692
Total deferred tax assets	**7,149**	5,690
Valuation allowance	**(339)**	(335)
	6,810	5,355
Liabilities		
Inventory	**-**	315
Intangible assets	**923**	108
Property, plant and equipment	**1,288**	1,520
Unrecognized pension actuarial losses	**77**	148
Total deferred tax liabilities	**2,288**	2,091
Net deferred tax assets	**$ 4,522**	$ 3,264

At February 3, 2019 and January 28, 2018 our net deferred tax asset was $4.5 million and $3.3 million, respectively. The increase in the valuation allowance of $4,000 was due to the change in deferred state tax rates. We expect to fully realize the benefit of the deferred tax assets, with the exception of the capital loss, in future periods when the amounts become deductible. The capital loss carry forward is $1.4 million and expires in fiscal 2022.

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

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the fiscal years ended February 3, 2019 and January 28, 2018 are as follows:

	February 3, 2019	January 28, 2018

Balance, beginning of year	**$ 91**	$ 248
Increase related to prior year tax positions	**-**	-
Decrease related to prior year tax positions	**(48)**	(157)
Increase related to current year tax positions	**-**	-
Balance, end of year	**$ 43**	$ 91

The net unrecognized tax benefits as of February 3, 2019, which, if recognized, would affect our effective tax rate are $38,000. We expect that $39,000 of gross unrecognized tax benefits will decrease within the next year.

We have elected to classify interest and penalties recognized with respect to unrecognized tax benefits as income tax expense. Interest expense of $5,600 and $10,000 was accrued as of February 3, 2019 and January 28, 2018, respectively.

Tax years ending February 1, 2016, through February 3, 2019 remain subject to examination by federal and state taxing authorities.

Table of Contents

NOTE 17 – 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 2018, we updated our reportable segments as follows: Hooker Upholstery was aggregated with Hooker Casegoods and reported as the Hooker Branded segment. The domestic upholstery operations of Shenandoah Furniture, Sam Moore and Bradington-Young were moved into the All Other segment with Company's H Contract business and the remains on the Company's Homeware division, which was shuttered in fiscal year 2018. The Home Meridian segment remains unchanged. Therefore, for financial reporting purposes, we are organized into two reportable segments and "All Other", which includes the remainder of our businesses:

- **Hooker Branded**, consisting of the operations of our imported Hooker Casegoods and Hooker Upholstery businesses;
- **Home Meridian**, a business acquired at the beginning of fiscal 2017, is a stand-alone, mostly autonomous business that serves a different type or class of customer than do our other operating segments and at much lower margins; and
- **All Other**, which includes the domestic upholstery manufacturing operations of Bradington-Young, Sam Moore, Shenandoah Furniture, and H Contract and Homeware, two businesses started in 2013. None of these operating segments were individually reportable; therefore, we combined them in "All Other" in accordance with ASC 280.

Table of Contents

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

	Fifty-Three Weeks Ended February 3, 2019	**% Net Sales**	Fifty-Two Weeks Ended January 28, 2018	% Net Sales	Fifty-Two Weeks Ended January 29, 2017	% Net Sales
Net Sales						
Hooker Branded	**$ 178,710**	**26.2 %**	$ 166,754	26.9 %	$ 158,685	27.5 %
Home Meridian	**387,825**	**56.7 %**	365,472	58.9 %	344,635	59.7 %
All other	**116,966**	**17.1 %**	88,406	14.2 %	73,899	12.8 %
Consolidated	**$ 683,501**	**100.0 %**	$ 620,632	100.0 %	$ 577,219	100.0 %
Gross Profit						
Hooker Branded	**$ 58,122**	**32.5 %**	$ 53,007	31.8 %	$ 51,653	32.6 %
Home Meridian	**62,850**	**16.2 %**	62,325	17.1 %	57,289	16.6 %
All other	**26,015**	**22.2 %**	19,485	22.0 %	17,179	23.2 %
Consolidated	**$ 146,987**	**21.5 %**	$ 134,817	21.7 %	$ 126,121	21.8 %
Operating Income						
Hooker Branded	**$ 25,269**	**14.1 %**	$ 22,139	13.3 %	$ 20,472	12.9 %
Home Meridian	**18,828**	**4.9 %**	17,828	4.9 %	14,687	4.3 %
All other	**8,578**	**7.3 %**	5,487	6.2 %	4,642	6.3 %
Consolidated	**$ 52,675**	**7.7 %**	$ 45,454	7.3 %	$ 39,801	6.9 %
Capital Expenditures						
Hooker Branded	**$ 843**		$ 1,372		$ 1,193	
Home Meridian	**534**		1,098		280	
All other	**3,837**		696		981	
Consolidated	**$ 5,214**		$ 3,166		$ 2,454	
Depreciation & Amortization						
Hooker Branded	**$ 1,979**		$ 1,956		$ 2,214	
Home Meridian	**2,407**		2,716		4,704	
All other	**3,056**		1,975		1,082	
Consolidated	**$ 7,442**		$ 6,647		$ 8,000	

	As of February 3, 2019	**%Total**	As of January 28, 2018	%Total

Assets		**Assets**			Assets	
Hooker Branded	**$ 108,445**	**36.9**	**%**	$ 130,184	47.9	%
Home Meridian	**144,277**	**49.1**	**%**	107,283	39.4	%
All other	**41,181**	**14.0**	**%**	34,394	12.7	%
Consolidated Assets	**$ 293,903**	**100.0**	**%**	$ 271,861	100.0	%
Consolidated Goodwill and Intangibles	**75,813**			78,197		
Total Consolidated Assets	**$ 369,716**			350,058		

Table of Contents

Sales by product type are as follows:

	Net Sales (in thousands)					
	Fiscal					
	2019		2018		2017	
Casegoods	**$417,677**	**61%**	$404,808	65%	$391,347	68%
Upholstery	**265,824**	**39%**	215,824	35%	185,872	32%
	$683,501		$620,632		$577,219	

No significant long-lived assets were held outside the United States at either February 3, 2019 or January 28, 2018. International customers accounted for 1.2% of consolidated invoiced sales in fiscal 2019, 2.5% fiscal 2018 and 2% of consolidated invoiced sales in fiscal 2017. We define international sales as sales outside of the United States and Canada.

NOTE 18 – COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ARRANGEMENTS

Legal contingencies

We are a party to legal proceedings and claims which arise during the ordinary course of business. We review our legal proceedings and claims and other legal matters on an ongoing basis and follow appropriate accounting guidance when making accrual and disclosure decisions. We establish accruals for those contingencies when the incurrence of a loss is probable and can be reasonably estimated, and we disclose the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued, if such disclosure is necessary for our condensed financial statements to not be misleading. We do not record an accrual when the likelihood of loss being incurred is probable, but the amount cannot be reasonably estimated, or when the loss is believed to be only reasonably possible or remote, although we will make disclosures for material matters as required by ASC 450-20, Contingencies - Loss Contingencies. Our assessment of whether a loss is reasonably possible or probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter.

In the fiscal 2019 third quarter, we recorded a $4.0 million liability and related insurance proceeds receivable for a claim arising from a lawsuit in which we were named a defendant. The lawsuit stemmed from an auto-accident involving an independent contractor that had delivered products to one of our distribution facilities immediately prior to the accident. During the fiscal 2019 third quarter, the Company and its insurance carriers reached a $4.0 million settlement with the plaintiff and our insurance carriers reimbursed us for the full $4.0 million settlement amount. The lawsuit was dismissed by the court during the fiscal 2019 fourth quarter.

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 2019, $9.0 million in fiscal 2018, and $7.7 million in fiscal 2017. Future minimum annual commitments under leases and operating agreements are $7.8 million in fiscal 2020, $7.2 million in fiscal 2021, $5.3 million in fiscal 2022 and $3.6 million in fiscal 2023.

We had letters of credit outstanding totaling $2.3 million on February 3, 2019. We utilize letters of credit to collateralize certain imported inventory purchases and certain insurance arrangements.

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

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

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

Table of Contents

NOTE 19 – CONCENTRATIONS OF RISK

Imported Products Sourcing

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

Factories located in Vietnam and China are a critical resource for Hooker Furniture. In fiscal 2019, imported products sourced from Vietnam and China accounted for nearly all of our import purchases and our top five suppliers in those countries accounted for approximately half of our fiscal 2019 import purchases. A disruption in our supply chain from Vietnam or China could significantly impact our ability to fill customer orders for products manufactured at that factory or in that country.

Raw Materials Sourcing for Domestic Upholstery Manufacturing

Our five largest domestic upholstery suppliers accounted for approximately 28% of our raw materials supply purchases for domestic upholstered furniture manufacturing operations in fiscal 2019. One supplier accounted for 7.5% of our raw material purchases in fiscal 2019. 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

No customer accounted for more than 10% of our consolidated sales in fiscal 2019. Our top five customers accounted for nearly one-third of our fiscal 2019 consolidated sales. The loss of any one or more of these customers could adversely affect our earnings, financial condition and liquidity. At February 3, 2019, nearly half of our consolidated accounts receivable is concentrated in our top five customers. Should any one of these receivables become uncollectible, it would have an immediate and material adverse impact on our financial condition and liquidity.

NOTE 20 – CONSOLIDATED QUARTERLY DATA (Unaudited- see accompanying accountant's report.)

	Fiscal Quarter			
	First	**Second**	**Third**	**Fourth**
2019				
Net sales	**$142,892**	**$168,661**	**$171,474**	**$200,475**
Cost of sales	**110,926**	**133,016**	**135,638**	**156,935**
Gross profit	**31,966**	**35,645**	**35,836**	**43,540**
Selling and administrative expenses	**21,990**	**23,184**	**22,979**	**23,777**
Net income	**7,154**	**8,693**	**9,332**	**14,691**
Basic earnings per share	**$0.61**	**$0.74**	**$0.79**	**$1.25**
Diluted earnings per share	**$0.61**	**$0.74**	**$0.79**	**$1.24**
2018				
Net sales	$130,872	$156,308	$157,934	$175,518
Cost of sales	102,729	123,191	123,656	136,239
Gross profit	28,143	33,117	34,278	39,279
Selling and administrative expenses	20,570	20,858	22,318	23,533
Net income	4,746	7,778	7,202	8,524
Basic earnings per share	$0.41	$0.67	$0.62	$0.72
Diluted earnings per share	$0.41	$0.67	$0.61	$0.72

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

Table of Contents

NOTE 21- RELATED PARTY TRANSACTIONS

We lease the four properties utilized in Shenandoah’s operations. One of our employees has an ownership interest in the entities that own these properties. The leases commenced on September 29, 2017 and an option to renew each for an additional seven years. All four leases include annual rent escalation clauses with respect to minimum lease payments after the initial 84-month term of the lease is completed. In addition to monthly lease payments, we also incur expenses for property taxes, routine repairs and maintenance and other operating expenses. We paid $821,000 in lease payments to these entities during fiscal 2019.

NOTE 22- SUBSEQUENT EVENTS

Cash Dividend

On March 3, 2019, our Board of Directors declared a quarterly cash dividend of $0.15 per share, payable on March 29, 2019 to shareholders of record at March 18, 2019.