

HOOKER FURNITURE CORP
Form 10-Q
September 10, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 2, 2015

Commission file number 000-25349

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

Virginia
(State or other jurisdiction of incorporation or organization)

54-0251350
(IRS employer identification no.)

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

(276) 632-0459
(Registrant's telephone number, including area code)

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

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

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

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

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of September 4, 2015:

Common stock, no par value (Class of common stock)	10,811,507 (Number of shares)
---	----------------------------------

Table of Contents

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	<u>Financial Information</u>	3
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
Item 4.	<u>Controls and Procedures</u>	25

PART II. OTHER INFORMATION

Item 6.	<u>Exhibits</u>	26
	<u>Signature</u>	27

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

As of	August 2, 2015 (unaudited)	February 1, 2015
Assets		
Current assets		
Cash and cash equivalents	\$43,631	\$38,663
Trade accounts receivable, less allowance for doubtful accounts of \$1,020 and \$1,329 on each respective date	28,544	32,245
Inventories	47,019	44,973
Prepaid expenses and other current assets	2,138	2,353
Deferred taxes	1,227	1,704
Income tax recoverable	233	-
Total current assets	122,792	119,938
Property, plant and equipment, net	22,808	22,824
Cash surrender value of life insurance policies	21,312	20,373
Deferred taxes	3,982	4,188
Intangible assets	1,382	1,382
Other assets	2,051	2,050
Total non-current assets	51,535	50,817
Total assets	\$174,327	\$170,755
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$10,049	\$10,293
Accrued salaries, wages and benefits	3,908	4,824
Income tax accrual	-	1,368
Accrued commissions	850	916
Customer deposits	803	853
Other accrued expenses	915	813
Total current liabilities	16,525	19,067
Deferred compensation	8,429	8,329
Income tax accrual	161	90
Other long-term liabilities	388	360
Total long-term liabilities	8,978	8,779
Total liabilities	25,503	27,846
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, and 10,812 and 10,774 shares issued and outstanding, respectively, on each date	18,462	17,852
Retained earnings	130,642	125,392
Accumulated other comprehensive loss	(280)	(335)

Total shareholders' equity	148,824	142,909
Total liabilities and shareholders' equity	\$174,327	\$170,755

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

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

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 2, 2015	August 3, 2014	August 2, 2015	August 3, 2014
Net sales	\$60,140	\$54,883	\$121,096	\$116,279
Cost of sales	44,047	41,226	88,628	87,012
Gross profit	16,093	13,657	32,468	29,267
Selling and administrative expenses	10,234	10,243	21,367	21,610
Operating income	5,859	3,414	11,101	7,657
Other income, net	51	52	183	98
Income before income taxes	5,910	3,466	11,284	7,755
Income tax expense	1,972	1,194	3,874	2,679
Net income	\$3,938	\$2,272	\$7,410	\$5,076
Earnings per share				
Basic	\$0.36	\$0.21	\$0.69	\$0.47
Diluted	\$0.36	\$0.21	\$0.69	\$0.47
Weighted average shares outstanding:				
Basic	10,783	10,731	10,770	10,728
Diluted	10,806	10,767	10,796	10,762
Cash dividends declared per share	\$0.10	\$0.10	\$0.20	\$0.20

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

Table of Contents

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 2, 2015	August 3, 2014	August 2, 2015	August 3, 2014
Net Income	\$3,938	\$2,272	\$7,410	\$5,076
Other comprehensive income:				
Amortization of actuarial loss (gain)	44	(12)	90	(25)
Income tax effect on amortization	(16)	4	(34)	9
Adjustments to net periodic benefit cost	28	(8)	56	(16)
Total comprehensive Income	\$3,966	\$2,264	\$7,466	\$5,060

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

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Twenty-Six Weeks Ended	
	August 2, 2015	August 3, 2014
Operating Activities:		
Net income	\$7,410	\$5,076
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,339	1,259
Loss/(Gain) on disposal of assets	41	(37)
Deferred income tax expense	754	499
Noncash restricted stock and performance awards	315	272
Provision for doubtful accounts	(280)	94
Changes in assets and liabilities:		
Trade accounts receivable	3,981	4,075
Inventories	(2,046)	4,422
Income tax recoverable	(233)	646
Gain on life insurance policies	(559)	(477)
Prepaid expenses and other current assets	414	618
Trade accounts payable	(296)	1,631
Accrued salaries, wages, and benefits	(758)	(183)
Accrued income taxes	(1,368)	-
Accrued commissions	(66)	(170)
Customer deposits	(49)	(60)
Other accrued expenses	102	53
Deferred compensation	292	55
Other long-term liabilities	27	23
Net cash provided by operating activities	9,020	17,796
Investing Activities:		
Purchases of property and equipment	(1,313)	(1,999)
Proceeds received on notes for sale of assets	10	16
Proceeds from sale of property and equipment	-	69
Premiums paid on life insurance policies	(589)	(670)
Net cash used in investing activities	(1,892)	(2,584)
Financing Activities:		
Cash dividends paid	(2,160)	(2,151)
Net cash used in financing activities	(2,160)	(2,151)
Net increase in cash and cash equivalents	4,968	13,061
Cash and cash equivalents - beginning of year	38,663	23,882
Cash and cash equivalents - end of quarter	\$43,631	\$36,943

Supplemental schedule of cash flow information:

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

Income taxes paid, net	\$4,688	\$1,563
Supplemental schedule of noncash investing activities:		
Increase in property and equipment through accrued purchases	\$51	\$-

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

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

For the Twenty-Six Weeks Ended August 2, 2015

1. Preparation of Interim Financial Statements

The condensed consolidated financial statements of Hooker Furniture Corporation and subsidiaries (referred to as “we,” “us,” “our,” “Hooker” or the “Company”) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these statements include all adjustments necessary for a fair statement of the results of all interim periods reported herein. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) are condensed or omitted pursuant to SEC rules and regulations. However, we believe that the disclosures made are adequate for a fair presentation of our results of operations and financial position. Operating results for the interim periods reported herein may not be indicative of the results expected for the fiscal year. These financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our annual report on Form 10-K for the fiscal year ended February 1, 2015 (“2015 Annual Report”).

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect both the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from our estimates.

The financial statements contained herein are being filed as part of a quarterly report on Form 10-Q and include:

§ our results of operations for the thirteen-week period (also referred to as “three months,” “three-month period,” “quarter,” “second quarter” or “quarterly period”) that began May 4, 2015 and the twenty-six week period (also referred to as “six months,” “six-month period” or “first half”) that began February 2, 2015, which both ended August 2, 2015, compared to the thirteen-week period that began May 5, 2014 and the twenty-six week period that began February 3, 2014, which both ended August 3, 2014; and

§ our financial condition as of August 2, 2015 compared to February 1, 2015.

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

§ the 2016 fiscal year and comparable terminology mean the fiscal year that began February 2, 2015 and will end January 31, 2016; and

§ the 2015 fiscal year and comparable terminology mean the fiscal year that began February 3, 2014 and ended February 1, 2015.

2. Accounts Receivable

	August 2, 2015	February 1, 2015
Trade accounts receivable	\$ 25,727	\$ 25,322
Receivable from factor	3,837	8,252
Allowance for doubtful accounts	(1,020)	(1,329)

Accounts receivable	\$ 28,544	\$ 32,245
---------------------	-----------	-----------

“Receivable from factor” represents amounts due with respect to factored accounts receivable. Before the fiscal 2016 second quarter, we factored substantially all of our domestically-produced upholstery accounts receivable without recourse to us. However, we ended our Sam Moore factoring relationship as our new ERP system became fully operational at Sam Moore at the beginning of the fiscal 2016 second quarter. We are presently managing Sam Moore’s accounts receivable in-house. As of August 2, 2015, \$167,000 in Sam Moore receivables represent outstanding receivables for which payment is due to us from the factor as part of its residual obligations under Sam Moore’s legacy factoring agreement.

Under our current factoring agreement, which continues to serve Bradington-Young (BY), invoices for domestically produced BY upholstery products are generated and transmitted to our customers, with copies to the factor on a daily basis, as products are shipped to our customers. The factor collects the amounts due and remits collected funds to us semi-weekly, less factoring fees. We retain ownership of the accounts receivable until the invoices are 90 days past due. At that time, the factor pays us the net invoice amount, less factoring fees, and takes ownership of the accounts receivable. The factor is then entitled to collect the invoices on its own behalf and retain any subsequent remittances. The invoiced amounts are reported as accounts receivable on our condensed consolidated balance sheets, generally from the date the merchandise is shipped to our customer until payment is received from the factor.

Table of Contents

A limited number of our accounts receivable for our domestically produced BY upholstery products are factored with recourse to us. The amounts of these receivables at August 2, 2015 and February 1, 2015 were \$219,000 and \$237,000, respectively, of which \$6,000 and \$13,000, respectively, represented Sam Moore recourse receivables. If the factor is unable to collect the amounts due, invoices are returned to us for collection. We include an estimate of potentially uncollectible receivables in the calculation of our allowance for doubtful accounts.

3.	Inventories		
		August 2, 2015	February 1, 2015
	Finished furniture	\$ 57,461	\$ 54,896
	Furniture in process	682	615
	Materials and supplies	9,312	9,131
	Inventories at FIFO	67,455	64,642
	Reduction to LIFO basis	(20,436)	(19,669)
	Inventories	\$ 47,019	\$ 44,973

4.	Property, Plant and Equipment			
		Depreciable Lives (In years)	August 2, 2015	February 1, 2015
	Buildings and land improvements	15 - 30	\$22,294	\$22,162
	Computer software and hardware	3 - 10	15,110	18,444
	Machinery and equipment	10	4,800	4,757
	Leasehold improvements	5	2,658	2,840
	Furniture and fixtures	3 - 8	1,437	2,240
	Other	5	564	628
	Total depreciable property at cost		46,863	51,070
	Less accumulated depreciation		26,247	32,790
	Total depreciable property, net		20,616	18,280
	Land		1,067	1,067
	Construction-in-progress		1,125	3,477
	Property, plant and equipment, net		\$22,808	\$22,824

The decreases in computer software and hardware, furniture and fixtures and accumulated depreciation line items above are primarily due to the write-off of fully depreciated assets that are no longer in use.

At August 2, 2015, construction-in-progress primarily consisted of \$270,000 of expenditures related to our ongoing Enterprise Resource Planning (ERP) conversion efforts and \$855,000 related to various other projects to enhance our facilities and operations.

The decrease in the construction-in-progress line item above is primarily due to placing our ERP asset in-service when the Sam Moore division went-live on our ERP platform during the fiscal 2016 second quarter. This partially offset the decreases in the computer software and hardware line item discussed above.

5.	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.

Table of Contents

As of August 2, 2015 and February 1, 2015, 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 August 2, 2015, a mortgage note receivable (related to the previously announced sale of our Cloverleaf facility during the fiscal 2015 first quarter) was measured at fair value on a non-recurring basis using Level 3 inputs. The note receivable was recorded at approximately \$1.6 million, which was the face value of the note issued for the mortgage. The carrying value of the note receivable is assumed to approximate its fair value. We measure the probability to collect amounts due to us under this note receivable primarily based on the buyer's payment history. Specifically, we consider the buyer's adherence to the contractual payment terms for both the timeliness and payment amounts. Should it become probable that we would be unable to collect all amounts due according to the contractual terms of the underlying loan agreement, we would measure the note for impairment and record a valuation allowance against the note receivable, if needed, with the related expense charged to income for that period. The note receivable is included in the "Other assets" line of our condensed consolidated balance sheets.

Our assets measured at fair value on a recurring and non-recurring basis at August 2, 2015 and February 1, 2015, were as follows:

Description	Fair value at August 2, 2015				Fair value at February 1, 2015			
	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	\$ -	\$ 21,312	\$ -	\$ 21,312	\$ -	\$ 20,373	\$ -	\$ 20,373
Mortgage note receivable	-	-	1,575	1,575	-	-	1,575	1,575

6. Intangible Assets

Non-amortizable Intangible Assets	Segment	August 2,	February 1,
		2015	2015
Trademarks and trade names - Bradington-Young	Upholstery	\$ 861	\$ 861
Trademarks and trade names - Sam Moore	Upholstery	396	396
URL- Homeware.com	All other	125	125
Total trademarks and tradenames		1,382	1,382

7. Long-Term Debt

As of August 2, 2015, we had an aggregate \$13.5 million available under our \$15.0 million unsecured revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.5 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of August 2, 2015. There were no additional borrowings outstanding under the revolving

credit facility on August 2, 2015. Any principal outstanding under the revolving credit facility is due July 31, 2018.

8. Employee Benefit Plans

We maintain a supplemental retirement income plan (“SRIP”) for certain former and current executives. The liability for the SRIP at August 2, 2015 and February 1, 2015 was \$8.6 million and \$8.4 million, respectively, and is shown in our condensed consolidated balance sheets as follows:

	August 2, 2015	February 1, 2015
Accrued salaries, wages and benefits (current portion)	\$ 354	\$ 354
Deferred compensation (long-term portion)	8,231	8,031
Total liability	\$ 8,585	\$ 8,385

Components of net periodic benefit cost for the SRIP are included in our condensed consolidated statements of income under selling and administrative expenses:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 2, 2015	August 3, 2014	August 2, 2015	August 3, 2014
Net periodic benefit cost				
Service cost	\$ 101	\$ 25	\$ 202	\$ 51
Interest cost	72	85	144	170
Actuarial gain	45	(13)	90	(26)
Net periodic benefit cost	\$ 218	\$ 97	\$ 436	\$ 195

Table of Contents

9. Earnings Per Share

We refer you to the discussion of Earnings Per Share in Note 1-Summary of Significant Accounting Policies, in the financial statements included in our 2015 Annual Report, for additional information concerning the calculation of earnings per share.

We have issued restricted stock awards to non-employee members of the board of directors since 2006 and restricted stock units (RSUs) to certain senior executives since fiscal 2012 under the Company's Stock Incentive Plan. Each RSU entitles the executive to receive one share of the Company's common stock if the executive remains continuously employed with the Company through the end of a three-year service period. The RSUs may be paid in shares of our common stock, cash or both at the discretion of the Compensation Committee of our board of directors. We expect to continue to grant these types of awards annually in the future. The following table sets forth the number of outstanding restricted stock awards and RSUs, net of forfeitures and vested shares, as of the fiscal period-end dates indicated:

	August 2, 2015	Feb 1, 2015
Restricted shares	25	27
Restricted stock units	20	25
	45	52

All restricted shares and RSUs awarded that have not yet vested are considered when computing diluted earnings per share. The following table sets forth the computation of basic and diluted earnings per share:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 2, 2015	August 3, 2014	August 2, 2015	August 3, 2014
Net income	\$3,938	\$2,272	\$7,410	\$5,076
Less: Unvested participating restricted stock dividends	3	3	3	6
Net earnings allocated to unvested participating restricted stock	10	7	10	15
Earnings available for common shareholders	3,925	2,262	7,397	5,055
Weighted average shares outstanding for basic earnings per share	10,783	10,731	10,770	10,728
Dilutive effect of unvested restricted stock and RSU awards	23	36	26	34
Weighted average shares outstanding for diluted earnings per share	10,806	10,767	10,796	10,762
Basic earnings per share	\$0.36	\$0.21	\$0.69	\$0.47
Diluted earnings per share	\$0.36	\$0.21	\$0.69	\$0.47

10. Income Taxes

We recorded income tax expense of \$2.0 million for the fiscal 2016 second quarter compared to \$1.2 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 second quarters were 33.4% and 34.4%, respectively. Our effective tax rate was lower in the fiscal 2016 second quarter as compared to fiscal 2015 second quarter, primarily due to the settlement of an uncertain tax position during the fiscal 2016 second quarter.

We recorded income tax expense of \$3.9 million for the fiscal 2016 first-half compared to \$2.7 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 six-month periods were 34.3% and 34.5%, respectively. Our effective tax rate was lower in the fiscal 2016 six-month period as compared to fiscal 2015 six-month period, primarily due to the settlement of an uncertain tax position during the fiscal 2016 six-month period.

The net unrecognized tax benefits as of August 2, 2015 and February 1, 2015, which, if recognized, would affect our effective tax rate are \$345,000 and \$426,000, respectively.

Our Federal tax returns for the fiscal years 2012, 2014 and 2015 remain subject to examination by federal taxing authorities. An examination of fiscal year 2013 with federal taxing authorities was completed during the quarter with no adjustments. Our state tax returns for the fiscal years ending 2012 through fiscal 2015 remain subject to examination by state taxing authorities. An examination of our North Carolina state tax returns for fiscal years 2012 and 2013 is underway by the North Carolina Department of Revenue.

Table of Contents

11. Segment Information

For financial reporting purposes, we are organized into three operating segments – casegoods furniture, upholstered furniture and an “all other” segment, which includes our two new businesses, H Contract and Homeware. The financial information for the fiscal 2015 second quarter and first-half appearing in the table below has been updated to conform to the current presentation of our operating segments. The following table presents segment information for the periods, and as of the dates, indicated:

	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	August 2 2015	% Net Sales	August 3 2014	% Net Sales	August 2 2015	% Net Sales	August 3 2014	% Net Sales
Net Sales								
Casegoods	\$ 37,314	62.0 %	\$ 33,092	60.3 %	\$ 75,797	62.6 %	\$ 71,345	61.4 %
Upholstery	20,696	34.4 %	20,887	38.1 %	41,999	34.7 %	43,265	37.2 %
All other	2,193	3.6 %	1,146	2.1 %	3,525	2.9 %	2,055	1.8 %
Intercompany eliminations	(63)		(242)		(225)		(386)	
Consolidated	\$ 60,140		\$ 54,883		\$ 121,096		\$ 116,279	
Gross Profit & Margin								
Casegoods	\$ 10,904	29.2 %	\$ 9,365	28.3 %	\$ 22,205	29.3 %	\$ 20,457	28.7 %
Upholstery	4,532	21.9 %	4,000	19.2 %	9,251	22.0 %	8,233	19.0 %
All other	649	29.6 %	299	26.1 %	999	28.3 %	582	28.3 %
Intercompany eliminations	8		(7)		13		(5)	
Consolidated	\$ 16,093	26.8 %	\$ 13,657	24.9 %	\$ 32,468	26.8 %	\$ 29,267	25.2 %
Operating Income & Margin								
Casegoods	\$ 4,456	11.9 %	\$ 3,015	9.1 %	\$ 8,557	11.3 %	\$ 7,081	9.9 %
Upholstery	1,307	6.3 %	726	3.5 %	2,755	6.6 %	1,258	2.9 %
All other	88	4.0 %	(320)	-27.9 %	(224)	-6.4 %	(677)	-32.9 %
Intercompany eliminations	8		(7)		13		(5)	
Consolidated	\$ 5,859	9.7 %	\$ 3,414	6.2 %	\$ 11,101	9.2 %	\$ 7,657	6.6 %
Capital Expenditures								
Casegoods	\$ 571		\$ 705		\$ 940		\$ 1,383	
Upholstery	358		286		417		616	
All other	6		-		7			
Consolidated	\$ 935		\$ 991		\$ 1,364		\$ 1,999	
Depreciation & Amortization								
Casegoods	\$ 478		\$ 388		\$ 874		\$ 755	
Upholstery	238		258		459		504	

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

All other	3	-	6	
Consolidated	\$ 719	\$ 646	\$ 1,339	\$ 1,259

	As of Aug 2, 2015	% Total Assets		As of Feb 1, 2015	% Total Assets	
Identifiable Assets						
Casegoods	\$ 137,946	79.1 %		\$ 135,403	79.3 %	
Upholstery	33,866	19.4 %		33,788	19.8 %	
All other	2,542	1.5 %		1,605	0.9 %	
Intercompany eliminations	(27)			(41)		
Consolidated	\$ 174,327	100.0 %		\$ 170,755	100.0 %	

12. Subsequent Events

Dividends

On September 3, 2015, our board of directors declared a quarterly cash dividend of \$0.10 per share, payable on September 30, 2015 to shareholders of record at September 15, 2015.

Table of Contents

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

This quarterly report on Form 10-Q includes our unaudited condensed consolidated financial statements for the thirteen-week period (also referred to as "three months," "three-month period," "quarter," "second quarter" or "quarterly period") that began May 4, 2015, and the twenty-six week period (also referred to as "six months," "six-month period" or "first half") that began February 2, 2015, and which both ended August 2, 2015. This report discusses our results of operations for these periods compared to the fiscal year 2015 thirteen-week period that began May 5, 2014 and the twenty-six week period that began February 3, 2014, which both ended August 3, 2014 and our financial condition as of August 2, 2015 compared to February 1, 2015.

References in this report to:

§ the 2016 fiscal year and comparable terminology mean the fiscal year that began February 2, 2015 and will end January 31, 2016; and

§ the 2015 fiscal year and comparable terminology mean the fiscal year that began February 3, 2014 and ended February 1, 2015.

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

The following discussion should be read in conjunction with the condensed consolidated financial statements, including the related notes, contained elsewhere in this quarterly report. We also encourage users of this report to familiarize themselves with all of our recent public filings made with the Securities and Exchange Commission ("SEC"), especially our 2015 annual report on Form 10-K ("2015 Annual Report") filed with the SEC on April 17, 2015. Our 2015 Annual Report contains critical information regarding known risks and uncertainties that we face, critical accounting policies and information on commitments and contractual obligations that are not reflected in our condensed consolidated financial statements, as well as a more thorough and detailed discussion of our corporate strategy and new business initiatives.

Our 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. For a discussion of risks and uncertainties that we face, see Item 1A, "Risk Factors" and "Forward-Looking Statements" beginning on page eleven of our 2015 Annual Report.

Our 2015 Annual Report and our other public filings made with the SEC are available, without charge, at www.sec.gov and at <http://investors.hookerfurniture.com>.

Nature of Operations

Hooker Furniture Corporation (referred to as "we," "us", "our", "Hooker" or "the Company") is a home furnishings marketing, design and logistics company offering worldwide sourcing of residential casegoods and upholstery, as well as domestically-produced custom leather and fabric-upholstered furniture. We were incorporated in Virginia in 1924 and are ranked among the nation's top 10 largest publicly traded furniture sources, based on 2014 shipments to U.S. retailers, according to a 2015 survey published by Furniture Today, a leading trade publication. We are a key resource for residential wood and metal furniture (commonly referred to as "casegoods") and upholstered furniture. Our major casegoods product categories include accents, home office, dining, bedroom and home entertainment furniture under the Hooker Furniture brand. Our residential upholstered seating companies include Bradington-Young, a specialist in upscale motion and stationary leather furniture, Hooker Upholstery, a line of imported leather upholstery, and Sam Moore Furniture, a specialist in upscale occasional chairs, settees, sofas and sectional seating with an emphasis on

cover-to-frame customization. An extensive selection of designs and formats along with finish and cover options in each of these product categories makes us a comprehensive resource for retailers primarily targeting the upper-medium price range. For our core product line, our principal customers are retailers of residential home furnishings that are broadly dispersed throughout the United States. Our customers also include home furniture retailers in Canada and in nearly 40 other countries internationally. Other customers include independent furniture stores, specialty retailers, department stores, catalog and internet merchants, interior designers and national and regional chains.

To expand and grow beyond our core business, we launched two start-up brands during the 2014 fiscal year focused on serving the needs of emerging consumer groups on the opposite ends of the age and life stage spectrum. One, H Contract, focuses on the burgeoning senior living market of retirees. The other, Homeware, focuses on younger and more mobile consumers in the early stages of their careers, as well as those living in smaller or urban spaces.

Table of Contents

For financial reporting purposes, we are organized into three operating segments – casegoods furniture, upholstered furniture and all other. Prior to the fiscal 2015 third quarter, we reported our results of operations in two operating segments- casegoods and upholstery. We aggregated the results of our two new businesses – H Contract and Homeware- with our casegoods segment in accordance with the provisions of ASC 280 Segment Reporting. We did this primarily due to the similarity of the products, production processes, distribution methods, types of customers and regulatory environment. These similarities persist and although H Contract and Homeware are likely to remain immaterial to our consolidated results of operations for the near-to-medium term, we believe that separate information about these businesses would be beneficial to the readers of our financial statements, as it is to management; therefore, we have separately disclosed information about them in the “All other” segment. The financial information in the fiscal 2015 second quarter and first-half appearing in the tables and narratives contained in this item has been updated to conform to the current presentation of our operating segments.

Overview

Consumer home furnishings purchases are driven by an array of factors, including general economic conditions such as:

- § consumer confidence;
- § availability of consumer credit;
- § energy and other commodity prices; and
- § housing and mortgage markets;

as well as lifestyle-driven factors such as changes in:

- § fashion trends;
- § disposable income; and
- § household formation and turnover.

Beginning in 2008, economic and economic-related factors, such as high unemployment and changing consumer priorities, resulted in a somewhat depressed retail environment for discretionary purchases, including home furnishings and related products. However, the extended weakness in housing and housing-related industries has begun to show signs of sustained recovery, and mostly positive news on housing and consumer confidence is encouraging. We believe that our business and the home furnishings industry in general are gaining momentum as the U.S. economy continues to recover from an extended and severe downturn.

Our lower overhead, variable-cost import operations help drive our profitability and provide us with more flexibility to respond to changing demand by adjusting inventory purchases from suppliers. This import model requires constant vigilance due to a larger investment in inventory and longer production lead times. We constantly evaluate our imported furniture suppliers and when quality concerns, inflationary pressures, or trade barriers, such as duties and tariffs, diminish our value proposition, we transition sourcing to other suppliers, often located in different countries or regions.

Our domestic upholstery operations have significantly higher overhead and fixed costs than our import operations, and their profitability has been and can be adversely affected by economic downturns. During the most recent downturn, we initiated extensive cost reduction efforts, which helped to mitigate the effect of adverse economic conditions, including declining demand. Our upholstery segment operations have been profitable for the last three fiscal years, with overall profitability improving each year; however, domestic upholstery profitability continues to lag behind our imported products.

Executive Summary-Results of Operations

Consolidated net sales for the fiscal 2016 second quarter increased nearly 10% or \$5.3 million to \$60.1 million, while net income increased by over 73%, or \$1.7 million, to \$3.9 million, in each case compared to the fiscal 2015 second quarter.

Consolidated net sales for the fiscal 2016 first-half increased over 4% or \$4.8 million to \$121.1 million, while net income increased by 46%, or \$2.3 million, to \$7.4 million, in each case compared to the first-half of fiscal 2015.

As discussed in greater detail under “Results of Operations” below, the following are the primary factors that affected our consolidated fiscal 2016 second quarter and first-half results of operations:

- § Increased net sales. Consolidated net sales increased in both the quarter and year-to-date periods primarily due to net sales increases in our casegoods and all other operating segments, partially offset by net sales decreases in our upholstery segment.
- § Increased gross profit. Consolidated gross profit increased primarily due to increased net sales and decreased discounting and returns and allowances in our casegoods segment which helped offset cost increases on our imported products, improved operating efficiencies and decreased contract manufacturing in our upholstery segment, decreased medical claims expenses in all segments and increased net sales in our all other segment.

Table of Contents

§ Flat (Q2) and decreased (YTD) selling and administrative expenses. Consolidated selling and administrative expenses were essentially flat for the fiscal 2016 second quarter, but decreased slightly as a percentage of net sales due primarily to decreased donations of distressed inventory, lower bad debt expense and lower selling expenses, partially offset by increased commissions expense, benefits expense and depreciation expense. For the fiscal 2016 first-half, consolidated selling and administrative expenses decreased both in absolute terms and as a percentage of net sales primarily due to decreased medical claims expenses, decreased donations of distressed inventory, decreased banking expenses, decreased brand management expenses and decreased bad debts expense, partially offset by increased professional services and sales commission expenses.

§ Increased operating income. Due to the factors discussed above, consolidated operating income increased both in absolute terms and as a percentage of net sales. Our casegoods segment generated an operating margin of over 10% for the fourth consecutive fiscal quarter and upholstery segment operating income more than doubled in the fiscal 2016 first-half and nearly doubled in the fiscal 2016 second quarter.

Results of Operations

The following table sets forth the percentage relationship to net sales of certain items included in the condensed consolidated statements of income included in this report.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	August 2, 2015	August 3, 2014	August 2, 2015	August 3, 2014
Net sales	100.0	100.0	100.0	100.0
Cost of sales	73.2	75.1	73.2	74.8
Gross profit	26.8	24.9	26.8	25.2
Selling and administrative expenses	17.0	18.7	17.6	18.6
Operating income	9.7	6.2	9.2	6.6
Other income, net	0.1	0.1	0.2	0.1
Income before income taxes	9.8	6.3	9.3	6.7
Income tax expense	3.3	2.2	3.2	2.3
Net income	6.5	4.1	6.1	4.4

Fiscal 2016 Second Quarter Compared to Fiscal 2015 Second Quarter

	August 2, 2015		August 3, 2014		\$ Change	% Change
	% Net Sales	% Net Sales	% Net Sales	% Net Sales		
Casegoods	\$37,314	62.0	\$33,092	60.3	\$4,222	12.8
Upholstery	20,696	34.4	20,887	38.1	(191)	-0.9
All Other	2,193	3.6	1,146	2.1	1,047	91.4
Intercompany Elimination	(63)		(242)		179	
Consolidated	\$60,140	100.0	\$54,883	100.0	\$5,257	9.6

Unit Volume	FY16 Q2 % Increase vs. FY15 Q2	Average Selling Price	FY16 Q2 % Increase vs. FY15 Q2
-------------	--------------------------------------	--------------------------	--------------------------------------

Casegoods	8.4	%	Casegoods	3.8	%
Upholstery	-5.7	%	Upholstery	4.7	%
All Other	63.2	%	All Other	16.2	%
Consolidated	5.4	%	Consolidated	3.4	%

Consolidated net sales increased for the fiscal 2016 second quarter primarily due to:

§ increased unit volume in our casegoods segment; and

§ increased average selling prices in all segments.

Those increases were partially offset by essentially flat upholstery segment net sales, primarily due to decreases at Sam Moore which were due to a combination of:

§ exiting low margin sales programs at the expense of net sales; and

§ post-ERP implementation challenges, which had stabilized by the end of the fiscal 2016 second quarter.

Table of Contents

Sam Moore's sale decreases were mostly offset by increased net sales at both Hooker Upholstery and BY due to well-performing new products and improved retail conditions. We believe the increase in our fiscal 2016 second quarter net sales results compared to our fiscal 2015 second quarter net sales results is primarily due to better product availability in our casegoods segment. Also, our all other segment contributed positively to sales in the fiscal 2016 second quarter compared to the prior-year period, driven by H Contract's sales growth, but is still a small component of our overall sales.

	August 2, 2015		August 3, 2014		\$ Change	% Change	Gross Income and Margin Thirteen Weeks Ended	
		% Net Sales		% Net Sales				
Casegoods	\$10,904	29.2	% \$9,365	28.3	% \$1,539	16.4	%	
Upholstery	4,532	21.9	% 4,000	19.2	% 532	13.3	%	
All Other	649	29.6	% 299	26.1	% 350	117.1	%	
Intercompany Elimination	8		(7)	15			
Consolidated	\$16,093	26.8	% \$13,657	24.9	% \$2,436	17.8	%	

Consolidated gross profit increased in the fiscal 2016 second quarter, primarily due to:

§ Improved casegoods segment gross profit due to lower returns and allowances as a result of better product quality and, to a lesser extent, decreased discounting due to product mix;

§ Improved upholstery segment gross profit due to net sales increases at Hooker Upholstery and BY and essentially flat gross profit at Sam Moore despite a net sales decrease, as well as other operating efficiencies such as better materials management, labor efficiency, decreased contract manufacturing and lower medical claims expense in that segment; and

§ Improved all other segment gross profit due primarily to increased net sales at H Contract.

	August 2, 2015		August 3, 2014		\$ Change	% Change	Selling and Administrative Expenses Thirteen Weeks Ended	
		% Net Sales		% Net Sales				
Casegoods	\$6,448	17.3	% \$6,349	19.2	% \$99	1.6	%	
Upholstery	3,225	15.6	% 3,274	15.7	% (49)	-1.5	%
All Other	561	25.6	% 620	54.1	% (59)	-9.5	%
Consolidated	\$10,234	17.0	% \$10,243	18.7	% \$(9)	-0.1	%

Consolidated selling and administrative expenses decreased as a percentage of net sales primarily due to higher net sales and were essentially flat in absolute terms, primarily due to:

§ decreased bad debt expense in all segments due to better collections experience;

§ lower contributions of distressed inventory in our casegoods segment due to better quality experience; and

§ lower selling expenses in our casegoods and all other segment due to the refinement of our digital marketing strategy.

These increases were substantially offset by:

- § increased commissions expense in our casegoods and all other segments due to higher sales;
- § increased benefits expense due to increased deferred compensation expense in the casegoods segment which was the result of changes in the discount rate of the plan at the 2015 fiscal year-end, partially offset by decreased medical claims expense in the current year due to plan design changes and better claims experience in all segments; and
- § increased depreciation expense due to the placement of our phase two ERP-related asset into service during the quarter.

Table of Contents

	August 2, 2015		August 3, 2014		Operating Profit and Margin Thirteen Weeks Ended		\$ Change	% Change
		% Net Sales		% Net Sales				
Casegoods	\$4,456	11.9	% \$3,015	9.1	% \$1,441	47.7	%	
Upholstery	1,307	6.3	% 726	3.5	% 581	80.0	%	
All Other	88	4.0	% (320)	-27.9	% 408	-127.5	%	
Intercompany Elimination	8		(7)		15			
Consolidated	\$5,859	9.7	% \$3,414	6.2	% \$2,445	71.6	%	

Operating profitability increased for the fiscal 2016 second quarter, both as a percentage of net sales and in absolute terms, due to the factors discussed above.

	August 2, 2015		August 3, 2014		Income Taxes Thirteen Weeks Ended		\$ Change	% Change
		% Net Sales		% Net Sales				
Consolidated income tax expense	\$1,972	3.3	% \$1,194	2.2	% \$778	65.2	%	
Effective Tax Rate	33.4	%	34.4	%				

We recorded income tax expense of \$2.0 million for the fiscal 2016 second quarter compared to \$1.2 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 second quarters were 33.4% and 34.4%, respectively. Our effective tax rate was lower in the fiscal 2016 second quarter as compared to fiscal 2015 second quarter, primarily due to the settlement of an uncertain tax position during the fiscal 2016 second quarter.

	August 2, 2015		August 3, 2014		Net Income Thirteen Weeks Ended		\$ Change	% Change
		% Net Sales		% Net Sales				
Net Income Consolidated	\$3,938	6.5	% \$2,272	4.1	% \$1,666	73.3	%	
Earnings per share	\$0.36		\$0.21					

Fiscal 2016 First Half Compared to Fiscal 2015 First Half

	August 2, 2015		August 3, 2014		Net Sales Twenty-Six Weeks Ended		\$ Change	% Change

Edgar Filing: HOOKER FURNITURE CORP - Form 10-Q

		% Net Sales			% Net Sales				
Casegoods	\$ 75,797	62.6	%	\$ 71,345	61.4	%	\$ 4,452	6.2	%
Upholstery	41,999	34.7	%	43,265	37.2	%	(1,266)	-2.9	%
All Other	3,525	2.9	%	2,055	1.8	%	1,470	71.5	%
Intercompany Elimination	(225)			(386)			161		
Consolidated	\$ 121,096	100.0	%	\$ 116,279	100.0	%	\$ 4,817	4.1	%

16

Table of Contents

Unit Volume	FY16 YTD %		Average Selling Price	FY16 YTD %	
	Increase vs. FY15 YTD			Increase vs. FY15 YTD	
Casegoods	1.1	%	Casegoods	4.4	%
Upholstery	-7.9	%	Upholstery	5.3	%
All Other	89.0	%	All Other	-9.0	%
Consolidated	0.4	%	Consolidated	3.1	%

The increase in consolidated net sales for the fiscal 2016 first half was principally due to higher average selling prices in our casegoods segment (due to the mix of products sold and lower discounting) on essentially flat consolidated unit volume. We believe the flat unit volume in our casegoods segment was due to product availability challenges due to expanding lead times and late deliveries of certain of our more popular October market introductions in that segment during the fiscal 2016 first quarter. We received most of the October market introductions and delivered standing orders to customers during the fiscal 2016 second quarter. Unit volume decreases in our upholstery segment were primarily caused by decreases at Sam Moore due to the effects of discontinuing unprofitable sales programs at the expense of net sales and post-ERP implementation challenges during the fiscal 2016 second quarter.

	Gross Income and Margin Twenty-Six Weeks Ended						\$ Change	% Change	
	August 2, 2015	% Net Sales		August 3, 2014	% Net Sales				
Casegoods	\$22,205	29.3	%	\$20,457	28.7	%	\$1,748	8.5	%
Upholstery	9,251	22.0	%	8,233	19.0	%	1,018	12.4	%
All Other	999	28.3	%	582	28.3	%	417	71.6	%
Intercompany Elimination	13			(5)		18		
Consolidated	\$32,468	26.8	%	\$29,267	25.2	%	\$3,201	10.9	%

Consolidated gross profit increased in the fiscal 2016 first-half, primarily due to:

- § Improved casegoods segment gross profit due to increased sales, decreased discounting due to product mix and lower returns and allowances as a result of better product quality;
- § Improved upholstery segment gross profit due to operating efficiencies such as better materials management, better labor efficiency, decreased contract manufacturing and lower medical claims expense in that segment; and
- § Improved all other segment gross profit due primarily to increased net sales at H Contract.

	Selling and Administrative Expenses Twenty-Six Weeks Ended						\$ Change	% Change		
	August 2, 2015	% Net Sales		August 3, 2014	% Net Sales					
Casegoods	\$13,648	18.0	%	\$13,375	18.7	%	\$273	2.0	%	
Upholstery	6,496	15.5	%	6,975	16.1	%	(479)	-6.9	%
All Other	1,223	34.7	%	1,260	61.3	%	(37)	-2.9	%
Consolidated	\$21,367	17.6	%	\$21,610	18.6	%	\$(243)	-1.1	%

Consolidated selling and administrative expenses decreased as a percentage of net sales and in absolute terms for the fiscal 2016 first-half primarily due to:

- § lower contributions of off-quality furniture in our casegoods segment primarily due to better quality experience;
- § decreased brand management expenses in our casegoods and all other segments due to the refinement of our digital marketing strategy;
- § decreased banking expenses in our casegoods segment primarily due to changes to our sales policies; and
- § decreased bad debts expense in all segments due to favorable collections experience.

Table of Contents

These decreases were partially offset by increased professional service expenses primarily due to increased compliance and consulting costs in our casegoods segment and increased sales commissions due to increased sales in our casegoods and all other segments. Selling and administrative expenses in our all other segment were relatively stable despite a net sales increase in that segment, as our H Contract and Homeware businesses have exited the startup phases of their life cycle.

	August 2, 2015		August 3, 2014		\$ Change	% Change	
		% Net Sales		% Net Sales			
Casegoods	\$8,557	11.3	% \$7,081	9.9	% \$1,476	20.8	%
Upholstery	2,755	6.6	% 1,258	2.9	% 1,497	119.0	%
All Other	(224)	-6.4	% (677)	-32.9	% 453	-66.9	%
Intercompany Elimination	13		(5)		18		
Consolidated	\$11,101	9.2	% \$7,657	6.6	% \$3,444	45.0	%

Operating profitability increased for the fiscal 2016 first-half, both as a percentage of net sales and in absolute terms due to the factors discussed above.

	August 2, 2015		August 3, 2014		\$ Change	% Change	
		% Net Sales		% Net Sales			
Consolidated income tax expense	\$3,874	3.2	% \$2,679	2.3	% \$1,195	44.6	%
Effective Tax Rate		34.3	%	34.5	%		

We recorded income tax expense of \$3.9 million for the fiscal 2016 first-half compared to \$2.7 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 six-month periods were 34.3% and 34.5%, respectively. Our effective tax rate was lower in the fiscal 2016 six-month period as compared to fiscal 2015 six-month period, primarily due to the settlement of an uncertain tax position during the fiscal 2016 six-month period.

	August 2, 2015		August 3, 2014		\$ Change	% Change	
		% Net Sales		% Net Sales			
Net Income							
Consolidated	\$7,410	6.1	% \$5,076	4.4	% \$2,334	46.0	%
Earnings per share	\$0.69		\$0.47				

Table of Contents

Review

Casegoods segment sales rebounded nicely in the fiscal 2016 second quarter, as delayed October introductions flowed to retail and general retail conditions improved. We believe the outlook for sales of larger-ticket purchases such as our casegoods products remains as good as any time since the economic downturn of 2008. We are pleased that the casegoods segment generated an operating margin of over 10% for four consecutive fiscal quarters and believe that we can continue to make smaller, incremental improvements as we move forward.

While upholstery segment sales were essentially flat for the fiscal 2016 second quarter and down 2.9% for the fiscal 2016 first-half, we were pleased with a \$1.5 million operating income improvement, due to operating improvements at Sam Moore and Bradington-Young (BY), including net sales increases at BY for both the fiscal 2016 second quarter and first-half. Prior-year operating income was adversely affected by higher medical claims expenses and higher material costs; which represent two continued sources of risk for that segment's operating profitability. Hooker Upholstery (HU) also recorded net sales increases in the fiscal 2016 second quarter and first-half and both BY and HU benefited from better retail conditions and successful new product introductions. We have improved BY's and HU's opening price points to offer a better value proposition for both and are improving our design and color choices. We are pleased with double-digit sales increases at Hooker Upholstery in the fiscal 2016 second quarter. The achievement of future upholstery segment profitability increases will require us to increase sales while maintaining Bradington-Young gross margins at, or close to, current levels, to continue to improve manufacturing processes and work flow at the Sam Moore facility, and to minimize the impact of raw material and labor costs increases for this segment.

Our all other segment's net sales increased in the fiscal 2016 second quarter and first-half and realized its first quarterly operating profit in the fiscal 2016 second quarter. However, this segment remains a small part of our overall results. Our H Contract product line has achieved operating profitability for the fiscal 2016 second quarter and first-half. We expect H Contract to continue to broaden its customer base and product line, to increase sales and to begin to contribute more significantly to consolidated operating profitability during the remainder of fiscal 2016. Homeware's operating loss decreased in the fiscal 2016 second quarter and first-half as compared to the same prior-year period. We adjusted Homeware's strategy by shuttering the direct-to-consumer (D2C) portion of the business early in the fiscal 2016 third quarter. The D2C business accounted for less than 20% of Homeware's total volume. Homeware is now focused on growing sales and distribution in its wholesale channel and continuing to offer small parcel, rapid shipping products. We believe that the wholesale portion of the business is viable and can be grown across a broad spectrum of accounts and are working to add additional retail channels. We remain positive about the brand and the future of online furniture retailing. We believe the Homeware initiative is critical to address the migration of retail business to online outlets. We continue to expect that it will take Homeware longer than H Contract to reach critical mass and profitability. However, we view this investment as a vital step toward the future of consumer-centric home furniture retailing.

Outlook

So far in fiscal 2016, we have seen increased demand across all segments compared to the same period a year ago. However, after several years of stability, we have experienced price increases on imported products from China and rising ocean freight costs. We believe we will be able to offset most of these rising costs with price increases; one of which was implemented during the fiscal 2016 first quarter.

The effects of recent stock market turmoil due to the recent devaluation of China's currency by its government, especially in the U.S., have yet to be fully settled. While our sales into China are minimal, we believe any benefits that may have been realized as a result of the devaluation will be offset by other factors including rising labor rates and materials costs in China. Furthermore, we are unable to gauge what effects, if any, these events will have on consumer

confidence and demand for home furnishings products like our own. Despite these recent events, and in light of improving economic conditions as previously noted in this report, we are optimistic about our longer-term future, both with our core businesses and our new ventures. We believe we are positioned to capitalize on continued improvements in the economy as they occur. We continue to increase production capacity at our upholstery manufacturing facilities, to maintain good inventory positions on our best-selling casegoods products and promote what we believe to be our strongest product lines in several years. Additionally, we continue to explore opportunities in which we can best leverage our balance sheet.

Table of Contents

As we progress through the remainder of fiscal 2016, we will continue to focus on:

- § evaluating ways to expand into new distribution channels;
- § growing and improving the profitability of our new business initiatives;
- § building on our initial successes in expanding our merchandising reach in the “better” parts of our “good-better-best” casegoods product offerings;
 - § successfully launching our newly-licensed Cynthia Rowley home furnishings collection;
- § improving the product assortment and value proposition of the Hooker Upholstery imported products line;
 - § increasing operating profitability and increasing production capacity at Sam Moore;
 - § mitigating inflation on our imported products and raw materials;
 - § maintaining proper inventory levels and optimizing product availability on best-selling items;
- § strengthening our relationships with key vendors and sourcing product from cost-competitive locations and from quality-conscious sourcing partners;
 - § offering an array of new products and designs, which we believe will help generate additional sales;
- § upgrading and refining our information systems capabilities to support our businesses, including implementing our ERP system in the remainder of our upholstery segment; and
 - § controlling costs.

Potential Duties on Accent Chests

On May 27, 2014, the U.S. Department of Commerce (“DoC”) determined that certain accent chests manufactured in China for one of our competitors constitute “wooden bedroom furniture” that is subject to anti-dumping duties under the Continued Dumping Subsidy Offset Act of 2000. In early June 2014, the DoC directed U.S. Customs and Border Protection (“CBP”) to begin collecting the anti-dumping duty on these items. While the DoC ruling applies only to the specific accent chests mentioned in the ruling, it is uncertain whether CBP also will begin to collect anti-dumping duties with respect to other similar accent chests imported from China. We currently import, and have imported in the past, accent chests from China that may be similar to those that are subject to the DoC ruling, including accent chests sourced from the same Chinese company that manufactures the accent chests addressed by the DoC ruling.

We are currently not able to determine whether any of the accent chests we source from China, now or in the past, would be subject to the anti-dumping duties. Nor are we able to estimate the potential amount of any such duties. We do not believe the duties, if any, would be assessed retroactively; however, CBP audits can go back five years and any assessment could be subject to interest and penalties. If the bedroom furniture anti-dumping duties, or related penalties, were to be assessed on accent chests that we import, or have imported in the past, from China, our results of operations, financial condition, liquidity and prospects could be adversely affected.

During the fiscal 2015 second quarter, the DoC agreed to reconsider some of its earlier findings related to accent chests and early in the fiscal 2015 fourth quarter, DoC reaffirmed its decision that certain of our competitor’s accent chests constituted wooden bedroom furniture subject to anti-dumping duties. While DoC’s decision states that its ruling is not “definitive for products not specifically analyzed” and our competitor “is the only company whose merchandise is the subject of the Department’s scope analysis and determination that is directly affected by the Department’s scope ruling”, we believe that other accent chests remain at risk.

Customs Penalty

In September 2009, CBP issued an audit report asserting that we had not paid all required antidumping duties due with respect to certain bedroom furniture we imported from China. In February 2015, CBP assessed a civil penalty of approximately \$2.1 million and unpaid duties of approximately \$500,000 on the matter. We assert that no antidumping duties are due and that there is no basis for the imposition of a penalty. We intend to defend against the

penalty vigorously. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

Table of Contents

Financial Condition, Liquidity and Capital Resources

Balance Sheet and Working Capital

The following chart shows changes in our total assets, current assets, current liabilities, net working capital (current assets less current liabilities) and working capital ratio (current assets compared to current liabilities) as of the second quarter of fiscal 2016 compared to the fiscal 2015 year end:

	Balance Sheet and Working Capital		
	August 2, 2015	February 1, 2015	\$ Change
Total Assets	\$174,327	\$170,755	\$3,572
Cash and Cash Equivalents	\$43,631	\$38,663	\$4,968
Trade Receivables, net	28,544	32,245	(3,701)
Inventories	47,019	44,973	2,046
Prepaid Expenses & Other	3,598	4,057	(459)
Total Current Assets	\$122,792	\$119,938	\$2,854
Trade Accounts Payable	\$10,049	\$10,293	\$(244)
Accrued Salaries, Wages and Benefits	3,908	4,824	(916)
Other Accrued Expenses	2,568	3,950	(1,382)
Total Current Liabilities	\$16,525	\$19,067	\$(2,542)
Net Working Capital	\$106,267	\$100,871	\$5,396
Working Capital Ratio	7.4 to 1	6.3 to 1	

As of August 2, 2015, total assets increased compared to February 1, 2015, primarily due to increased cash and cash equivalents resulting from decreased accounts receivable due to increased collections, partially offset by increased inventories. Inventories increased as a result of matching inventory levels with projected demand.

Cash Flows – Operating, Investing and Financing Activities

	Twenty-Six Weeks Ended	
	August 2, 2015	August 3, 2014
Net cash provided by operating activities	\$ 9,020	\$ 17,796
Net cash used in investing activities	(1,892)	(2,584)
Net cash used in financing activities	(2,160)	(2,151)
Net increase in cash and cash equivalents	\$ 4,968	\$ 13,061

During the six months ended August 2, 2015, cash generated from operations of \$9.0 million helped to fund an increase in cash and cash equivalents of \$5 million, cash dividends of \$2.2 million and capital expenditures of \$1.3 million to enhance our business systems and facilities and to pay premiums of \$589,000 on Company-owned life insurance policies.

During the six months ended August 3, 2014, cash generated from operations of \$17.8 million helped to fund an increase in cash and cash equivalents of \$13.1 million, cash dividends of \$2.2 million and capital expenditures of \$2.0 million to enhance our business systems and facilities and to pay premiums of \$670,000 on Company-owned life insurance policies.

Liquidity, Financial Resources and Capital Expenditures

Our financial resources include:

- § available cash and cash equivalents, which are highly dependent on incoming order rates and our operating performance;
- § expected cash flow from operations;
- § available lines of credit; and
- § the cash surrender value of Company-owned life insurance.

Table of Contents

We believe these resources are sufficient to meet our current business requirements through fiscal 2016 and for the foreseeable future, including:

- § capital expenditures;
- § working capital, including capital required for insourcing our upholstery segment trade receivables in fiscal 2016 and for our new business initiatives;
- § the payment of regular quarterly cash dividends on our common stock; and
- § the servicing of any long-term debt related to strategic growth.

As of August 2, 2015, we had an aggregate \$13.5 million available under our revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.5 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of August 2, 2015. There were no additional borrowings outstanding under the revolving credit facility on August 2, 2015.

Loan Agreement and Revolving Credit Facility

We have a \$15 million unsecured revolving credit facility under a loan agreement with Bank of America, N.A., up to \$3.0 million of which can be used to support letters of credit. The loan agreement allows the Company to permanently terminate or reduce the \$15 million revolving commitment without penalty and includes, among others, the following terms:

- § a maturity date of July 31, 2018;
- § a floating interest rate, adjusted monthly, based on LIBOR, plus an applicable margin based on the ratio of our funded debt to our EBITDA (each as defined in the loan agreement);
- § a quarterly unused commitment fee of 0.20%; and
- § no pre-payment penalty.

The loan agreement also includes customary representations and warranties and requires us to comply with customary covenants, including, among other things, the following financial covenants:

- § Maintain a tangible net worth of at least \$95.0 million;
- § Limit capital expenditures to no more than \$15.0 million during any fiscal year; and
- § Maintain a ratio of funded debt to EBITDA not exceeding 2.0:1.0.

We were in compliance with each of these financial covenants at August 2, 2015 and expect to remain in compliance with existing covenants for the foreseeable future. The loan agreement does not restrict our ability to pay cash dividends on, or repurchase shares of, our common stock, subject to complying with the financial covenants under the loan agreement.

Factoring Arrangement

We currently factor substantially all of our Bradington-Young domestic upholstery accounts receivable, in most cases without recourse to us. Historically, we have factored these receivables because factoring:

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

In order to realize operational efficiencies, cost savings, leverage best practices and present a single face to our customers, we ended our Sam Moore factoring relationship as our new ERP system became fully operational at Sam Moore at the beginning of the fiscal 2016 second quarter. We expect to end BY's factoring arrangement in late fiscal 2016 or early fiscal 2017 when the ERP system becomes operational there. We expect collections may slow somewhat as we transition these receivables in-house. However, given our current and projected liquidity, we do not expect the transition to have a material adverse effect on our future liquidity.

Capital Expenditures

We expect to spend between \$1.0 million to \$2.0 million in capital expenditures during the remainder of the 2016 fiscal year to maintain and enhance our operating systems and facilities.

Table of Contents

Enterprise Resource Planning

Our new Enterprise Resource Planning (ERP) system became operational for our casegoods segment and Hooker Upholstery operations early in the third quarter of fiscal 2013 and our all other segment began their operations on the ERP system when that segment's operations were launched in fiscal 2014. ERP conversion efforts began for our domestic upholstery units early in the fiscal 2014 first quarter. Sam Moore came on-line at the beginning of the fiscal 2016 second quarter and Bradington-Young is expected to become operational in late fiscal 2016 or early fiscal 2017. Once all segments are fully operational on the ERP platform, we expect to realize operational efficiencies and cost savings as well as present a single face to our customers and leverage best practices across the organization.

Cost savings are difficult to quantify until the ERP system becomes fully operational Company-wide. We expect to be able to reduce administrative functions, which are presently duplicated across our segments and improve our purchasing power and economies of scale. In addition to the capital expenditures discussed above, our ERP implementation will require a significant amount of time invested by our associates.

We refer you to Item "1A. Risk Factors" above for additional discussion of risks involved in our ERP system conversion and implementation.

Share Repurchase Authorization

During the fiscal 2013 first quarter, our Board of Directors authorized the repurchase of up to \$12.5 million of the Company's common shares. The authorization does not obligate us to acquire a specific number of shares during any period and does not have an expiration date, but it may be modified, suspended or discontinued at any time at the discretion of our Board of Directors. 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 under the authorization during the fiscal 2016 first-half, fiscal 2015 or fiscal 2014. Approximately \$11.8 million remained available for future purchases under the authorization as of August 2, 2015.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our 2015 Annual Report.

Forward-Looking Statements

Certain statements made in this report, including under Part I, Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," and in the notes to the condensed consolidated financial statements included in this report, are not based on historical facts, but are forward-looking statements. These statements reflect our reasonable judgment with respect to future events and typically can be identified by the use of forward-looking terminology such as "believes," "expects," "projects," "intends," "plans," "may," "will," "should," "would," "could" or "ant 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;

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

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

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

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

§ disruptions affecting our Martinsville and Henry County, Virginia warehouses and corporate headquarters facilities;

§ when or whether our new business initiatives, including, among others, H Contract and Homeware, meet profitability targets;

Table of Contents

- § price competition in the furniture industry;
- § changes in domestic and international monetary policies and fluctuations in foreign currency exchange rates affecting the price of our imported products and raw materials;
- § the cyclical nature of the furniture industry, which is particularly sensitive to changes in consumer confidence, the amount of consumers' income available for discretionary purchases, and the availability and terms of consumer credit;
- § risks associated with the cost of imported goods, including fluctuation in the prices of purchased finished goods and transportation and warehousing costs;
- § risks associated with domestic manufacturing operations, including fluctuations in capacity utilization and the prices and availability of key raw materials, as well as changes in transportation, warehousing and domestic labor costs and environmental compliance and remediation costs;
- § the interruption, inadequacy, security breaches or integration failure of our information systems or information technology infrastructure, related service providers or the internet;
- § the direct and indirect costs associated with the implementation of our Enterprise Resource Planning system, including costs resulting from unanticipated disruptions to our business;
- § adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products;
- § risks associated with distribution through third-party retailers, such as non-binding dealership arrangements;
- § capital requirements and costs;
- § competition from non-traditional outlets, such as catalog and internet retailers and home improvement centers;
- § changes in consumer preferences, including increased demand for lower-quality, lower-priced furniture due to, among other things, declines in consumer confidence, amounts of discretionary income available for furniture purchases and the availability of consumer credit;
- § higher than expected costs associated with product quality and safety, including regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products; and
- § higher than expected employee medical costs.

Any forward-looking statement that we make speaks only as of the date of that statement, and we undertake no obligation, except as required by law, to update any forward-looking statements whether as a result of new information, future events or otherwise.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in foreign currency exchange rates, which could impact our results of operations or financial condition. We manage our exposure to this risk through our normal operating activities.

For imported products, we generally negotiate firm pricing denominated in U.S. Dollars with our foreign suppliers, typically for periods of at least one year. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk, but could choose to do so in the future. Most of our imports are purchased from suppliers located in China. Since 2006, the Chinese currency has floated within a limited range in relation to the U.S. Dollar, resulting in exposure to foreign currency exchange rate fluctuations. In August of 2015, China's central bank unveiled changes to that system that give the market a greater role in determining the exchange rate.

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

Amounts outstanding under our revolving credit facility would bear interest at variable rates. In the past, we have entered into swap agreements to hedge against the potential impact of increases in interest rates on our floating-rate debt instruments. There was no outstanding balance under our revolving credit facility as of August 2, 2015, other than standby letters of credit in the amount of \$1.5 million. Therefore, a fluctuation in market interest rates of one percentage point (or 100 basis points) would not have a material impact on our results of operations or financial condition.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended August 2, 2015. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective as of August 2, 2015 to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended August 2, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 6. Exhibits

- 3.1 Amended and Restated Articles of Incorporation of the Company, as amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 28, 2003)
- 3.2 Amended and Restated Bylaws of the Company, as amended December 10, 2013 (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K (SEC File No. 000-25349) for the year ended February 2, 2014)
- 4.1 Amended and Restated Articles of Incorporation of the Company, as amended (See Exhibit 3.1)
- 4.2 Amended and Restated Bylaws of the Company, as amended (See Exhibit 3.2)
- 31.1* Rule 13a-14(a) Certification of the Company's principal executive officer
- 31.2* Rule 13a-14(a) Certification of the Company's principal financial officer
- 32.1* Rule 13a-14(b) Certification of the Company's principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101* The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended August 2, 2015, formatted in Extensible Business Reporting Language ("XBRL"): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income, (iii) condensed consolidated statements of comprehensive income, (iv) condensed consolidated statements of cash flows, and (v) the notes to the condensed consolidated financial statements

*Filed herewith

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HOOKER FURNITURE CORPORATION

Date: September 10, 2015

By: /s/ Paul A. Huckfeldt
Paul A. Huckfeldt
Senior Vice President – Finance and
Accounting and Chief Financial
Officer

