

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended January 31, 2021

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) 632-2133

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Large accelerated Filer

Accelerated filer

Non-accelerated Filer

Smaller reporting company

Emerging growth company

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: \$247.1 million.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of April 13, 2021:

Common stock, no par value

(Class of common stock)

11,905,216

(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 3, 2021 are incorporated by reference into Part III.

Hooker Furniture Corporation

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All references to 2021, 2020, 2019, 2018, and 2017 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 2021 ending on January 31, 2021. Our quarterly periods are based on thirteen-week “reporting periods” (which end on a Sunday) rather than quarterly periods consisting of three calendar months. As a result, each quarterly period generally is thirteen weeks, or 91 days, long, except as noted below. In some years (generally once every six years) the fourth quarter will be fourteen weeks long and the fiscal year will consist of fifty-three weeks. The 2019 fiscal year that ended on February 3, 2019 was a 53-week fiscal year.

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

Forward-Looking Statements

Certain statements made in this report, including statements under Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and in the notes to the consolidated financial statements included in this report, are not based on historical facts, but are forward-looking statements. These statements reflect our reasonable judgment with respect to future events and typically can be identified by the use of forward-looking terminology such as “believes,” “expects,” “projects,” “intends,” “plans,” “may,” “will,” “should,” “would,” “could” or “anticipates,” or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Those risks and uncertainties include but are not limited to:

- The effect and consequences of the coronavirus (COVID-19) pandemic or future pandemics on a wide range of matters including but not limited to U.S. and local economies; our business operations and continuity; the health and productivity of our employees; and the impact on our global supply chain, the retail environment and our customer base;
 - general economic or business conditions, both domestically and internationally, and instability in the financial and credit markets, including their potential impact on our (i) sales and operating costs and access to financing or (ii) customers and suppliers and their ability to obtain financing or generate the cash necessary to conduct their respective businesses;
 - adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products by foreign governments or the U.S. government, such as the prior U.S. administration’s imposition of a 25% tariff on certain goods imported into the United States from China including almost all furniture and furniture components manufactured in China, which is still in effect, with the potential for additional or increased tariffs in the future;
 - sourcing transitions away from China, including the lack of adequate manufacturing capacity and skilled labor and longer lead times, due to competition and increased demand for resources in those countries;
 - risks associated with our reliance on offshore sourcing and the cost of imported goods, including fluctuation in the prices of purchased finished goods, ocean freight costs and warehousing costs and the risk that a disruption in our offshore suppliers could adversely affect our ability to timely fill customer orders;
 - changes in U.S. and foreign government regulations and in the political, social and economic climates of the countries from which we source our products;
 - disruptions involving our vendors or the transportation and handling industries, particularly those affecting imported products from Vietnam and China, including customs issues, labor stoppages, strikes or slowdowns and the availability of shipping containers and cargo ships;
 - difficulties in forecasting demand for our imported products;
 - risks associated with product defects, including higher than expected costs associated with product quality and safety, and regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products, including product liability claims and costs to recall defective products;
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- disruptions and damage (including those due to weather) affecting our Virginia, North Carolina or California warehouses (and our new Georgia warehouse when occupied), our Virginia or North Carolina administrative facilities or our representative offices or warehouses in Vietnam and China;
 - risks associated with our newly leased warehouse space in Georgia, including delays in construction and occupancy and risks associated with our move to the facility, including information systems, access to warehouse labor and the inability to realize anticipated cost savings;
 - risks associated with domestic manufacturing operations, including fluctuations in capacity utilization and the prices and availability of key raw materials, as well as changes in transportation, warehousing and domestic labor costs, availability of skilled labor, and environmental compliance and remediation costs;
 - the risks specifically related to the concentrations of a material part of our sales and accounts receivable in only a few customers, including the loss of several large customers through business consolidations, failures or other reasons, or the loss of significant sales programs with major customers;
 - our inability to collect amounts owed to us or significant delays in collecting such amounts;
 - the interruption, inadequacy, security breaches or integration failure of our information systems or information technology infrastructure, related service providers or the internet or other related issues including unauthorized disclosures of confidential information or inadequate levels of cyber-insurance or risks not covered by cyber insurance;
 - the direct and indirect costs associated with the implementation of our Enterprise Resource Planning system, including costs resulting from unanticipated disruptions to our business;
 - achieving and managing growth and change, and the risks associated with new business lines, acquisitions, restructurings, strategic alliances and international operations;
 - the impairment of our long-lived assets, which can result in reduced earnings and net worth;
 - capital requirements and costs;
 - risks associated with distribution through third-party retailers, such as non-binding dealership arrangements;
 - the cost and difficulty of marketing and selling our products in foreign markets;
 - changes in domestic and international monetary policies and fluctuations in foreign currency exchange rates affecting the price of our imported products and raw materials;
 - the cyclical nature of the furniture industry, which is particularly sensitive to changes in consumer confidence, the amount of consumers' income available for discretionary purchases, and the availability and terms of consumer credit;
 - price competition in the furniture industry;
 - competition from non-traditional outlets, such as internet and catalog retailers; and
 - changes in consumer preferences, including increased demand for lower-quality, lower-priced furniture.
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Our forward-looking statements could be wrong in light of these and other risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. Any forward-looking statement we make speaks only as of the date of that statement, and we undertake no obligation, except as required by law, to update any forward-looking statements whether as a result of new information, future events or otherwise and you should not expect us to do so.

Also, our business is subject to a number of significant risks and uncertainties any of which can adversely affect our business, results of operations, financial condition or future prospects. For a discussion of risks and uncertainties that we face, see the Forward-Looking Statements detailed above and Item 1A, “Risk Factors” below.

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

Hooker Furniture Corporation
Part I

ITEM 1. BUSINESS

Hooker Furniture Corporation, incorporated in Virginia in 1924, is a designer, marketer and importer of casegoods (wooden and metal furniture), leather furniture and fabric-upholstered furniture for the residential, hospitality and contract markets. We also domestically manufacture premium residential custom leather and custom fabric-upholstered furniture. We are ranked among the nation's top five largest publicly traded furniture sources, based on 2019 shipments to U.S. retailers, according to a 2020 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.

Reportable Segments

Furniture sales account for all of our net sales. For financial reporting purposes and as described further below, we are organized into three reportable segments, Hooker Branded, Home Meridian and Domestic Upholstery. Our other businesses are aggregated into "All Other". See Note 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 focused on e-commerce customers;
 - Pulaski Furniture, casegoods covering the complete design spectrum in a wide range of bedroom, dining room, accent and display cabinets at medium price points;
 - Samuel Lawrence Furniture, value-conscious offerings in bedroom, dining room, home office and youth furnishings;
 - Prime Resources International, value-conscious imported leather motion upholstery;
 - Samuel Lawrence Hospitality, a designer and supplier of hotel furnishings targeted toward four and five-star hotels; and
 - HMidea, 2019 start-up that provides better-quality, ready-to-assemble furniture to mass marketers and e-commerce customers and includes our Clubs channel.

- The Domestic Upholstery segment which includes the following operations:
 - Bradington-Young, a seating specialist in upscale motion and stationary leather furniture;
 - Sam Moore Furniture, a specialist in upscale occasional chairs, settees, sofas and sectional seating with an emphasis on cover-to-frame customization; and
 - Shenandoah Furniture, an upscale upholstered furniture business specializing in private label sectionals, modulars, sofas, chairs, ottomans, benches, beds and dining chairs in the upper-medium price points for lifestyle specialty retailers.

- All Other consisting of:
 - The H Contract product line which supplies upholstered seating and casegoods to upscale senior living and assisted living facilities through designers, design firms, industry dealers and distributors that service that market; and
 - Lifestyle Brands, a business started in fiscal 2019 targeted at the interior designer channel.

Sourcing

Imported Products

We have sourced products from foreign manufacturers for over thirty years, predominantly from Asia. Imported casegoods and upholstered furniture together accounted for approximately 83% of our net sales in both fiscal 2021 and fiscal 2020 and 84% of our net sales in fiscal 2019.

Our imported furniture business is subject to inherent risks in importing products manufactured abroad, including, but not limited to, supply disruptions and delays due to a variety of reasons, including the coronavirus (COVID-19) pandemic and possible similar health-related issues, currency exchange rate fluctuations, transportation-related issues, economic and political developments and instability, as well as the laws, policies and actions of foreign governments and the United States. These laws, policies and actions may include regulations affecting trade or the application of tariffs, much like the current 25% tariff on certain goods imported into the United States from China, including almost all furniture and furniture components manufactured in China since fiscal 2019. In response to these tariffs, we began re-sourcing products from non-tariff countries, primarily Vietnam, and reduced our Chinese imports to less than 20% by the end of fiscal 2021.

Because of the large number and diverse nature of the foreign suppliers from which we source our imported products, we have flexibility in the sourcing of products among any particular supplier or country. However, a disruption in our supply chain from a major supplier or from Vietnam or China in general, could significantly compromise our ability to fill customer orders for products manufactured at that factory or in that country. Supply disruptions and delays on selected items could occur for six months or longer. If we were to be unsuccessful in obtaining those products from other sources or at a comparable cost, a disruption in our supply chain from a major furniture supplier, or from Vietnam or China in general, could decrease our sales, earnings and liquidity.

In fiscal 2021, many of our Chinese suppliers were closed or operating at reduced capacity due to the effects of COVID-19 and we experienced some out-of-stocks on better selling items. We offered and sold available goods on hand and in transit but were unable to fully mitigate the entire sales loss from these out-of-stocks. These suppliers were in the process of returning to full capacity when the COVID-19 crisis hit the U.S., resulting in order cancellations by many furniture customers, which caused many furniture wholesalers in the U.S. to cancel production orders with their Asian suppliers. Consequently, some supplier locations closed temporarily or reduced capacity and we experienced outages in select products as a result. While most of our Asian suppliers have returned to near full capacity, demand for furniture products has surged to historic levels. This unusually high demand has caused delays in the receipt of goods as suppliers scramble to fill orders, obtain shipping containers and steamship bookings. Additionally, port congestion has led to delays in unloading furniture once it reaches US ports. All of these factors, combined with the production halt that regularly occurs at Chinese and Vietnamese New Year holidays, have significantly lengthened the time it takes to receive goods and our order backlog is at historic levels.

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

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

Raw Materials

Significant materials used in manufacturing our domestic upholstered furniture products include leather, fabric, foam, wooden and metal frames and electronic mechanisms. Most of the leather is imported from Italy, South America and China, and is purchased as full hides and cut and sewn in our facilities or is purchased as pre-cut and sewn kits processed by our vendors to our pattern specifications. We believe our sources for raw materials are adequate and that we are not dependent on any one supplier. However, we have seen some delays in some pre-cut and sewn kits imported from China as a result of COVID-19 and our domestic upholstery segment is currently experiencing foam shortages due to a recent severe weather event in Texas that affected production of the by-products used in foam production. Our five largest domestic upholstery suppliers accounted for 28% of our raw materials purchases for domestic upholstered furniture manufacturing operations in fiscal 2021. Should disruptions with these suppliers occur, we believe we could successfully source these products from other suppliers without significant disruption to our operations.

Customers

Our home furnishings products are sold through a variety of retailers including independent furniture stores, department stores, mass merchants, national chains, warehouse clubs, catalog merchants, interior designers and e-commerce retailers. One customer (Wayfair LLC and its subsidiaries) accounted for approximately 12% of our consolidated sales in fiscal 2021. Our top five customers accounted for approximately 30% of our fiscal 2021 consolidated sales. The loss of any one or more of these customers would have a material adverse impact on our business. Roughly 2% of our sales in fiscal 2021 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. We are in the process of consolidating our Home Meridian segment's East Coast warehousing operations into an 800,000 square foot distribution center in Liberty County, Georgia. We believe that this strategically located facility near the Port of Savannah and major interstate highways will allow us to more efficiently service our customers, reduce transportation costs and better position us for future growth. This leased facility is currently under construction and we expect to occupy it in the Fall of 2021. It is our policy and industry practice to allow order cancellation for casegoods up to the time of shipment or, in the case of container direct orders, up until the time the container is booked with the ocean freight carrier, therefore, customer orders for casegoods are not firm. However, domestically produced upholstered products are predominantly custom-built and consequently, cannot be cancelled once the leather or fabric has been cut. Additionally, our hospitality products are highly customized and are generally not cancellable.

Working Capital Practices

Inventory: We generally import casegoods inventory and certain upholstery items in amounts that enable us to meet the delivery requirements of our customers, our internal in-stock goals and minimum purchase requirements from our sourcing partners. However, during fiscal 2019 and 2020 we accelerated the delivery and subsequently increased inventory levels of some imported products from China due to the threat of tariffs on those products. Inventory levels fell significantly during fiscal 2021 as compared to the end of fiscal 2020 due primarily to the COVID-19 crisis. In early calendar 2020, Asian factories closed as COVID levels spiked in Asia. They began to slowly re-open as levels spiked in the US and the demand for home furnishings plummeted. As the initial crisis subsided in the US and demand surged, Asian manufacturing capacity was strained, and receipts of products slowed. Additionally, container availability and steamship capacity became scarce. We expect these conditions to improve as we move through fiscal 2022. A large percentage of products sold are not warehoused by us but ship directly to our customers and thus not included as inventory. We do not carry significant amounts of domestically produced upholstery inventory or hospitality products, as most of these products are built to order and are shipped shortly after their manufacture.

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

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

Order Backlog

At January 31, 2021, our backlog of unshipped orders was as follows:

Reporting Entity	Order Backlog (Dollars in 000s)			
	January 31, 2021		February 2, 2020	
	Dollars	Weeks	Dollars	Weeks
Hooker Branded	\$ 34,776	11.1	\$ 10,979	3.5
Home Meridian	180,188	33.2	85,556	13.1
Domestic Upholstery	30,271	18.8	14,705	8.0
All Other	2,845	12.8	2,520	10.5
Consolidated	<u>\$ 248,080</u>	<u>23.9</u>	<u>\$ 113,760</u>	<u>9.7</u>

In the discussion below and herein we reference changes in sales orders or “orders” and sales order backlog (unshipped orders at a point in time) or “backlog” over and compared to certain periods of time and changes discussed are in sales dollars and not units of inventory, unless stated otherwise. We believe orders are generally good current indicators of sales momentum and business conditions. However, except for custom or proprietary products, orders may be cancelled before shipment. If the items ordered are in stock and the customer has requested immediate delivery, we generally ship products in about seven days or less from receipt of order; however, orders may be shipped later if they are out of stock or there are production or shipping delays or the customer has requested the order to be shipped at a later date. For the Hooker Branded and Domestic Upholstery segments and All Other, we generally 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, we do not consider order backlogs to be a reliable indicator of expected long-term sales. We generally consider the Home Meridian segment’s backlog to be one helpful indicator of that segment’s sales for the upcoming 90-day period. Due to (i) Home Meridian’s sales volume, (ii) the average sales order sizes of its mass, club and mega account channels of distribution, (iii) the proprietary nature of many of its products and (iv) the project nature of its hospitality business, for which average order sizes tend to be larger and consequently, its order backlog tends to be larger. There are exceptions to the general predictive nature of our orders and backlogs noted in this paragraph due to current demand and supply chain challenges related to the COVID-19 pandemic. They are discussed in greater detail below and are essential to understanding our prospects.

At the end of fiscal 2021, order backlog increased \$134.3 million or 118% as compared to the prior-year due to increased incoming orders in all three reportable segments as well as the supply chain disruptions in the Home Meridian segment and production delays in the Domestic Upholstery segment. We are very encouraged by the current historic levels of orders and backlogs; however, due to the current supply chain issues including the lack of shipping containers and vessel space and limited overseas vendor capacity, orders are not converting to shipments as quickly as could be expected in the pre-pandemic environment and we expect that to continue at least into the fiscal 2022 first quarter. The current logistics challenges are slowing order fulfillment, particularly for Home Meridian whose average order sizes tend to be larger and more episodic versus orders for the traditional Hooker businesses, which tend to be smaller and more predictable. Additionally, Home Meridian orders are programmed out and scheduled for delivery to its larger accounts further into the future than usual, which is also contributing to the increased backlog.

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.

Human Capital Resources

As of January 31, 2021, we had 1,148 full-time employees, of which 213 were employed in our Hooker Branded segment, 318 were employed in our Home Meridian segment, 611 were employed in our Domestic Upholstery segment and 6 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.

We are committed to creating a diverse, equitable and inclusive space for all our employees, customers, and retail partners. The core values of our company include integrity, caring, and inclusivity that affirms every individual. Our leadership team is committed to fostering an environment where everyone is welcome, respected, listened to and valued for their unique contributions to the organization. We focus on taking meaningful steps towards positive change and open mindedness. The action steps that we are working on currently include:

- A Diversity, Equity and Inclusion (DEI) Leadership Team has been formed with over 15 senior executives representing all divisions of the organization. This group meets on a regular basis to guide both short- and long-term goals in addition to creating the overall strategic direction of DEI at our Company;
- We have partnered with an external consultant to assist us with crafting a plan to embed DEI in our culture;
- Diversity, Equity & Inclusion training is required of all domestic employees;
- We examine our internal practices and policies around compensation, career development, and promotional opportunities to ensure that our practices are fair and equitable; and
- We are committed to proactively creating a more diverse organization by evolving our recruiting and talent acquisition methods and practices.

We offer competitive benefits to support the well-being of all employees including health insurance, disability and life insurance, wellness credit, paid time off, a 401(k) savings plan with company-match, an employee assistance program, and educational stipends to children and spouses of our employees (excluding family members of officers and board directors of the Company). Additionally, need and merit-based renewable undergraduate college scholarships are available through the Hooker Educational Scholarship Fund for children and spouses of full-time employees, excluding family members of current and former officers and board directors of the Company.

Patents and Trademarks

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

Governmental Regulations

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

Additional Information

You may visit us online at hookerfurnishings.com, 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 Earl Armstrong, Corporate Controller and Secretary at earmstrong@hookerfurnishings.com or by calling 276-632-2133.

ITEM 1A. RISK FACTORS

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

► Risks related to COVID-19 and future pandemics

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

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

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

The sweeping nature of pandemics makes it extremely difficult to predict how our business and operations could be affected in the longer run. However, the likely overall economic impact of pandemics is viewed as highly negative to the general economy. Any of the foregoing factors, or other cascading effects of this or other pandemics, could materially increase our costs, negatively impact our sales and damage the company's results of operations and its liquidity, possibly to a significant degree. The duration of any such impacts cannot be predicted.

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

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

- **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 2021, imported products sourced from Vietnam and China accounted for 91% of our import purchases and our top five suppliers in Vietnam and China accounted for 45% of our fiscal 2021 import purchases. A disruption in our supply chain, or from Vietnam or China in general, could significantly impact our ability to fill customer orders for products manufactured in those countries. Our supply chain could be adversely impacted by the uncertainties of health concerns and governmental restrictions. For example, in early calendar 2020, the COVID-19 outbreak in China resulted in the temporary shutdown or reduced capacity of our vendors' factories and significantly slowed the post-Chinese New Year production recovery. Consequently, we experienced some out-of-stocks, but in some cases were able to provide substitutions out of inventory on hand, in-transit and from our domestic warehouses, but not enough to entirely mitigate the lost sales. Although many of our vendors' factories are now back online, limitations on supply include scarcity of some raw materials and components, limited availability of shipping containers and ocean vessel space, and production delays from some import suppliers. Consequently, we have been faced with shortages of certain products. If such disruptions were to occur again, we believe that we would have sufficient inventory on hand and in transit to our U.S. warehouses in Virginia, North Carolina and California to adequately meet demand for several months or slightly longer with an additional month's worth of demand available for immediate shipment from our warehouses in Asia, assuming an adequate number of shipping containers and vessels were available. 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, again assuming an adequate number of shipping containers and vessels were available, and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for six months or longer before the impact of remedial measures would be reflected in our results. If we were to be unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain from our largest import furniture suppliers, or from Vietnam or China in general, could adversely affect our sales, earnings, financial condition and liquidity.

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

Ocean freight costs on imported products currently represent a significant portion of the cost of our imported products. Ocean freight rates on our imported products are affected by a myriad of factors including the global economy, petroleum prices and ocean freight carrier capacity. We have seen a significant spike in ocean freight costs over the past year and have been able to partially offset these increases through price increases and temporary freight surcharges. However, there can be no assurance that we will be successful in increasing prices or receiving freight surcharges in the future. Also, increased ocean freight rates in the future would likely adversely affect earnings, financial condition and liquidity.

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

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

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

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

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

Effective September 24, 2018, the prior U.S. administration imposed a 10% tariff on certain goods imported into the United States from China, including all furniture and furniture components manufactured in China, which increased to 25% in May 2019 and such tariffs have not been repealed. New tariffs could be imposed on manufactured goods from other countries from which we source, including Vietnam. Inability to reduce product costs, pass through price increases or find other suitable manufacturing sources outside of China may have a material adverse impact on sales volume, earnings and liquidity. In addition, the tariffs, and our responses to the tariffs, may cause our products to become less competitive due to price increases or less profitable due to lower margins. Our inability to effectively manage the negative impacts of changing U.S. and foreign trade policies could adversely affect our business and financial results.

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

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

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

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

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

In the past, inflation concerns, and to a lesser extent quality and supplier viability concerns, affecting some of our imported product suppliers located in China prompted us to source more of our products from lower cost suppliers located in other countries, such as Vietnam. As discussed above, during fiscal 2020 and fiscal 2021 we transitioned a significant portion of our imported product purchases from China to Vietnam due to the imposition of tariffs on most furniture and component parts imported from China. As conditions dictate, we could be forced to make similar transitions in the future. When undertaken, transitions of this type involve significant planning and coordination by and between us and our new suppliers in these countries. Despite our best efforts and those of our new sourcing partners, these transition efforts are likely to result in longer lead times and shipping delays over the short term. Risks associated with product defects, including higher than expected costs associated with product quality and safety, and regulatory compliance costs related to the sale of consumer products and costs related to defective or non-compliant products, including product liability claims and costs to recall defective products. One or a combination of these issues could adversely affect our sales, earnings, financial condition and liquidity.

A disruption affecting our domestic facilities could disrupt our business.

The warehouses in which we store our inventory in Virginia, North Carolina 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. Additionally, we are in the process of consolidating our Home Meridian segment's East Coast warehousing operations into an 800,000 square foot distribution center in Liberty County, Georgia. We believe that this strategically located facility near the Port of Savannah and major interstate highways will allow us to more efficiently service our customers, reduce transportation costs and better position us for future growth. This leased facility is currently under construction and we expect to occupy it in the Fall of 2021. Risks associated with our newly leased warehouse space in Georgia, include delays in construction and occupancy and risks associated with our move to the facility, including information systems, access to warehouse labor and the inability to realize anticipated cost savings.

Our domestic upholstery manufacturing facilities are located in Virginia and North Carolina. Furniture manufacturing creates large amounts of highly flammable wood dust and utilizes other highly flammable materials such as varnishes and solvents in its manufacturing processes and is therefore subject to the risk of losses arising from explosions and fires. Additionally, our domestic operations have been negatively affected by COVID-19 and experienced some COVID-related employee absences. It has become increasingly difficult to recruit skilled labor into our domestic upholstery plants and training and turnover costs have increased. We activated business continuity plans in early calendar 2020 and many administrative employees have been telecommuting given recommendations for social distancing. We also instituted increased cleaning regimens and have instituted social distancing and masking protocols for office, manufacturing and warehousing associates. Any disruption affecting our domestic facilities, for even a relatively short period of time, could adversely affect our ability to ship our furniture products and disrupt our business, which could adversely affect our sales, earnings, financial condition and liquidity.

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

We use various types of wood, leather, fabric, foam and other filling material, high carbon spring steel, bar and wire stock and other raw materials in manufacturing upholstered furniture. We depend on outside suppliers for raw materials and must obtain sufficient quantities of quality raw materials from these suppliers at acceptable prices and in a timely manner. We do not have long-term supply contracts with our suppliers. Unfavorable fluctuations in the price, quality or availability of required raw materials could negatively affect our ability to meet the demands of our customers. For example, our domestic upholstery segment is currently facing foam allocations of between 60-75% of requested amounts. We may not always be able to pass price increases in raw materials through to our customers due to competition and other market pressures. The inability to meet customers' demands or recover higher costs could adversely affect our sales, earnings, financial condition and liquidity.

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

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

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

One customer accounted for approximately 12% of our consolidated sales in fiscal 2021, our top five customers accounted for about 30% of our fiscal 2021 consolidated sales. Approximately 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, the loss of major product placements, failures or otherwise, could adversely affect our sales, earnings, financial condition and liquidity and the resulting loss in sales may be difficult or impossible to replace.

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

Should the negative economic effects of COVID-19 persist, or another similar event or events occur, the negative developments described in this paragraph would be more likely to occur. Amounts owed to us by a customer whose business fails, or is failing, may become uncollectible, and we could lose future sales, any of which could adversely affect our sales, earnings, financial condition and liquidity.

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

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

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

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

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

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

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

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

We have publicly stated our goal of reaching \$1 billion in sales by our 100th anniversary in 2024. Achieving that goal is highly dependent upon finding attractive targets and there can be no assurance those targets will be found. We may acquire or invest in businesses such as those that offer complementary products or that we believe offer competitive advantages. However, we may fail to identify significant liabilities or risks that could negatively affect us or result in our paying more for the acquired company or assets than they are worth. We may also have difficulty assimilating and integrating the operations and personnel of an acquired business into our current operations. Acquisitions may disrupt or distract management from our ongoing business. We may pay for future acquisitions using cash, stock, the assumption of debt, or a combination of these. Future acquisitions could result in dilution to existing shareholders and to earnings per share and decrease the value of our common stock. We may pursue new business lines in which we have limited or no prior experience or expertise. These pursuits may require substantial investment of capital, personnel and management attention. New business initiatives may fail outright or fail to produce an adequate return, which could adversely affect our earnings, financial condition and liquidity.

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

At January 31, 2021, we had \$53.5 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. COVID-19 had a material impact on our financial performance in the fiscal 2021 first quarter and on the market valuations, discount rates and other inputs used in our intangibles valuation analysis. We determined that an immediate intangible asset valuation was necessary given our performance and changing market dynamics. As a result of the intangible asset valuation analysis, in the fiscal 2021 first quarter, we recorded \$44.3 million in non-cash impairment charges to write down goodwill and certain tradenames in the Home Meridian segment and goodwill in the Shenandoah division of its Domestic Upholstery segment. Our definite-lived assets consist of property, plant and equipment and certain intangible assets related to our recent acquisitions and are tested for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. The outcome of impairment testing could result in the write-down of all or a portion of the value of these assets. A write-down of our assets would, in turn, reduce our earnings and net worth. See Notes 8 and 9 for additional information.

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

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

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

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

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

Home furnishings sales fluctuate from quarter to quarter due to factors such as changes in economic and competitive conditions, seasonality, weather conditions 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.

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

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

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

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

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

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

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

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Set forth below is information with respect to our principal properties on April 16, 2021. We believe all of these properties are well-maintained and in good condition. During fiscal 2021, we estimate our upholstery plants operated at approximately 85% of capacity on a one-shift basis. All our production facilities are equipped with automatic sprinkler systems. All facilities maintain modern fire and spark detection systems, which we believe are adequate. We have leased certain warehouse facilities for our distribution and import operations, typically on a short or medium-term basis. We expect that we will be able to renew or extend these leases or find alternative facilities to meet our warehousing and distribution needs at a reasonable cost. All facilities set forth below are active and operational, representing approximately 4.1 million square feet of owned space, leased space or properties utilized under third-party operating agreements.

Location	Segment Use	Primary Use	Approximate Size in Square Feet	Owned or Leased
Martinsville, Va.	All segments	Corporate Headquarters, Distribution, Manufacturing and Warehousing	1,489,766	Owned / Leased
High Point, N.C.	All segments	Office, Showroom and Warehouse	226,905	Leased
Madison / Mayodan, NC	HM	Warehouse	935,144	Leased
Redlands, CA.	HM	Warehouse	327,790	Leased
Bedford, Va.	DU	Manufacturing and Offices	327,000	Owned
Hickory, N.C.	DU	Manufacturing and Offices	166,000	Owned
Mt. Airy, N.C.	DU	Manufacturing and warehousing	104,150	Leased
Valdese, N.C.	DU	Manufacturing and warehousing	102,905	Leased
Cherryville, N.C.	DU	Manufacturing Supply Plant	53,000	Owned
Dongguan, China	HB, HM	Office, Warehouse and Distribution	213,426	Leased
Haining, China	HM	Office	1,690	Leased
Ho Chi Minh City, VN	HB, HM	Office, Warehouse and Distribution	108,364	Leased
Thu Dau Mot, VN	HB	Office	3,014	Leased

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

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Hooker Furniture’s executive officers and their ages as of April 16, 2021 and the calendar year each joined the Company are as follows:

Name	Age	Position	Year Joined Company
Jeremy R. Hoff	47	Chief Executive Officer and Director	2017
Paul A. Huckfeldt	63	Chief Financial Officer and Senior Vice President - Finance and Accounting	2004
Anne J. Smith	59	Chief Administration Officer and President-Domestic Upholstery	2008
D. Lee Boone	58	President - Home Meridian segment	2016
Tod R. Phelps	52	Chief Information Officer and Senior Vice President - Operations	2017

Jeremy R. Hoff has been Chief Executive Officer and Director since February 2021. Mr. Hoff served as President of Hooker Legacy Brands from February 2020 to January 2021, President of the Hooker Branded segment from April 2018 to January 2020. Mr. Hoff joined the Company in August of 2017 as President of Hooker Upholstery. Prior to that, Mr. Hoff served as President of Theodore Alexander USA from December 2015 to August 2017.

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

Anne J. Smith has been Chief Administration Officer and President – Domestic Upholstery since February 2021. Ms. Smith served as Chief Administration Officer from July 2018 to January 2021, Senior Vice President – Administration from January 2014 to June 2018, Vice President- HR and Administration from January 2011 to January 2014 and Vice President-Human Resources from November 2008 to January 2011. Ms. Smith joined the Company in January of 2008 as Director of Human Resources.

D. Lee Boone has been President of the Home Meridian segment since November 2020. Mr. Boone served as Co-President of the Home Meridian segment from June 2018 to November 2020. He 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.

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

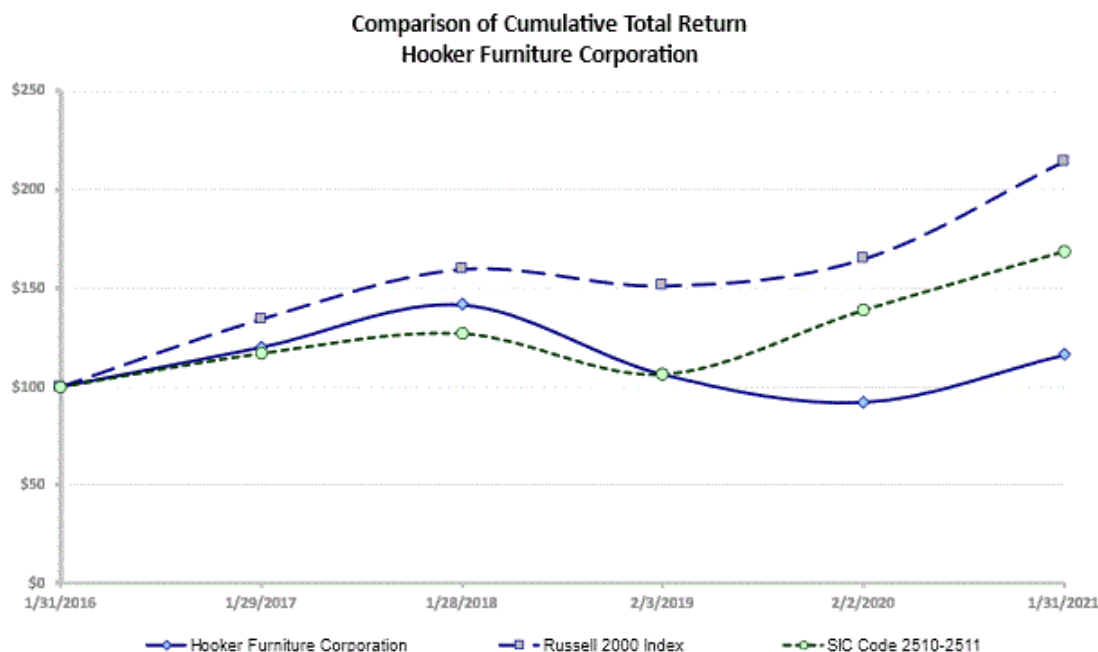
Hooker Furniture Corporation
Part II

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 January 31, 2021, we had approximately 7,600 beneficial shareholders. As we have done in the past, we currently expect that future regular quarterly dividends will be declared and paid in the months of March, June, September and December. Although we presently intend to continue to declare regular cash dividends on a quarterly basis for the foreseeable future, the determination as to the payment and the amount of any future dividends will be made by the Board of Directors on a quarterly basis and will depend on our then-current financial condition, capital requirements, results of operations and any other factors then deemed relevant by the Board of Directors.

Performance Graph

The following graph compares cumulative total shareholder return for the Company with a broad performance indicator, the Russell 2000® Index, and a published industry index, the Household Furniture Index, for the period from January 31, 2016 to January 31, 2021.



- (1) The graph shows the cumulative total return on \$100 invested at the beginning of the measurement period in our common stock or the specified index, including reinvestment of dividends.
- (2) The Russell 2000® Index, prepared by Frank Russell Company, measures the performance of the 2,000 smallest companies out of the 3,000 largest U.S. companies based on total market capitalization and includes the Company.
- (3) Household Furniture Index as prepared by Zacks Investment Research, Inc. consists of companies under Standard Industrial Classification (SIC) Codes 2510 and 2511, which includes home furnishings companies that are publicly traded in the United States or Canada. At January 31, 2021, 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., Casper Sleep Inc., Bassett Furniture Industries, Inc., Ethan Allen Interiors, Inc., Horrison Resources, Inc., The Rowe Companies, and Dorel Industries.

ITEM 6. SELECTED FINANCIAL DATA

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

	Fiscal Year Ended (1)				
	January 31, 2021	February 2, 2020	February 3, 2019	January 28, 2018	January 29, 2017
(In thousands, except per share data)					
Income Statement Data:					
Net sales	\$ 540,081	\$ 610,824	\$ 683,501	\$ 620,632	\$ 577,219
Cost of sales	427,333	496,866	536,014	485,815	451,098
Casualty loss (2)	-	-	500	-	-
Gross profit	112,748	113,958	146,987	134,817	126,121
Selling and administrative expenses (3)	80,410	88,867	91,928	87,279	83,186
Goodwill impairment (4)	39,568	-	-	-	-
Trade names impairment (4)	4,750	-	-	-	-
Intangible asset amortization (4)	2,384	2,384	2,384	2,084	3,134
Operating (loss)/income (3)	(14,364)	22,707	52,675	45,454	39,801
Other income, net (3)	336	458	369	1,566	349
Interest Expense, net	540	1,238	1,454	1,248	954
(Loss)/Income before income taxes	(14,568)	21,927	51,590	45,772	39,196
Income tax (benefit)/expense	(4,142)	4,844	11,717	17,522	13,909
Net (loss)/income	(10,426)	17,083	39,873	28,250	25,287
Per Share Data:					
Basic (loss)/earnings per share	\$ (0.88)	\$ 1.44	\$ 3.38	\$ 2.42	\$ 2.19
Diluted (loss)/earnings per share	(0.88)	1.44	3.38	2.42	2.18
Cash dividends per share	0.66	0.61	0.57	0.50	0.42
Net book value per share (5)	21.76	23.25	22.37	19.53	17.16
Weighted average shares outstanding (basic)	11,822	11,784	11,759	11,633	11,531
Balance Sheet Data:					
Cash and cash equivalents	\$ 65,841	\$ 36,031	\$ 11,435	\$ 30,915	\$ 39,792
Trade accounts receivable	83,290	87,653	112,557	92,803	92,578
Inventories	70,159	92,813	105,204	84,459	75,303
Working capital	169,612	171,838	170,516	153,162	147,856
Total assets	352,273	393,708	369,716	350,058	318,696
Long-term debt (including current maturities) (6)	-	30,138	35,508	53,425	47,710
Shareholders' equity	257,503	274,121	263,176	229,460	197,927

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

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

(3) Amounts for fiscal 2018 and 2017 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) and \$581,000 for fiscal 2018 and 2017, respectively.

- (4) Represents impairment charges and amortization expense on acquisition-related intangibles. The Home Meridian acquisition occurred on February 1, 2016 and the Shenandoah acquisition occurred on September 29, 2017. See note 9 for additional information on our intangible assets.
- (5) Net book value per share is derived by dividing “shareholders’ equity” by the number of common shares issued and outstanding, excluding unvested restricted shares, all determined as of the end of each fiscal period.
- (6) Long-term debt (including current maturities) consisted of term loans incurred to fund a portion of the Home Meridian and Shenandoah acquisitions. We paid off the term loans in January 2021.

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

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

- All of our recent public filings made with the Securities and Exchange Commission (“SEC”) which are available, without charge, at www.sec.gov 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 31 and in Note 18 on page F-35 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 2021 compared to fiscal 2020. We also provide information regarding the performance of each of our operating segments and All Other. The analysis and discussions of fiscal 2020 compared to fiscal 2019 results are in our 2020 Form 10-K available through Hooker Furniture and Securities and Exchange Commission websites.

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

Furniture sales account for all of our net sales. For financial reporting purposes, we are organized into three reportable segments- Hooker Branded, Home Meridian and Domestic Upholstery, with our other businesses included in All Other. We continually monitor our reportable segments for changes in facts and circumstances to determine whether changes in the identification or aggregation of operating segments are necessary. In the fourth quarter of fiscal 2020, we updated our reportable segments as follows: Domestic upholstery producers Bradington-Young, Sam Moore and Shenandoah Furniture were moved from All Other and aggregated into a new reportable segment called “Domestic Upholstery.” All Other now consists of H Contract and Lifestyle Brands. Lifestyle Brands is a business in its start-up phase targeted at the interior designer channel. The Hooker Branded and Home Meridian segments were unchanged. Fiscal 2020 and 2019 results discussed below have been recast based on the re-composition of our operating segments during the 2020 fourth quarter. See Note 17 to our consolidated financial statements for additional financial information regarding our segments.

Overview

Hooker Furniture Corporation, incorporated in Virginia in 1924, is a designer, marketer and importer of casegoods (wooden and metal furniture), leather furniture and fabric-upholstered furniture for the residential, hospitality and contract markets. We also domestically manufacture premium residential custom leather and custom fabric-upholstered furniture. We are ranked among the nation’s top five largest publicly traded furniture sources, based on 2019 shipments to U.S. retailers, according to a 2020 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 (the "Home Meridian acquisition") and Shenandoah Furniture on September 29, 2017 (the "Shenandoah acquisition").

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 hospitality furniture. While growing faster than industry average, these channels tend to operate at lower margins.

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

Executive Summary- Fiscal 2021 Results of Operations

As discussed in greater detail under "Results of Operations" below, the following are the primary factors that affected our consolidated fiscal 2021 operations:

- The severe and pervasive effects of the economic crisis caused by the COVID-19 pandemic had a material, adverse effect on our fiscal 2021 sales and earnings.
- Demand for our products fell sharply at the outset of the crisis, then later surged, as did the demand for home furnishings in general. The surge in demand led to capacity constraints with our Asian suppliers as we and other importers reacted to increased demand. Consequently, the cost and availability of shipping containers and steamship bookings increased exponentially which negatively affected our sales and earnings.
- Consolidated net sales for fiscal 2021 decreased by \$70.7 million or 11.6% as compared to fiscal 2020, from \$610.8 million to \$540.1 million, due primarily to:
 - a \$58.2 million or 17.1% sales decrease in the Home Meridian segment and to a lesser extent a \$12.0 million or 12.5% decrease in the Domestic Upholstery segment;
 - a \$1.0 million or 7.9% decrease in All Other net sales; and
 - flat Hooker Branded segment net sales.
- Approximately 75% of the consolidated net sales decreases happened in the first half of fiscal 2021 when our orders and operations were adversely impacted by the initial severity of the COVID-19 crisis.
- We reported a \$14.4 million operating loss in fiscal 2021 compared to \$22.7 million operating income in the prior year period, due principally to \$44.3 million non-cash impairment charges (\$33.7 million net of tax) to write down goodwill and tradenames in our Home Meridian segment and goodwill in the Shenandoah division of our Domestic Upholstery segment.
- The adverse economic effects brought on by the COVID-19 pandemic triggered an intangible asset impairment analysis in the first quarter of fiscal 2021, which required us to perform a valuation of our intangible assets. Our stock price was near a six-year low at the impairment measurement date, which occurred at the depth of the COVID-19 crisis to that point and was one of the primary inputs in the valuation analysis that indicated these assets were impaired and it was appropriate to write them down. Consequently, consolidated net loss was \$10.4 million or \$0.88 per diluted share, as compared to \$17.1 million net income or \$1.44 diluted earnings per share in the prior year period.

Review

Fiscal 2021 was one of the most challenging years in our nearly 97-year history as we experienced the ups and downs in our business under the COVID-19 global pandemic. We experienced steep declines in orders and sales early in fiscal 2021 when many of our customers' stores were closed and the retail environment was severely impacted by the initial pandemic. When the economy reopened in the second quarter, we were encouraged by increased incoming orders which were attributable to increased demand of home furnishings due to renewed consumer focus on the home, higher levels of consumer confidence, the strong housing market and less competition from other discretionary spending categories, such as travel, dining out and sporting events and other forms of entertainment. However, our business continues to be impacted by supply chain disruptions, which include industry-wide scarcity of shipping containers and ocean vessel space, limited capacity of our overseas vendors, and production delays at our domestic manufacturing plants. On a more positive note, we are pleased to report that incoming orders increased by 5.8% and backlog more than doubled, both on consolidated basis, as compared to the prior fiscal year, showing solid improvements from the initial pandemic conditions encountered early in fiscal 2021.

The Hooker Branded segment recovered at the fastest pace among all our reportable segments. Net sales rebounded in the third and fourth fiscal quarters and the segment finished fiscal 2021 with essentially flat net sales compared to the prior fiscal year. The majority of this segment's customers are traditional furniture stores and small or regional chains, which were deemed non-essential businesses and were closed early in the fiscal year. Demand for our products increased as our customers' stores reopened during the second quarter, leading to double-digit monthly increases in incoming orders starting in June 2020 and through fiscal year end. The Hooker Branded segment finished the year with backlog more than tripled compared to the prior year-end backlog. This segment reported \$22.8 million operating income or 14.1% operating margin, an increase of \$1.3 million or 6.1% as compared to prior year. Given the economic conditions in fiscal 2021, we are pleased to have maintained and improved Hooker Branded segment profitability as compared to the prior year.

Home Meridian segment net sales decreased by \$58.2 million or 17.1% in fiscal 2021 due primarily to sales declines in the hospitality business and major furniture chains, and to a lesser extent sales declines in the Accentrics Home ("ACH") division which focuses on the e-commerce channel. The sales decline at Samuel Lawrence Hospitality ("SLH") represented 45% of Home Meridian's net sales decrease, as the hospitality division was severely impacted by COVID-19 pandemic's negative effects on remodeling and new construction activity in the hospitality industry. The Pulaski Furniture ("PFC") and Samuel Lawrence Furniture ("SLF") divisions experienced a spike in order cancellations early in fiscal 2021 as their customers' stores were closed or operated under restrictions. Incoming orders started to recover in mid-year; however, lack of container availability limited shipments and led to decreased sales as compared to the prior year period. Sales declines in ACH comprised the remaining sales decrease, which was attributable to Asian vendor production capacity challenges and container availability. HMidea net sales increased slightly due to steady sales in the Club business. Prime Resources International ("PRI") net sales were essentially flat as compared to prior year despite the COVID-19 crisis, due to the additions of mass merchant customers. Home Meridian segment incoming orders increased by 3.8% and backlog doubled as compared to prior year. The segment's \$26.1 million operating loss was attributable to \$27.9 million intangible asset impairment charge. Absent the impairment charge necessitated by our low stock price at the end of our first fiscal quarter at the initial height of the COVID-19 economic crisis, segment operating performance improved compared to a \$7.2 million operating loss in the prior fiscal year.

Domestic Upholstery segment net sales decreased by \$12.0 million or 12.5% due to decreased sales volume in all three domestic manufacturing divisions attributable to factory shutdowns and production delays. In response to COVID-19 restrictions and significantly reduced orders, in April we temporarily closed our manufacturing plants at Bradington-Young and Shenandoah for a month, while Sam Moore operated at 50% capacity. All three divisions experienced labor shortages and staffing issues when they resumed operations. The segment's \$12.4 million operating loss was attributable to \$16.4 million intangible asset impairment charge. Additionally, profitability in this segment was negatively impacted by operating inefficiencies, partially mitigated by cost reduction measures. At the end of the fiscal year, Domestic Upholstery incoming orders were at the same level as prior year-end and backlog had doubled. We are pleased with the current historic levels of orders and backlog and as of year-end we were operating at full capacity in all three domestic manufacturing plants.

All Other net sales decreased by \$1.0 million or 7.9% as compared to the prior fiscal year, due principally to sales decline at H Contract. The senior living industry, which comprises the majority of H Contract's business, is struggling under the COVID-19 crisis. Factors such as postponed new constructions, low occupancy rates, and COVID-related expenses resulted in reduced spending on furnishings and reduced demand for our product. H Contract incoming orders decreased by 11.8% for fiscal 2021; however, we believe vaccine rollouts are beginning to help the senior living industry as the decline in order rates slowed somewhat in the fourth quarter. H Contract finished the year with backlog 4.9% higher than prior year end. Despite sales decline and unfavorable product mix, All Other contributed \$1.3 million operating income to the consolidated results.

Despite the operating loss which was driven by \$44.3 million in intangible assets impairment charges, we generated \$68.3 million from operating activities and paid off the remaining \$24.3 million in term loans near year-end. In addition, in the third quarter of fiscal 2021, our Board of Directors approved the increase of our quarterly dividend to \$0.18 per share, an increase of 12.5% or \$0.02 per share, for a total of \$0.66 per share or \$7.8 million paid in fiscal 2021, an increase of 8.2% or \$0.05 per share, compared to the prior year. Cash and cash equivalents stood at \$65.8 million at fiscal 2021 year-end, an increase of nearly \$30 million compared to the balance at prior year end. Based on existing cash balances, no debt, and an aggregate \$28.7 million available under our revolver, we are confident in our financial position.

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 operations:

	Fifty-two weeks ended January 31, 2021	Fifty-two weeks ended February 2, 2020	Fifty-three weeks ended February 3, 2019
Net sales	100.0%	100.0%	100.0%
Cost of sales	79.1	81.3	78.5
Gross profit	20.9	18.7	21.5
Selling and administrative expenses	14.9	14.5	13.4
Goodwill impairment charges	7.3	-	-
Trade name impairment charges	0.9	-	-
Intangible asset amortization	0.4	0.4	0.3
Operating (loss)/income	(2.7)	3.7	7.7
Other income, net	0.1	0.1	0.1
Interest expense, net	0.1	0.2	0.2
(Loss)/income before income taxes	(2.7)	3.6	7.5
Income tax (benefit)/expense	(0.8)	0.8	1.7
Net (loss)/income	(1.9)	2.8	5.8

Fiscal 2021 Compared to Fiscal 2020

	Net Sales					
	Fifty-two weeks ended				\$ Change	% Change
	January 31, 2021	% Net Sales	February 2, 2020	% Net Sales		
Hooker Branded	\$ 162,442	30.1%	\$ 161,990	26.4%	\$ 452	0.3%
Home Meridian	282,423	52.3%	340,630	55.8%	(58,207)	-17.1%
Domestic Upholstery	83,678	15.5%	95,670	15.7%	(11,992)	-12.5%
All Other	11,538	2.1%	12,534	2.1%	(996)	-7.9%
Consolidated	\$ 540,081	100%	\$ 610,824	100%	\$ (70,743)	-11.6%

Unit Volume and Average Selling Price (“ASP”)

<u>Unit Volume</u>	<u>FY21 % Increase/ -Decrease vs. FY20</u>	<u>Average Selling Price</u>	<u>FY21 % Increase/ -Decrease vs. FY20</u>
Hooker Branded	-1.9%	Hooker Branded	1.3%
Home Meridian	-17.4%	Home Meridian	2.0%
Domestic Upholstery	-11.4%	Domestic Upholstery	-1.6%
All Other	-7.6%	All Other	-1.3%
Consolidated	-15.1%	Consolidated	4.6%

Consolidated net sales decreased due primarily to sales decline in the Home Meridian segment, and to a lesser extent the decreases in the Domestic Upholstery segment and All Other.

- Hooker Branded segment net sales were essentially flat compared to the prior fiscal year. Despite significant volume loss in the first quarter, unit volume recovered in the second half of fiscal 2021 in this segment, which was attributable to increased incoming orders beginning in June which trended through year end.
- Home Meridian segment net sales decreased due to decreased unit volume driven by volume loss with traditional furniture chains and in the hospitality business (severely impacted by COVID-19 pandemic’s negative effects on remodeling and new construction activity in the hospitality industry), inability to ship due to limited container availability, as well as sales declines in the e-commerce (ACH) channel which were impacted by inventory availability challenges. E-commerce sales were strong early in the pandemic causing them to run out of bestsellers earlier than other divisions. These sales are highly dependent on warehouse inventory which the division was not able to replace due to logistics challenges mentioned. These decreases were partially offset by increased sales in the mass merchant and general retailer distribution channels. The ASP increase was attributable to product mix.
- Domestic Upholstery net sales decreased due primarily to sales decreases at Bradington-Young and Shenandoah, and to a lesser extent at Sam Moore. In April 2020, in response to COVID-19 restrictions and reduced incoming orders, we temporarily shut down Bradington-Young’s and Shenandoah’s manufacturing facilities while keeping Sam Moore operating at 50% capacity. We resumed production in the second quarter. ASP decreased slightly due to a reduced proportion of higher priced Bradington-Young and Shenandoah products sold.
- All Other net sales decreased by \$1.0 million or 7.9% due primarily to decreased unit volume in H Contract as this division was adversely impacted by the pandemic, partially offset by increased Lifestyle Brands net sales.

Gross Profit and Margin

	Fifty-two weeks ended				\$ Change	% Change
	January 31, 2021	February 2, 2020				
			% Segment Net Sales	% Segment Net Sales		
Hooker Branded	\$ 51,832	\$ 51,462	31.9%	31.8%	\$ 370	0.7%
Home Meridian	39,832	36,936	14.1%	10.8%	2,896	7.8%
Domestic Upholstery	17,121	21,120	20.5%	22.1%	(3,999)	-18.9%
All Other	3,963	4,440	34.4%	35.4%	(477)	-10.7%
Consolidated	\$ 112,748	\$ 113,958	20.9%	18.7%	\$ (1,210)	-1.1%

Consolidated gross profit decreased slightly in absolute terms but increased as a percentage of net sales as compared to the prior fiscal year.

- Hooker Branded segment gross profit increased slightly both in absolute terms and as a percentage of net sales. Product costs benefitted from the transition to non-tariff countries but were negatively impacted by higher container costs and freight surcharges incurred later in fiscal 2021. Warehousing and distribution expenses decreased due to cost reduction initiatives implemented during the pandemic, partially offset by increases due to the addition of leased warehouse space in Vietnam.
- Home Meridian segment gross profit improved significantly both in absolute terms and as a percentage of net sales despite a net sales decline. In the prior fiscal year, this segment was heavily impacted by increased product costs due to excess tariffs and was exacerbated by higher quality-related expenses and increased warehousing and distribution costs to handle the inventory related to quality issues. These issues either did not re-occur in fiscal 2021 or re-occurred at much lower levels. Home Meridian segment gross margin was negatively impacted by reduced sales volume and some lower-margin programs due to customer mix.
- Domestic Upholstery segment gross profit decreased in absolute terms and as a percentage of net sales due primarily to sales decline, and to a lesser extent to manufacturing inefficiencies from operating at a reduced production level early in fiscal 2021. Fixed costs adversely impacted gross margin in this segment. All three manufacturing divisions experienced labor and staffing issues due to COVID-related absenteeism, turnover and training costs. Gross profit was also adversely impacted by increased benefits expenses at Sam Moore and Shenandoah due mostly to increased medical claims.
- All Other's gross profit decreased in absolute terms and as a percentage of net sales due to sales decline in H Contract division and a heavier weighting of domestically manufactured product sold which carried higher costs, partially offset by the addition of increased Lifestyle Brands gross profit.

Selling and Administrative Expenses (S&A)

	Fifty-two weeks ended				\$ Change	% Change
	January 31, 2021	% Segment Net Sales	February 2, 2020	% Segment Net Sales		
Hooker Branded	\$ 29,005	17.9%	\$ 29,949	18.5%	\$ (944)	-3.2%
Home Meridian	36,632	13.0%	42,771	12.6%	(6,139)	-14.4%
Domestic Upholstery	12,108	14.5%	13,433	14.0%	(1,325)	-9.9%
All Other	2,665	23.1%	2,714	21.7%	(49)	-1.8%
Consolidated	\$ 80,410	14.9%	\$ 88,867	14.5%	\$ (8,457)	-9.5%

Consolidated selling and administrative expenses decreased in absolute terms but increased as a percentage of net sales in fiscal 2021.

- Hooker Branded segment S&A expenses decreased in absolute terms and as a percentage of net sales due to cost-cutting measures implemented to address the COVID-19 crisis, decreased travel and showroom expenses due to pandemic-related restrictions, decreased advertising supplies and sample expenses, partially offset by increased selling expenses due to higher commission rates and higher bad debt expense due to a customer write-off unrelated to COVID-19 and an increase in reserves to recognize expected future credit losses under ASC 326 requirements, which we adopted during the first quarter of fiscal 2021.
- Home Meridian segment S&A expenses decreased in absolute terms due to decreased selling expenses on lower net sales, cost reduction efforts in response to the COVID-19 crisis, decreased travel and showroom expenses due to pandemic-related restrictions, and the absence of the resourcing transition costs and start-up costs for HMidea division incurred in the prior year period. The decreases were partially offset by increased compliance costs and increased bad debt due to a customer bankruptcy not related to the COVID-19 crisis. Home Meridian segment S&A expenses increased slightly as a percentage of net sales due to lower net sales.
- Domestic Upholstery segment expenses decreased in absolute terms as the result of cost reduction initiatives in response to the pandemic and decreased selling expenses due to lower net sales. S&A expenses increased as a percentage of net sales due to lower net sales.
- All Other S&A expenses stayed flat in absolute terms and increased as a percentage of net sales due to lower net sales.

Goodwill impairment charges

	Fifty-Two Weeks Ended					
	January 31, 2021		February 2, 2020		\$ Change	% Change
		% Net Sales		% Net Sales		
Home Meridian	\$ 23,187	8.2%	\$ -	0.0%	\$ 23,187	
Domestic Upholstery	16,381	19.6%	-	0.0%	16,381	
Consolidated	39,568	7.3%	-		39,568	

Trade name impairment charges

	Fifty-Two Weeks Ended					
	January 31, 2021		February 2, 2020		\$ Change	% Change
		% Net Sales		% Net Sales		
Home Meridian	\$ 4,750	1.7%	\$ -		\$ 4,750	
Consolidated	\$ 4,750	0.9%	\$ -		4,750	

In the first quarter of fiscal 2021, we recorded \$23.2 million and \$16.4 million in non-cash impairment charges to write down goodwill in the Home Meridian segment and the Shenandoah division of the Domestic Upholstery segment, respectively. We also recorded \$4.8 million in non-cash impairment charges to write down tradenames in the Home Meridian segment. See Note 9 for additional details on these impairment charges.

Intangible Asset Amortization

	Fifty-two Weeks Ended					
	January 31, 2021		February 2, 2020		\$ Change	% Change
		% Net Sales		% Net Sales		
Intangible asset amortization	\$ 2,384	0.4%	\$ 2,384	0.4%	\$ -	0.0%

Intangible asset amortization expense was unchanged compared to the prior year period. See Note 9 Intangible Assets and Goodwill for additional information about our amortizable intangible assets.

Operating (Loss)/Profit and Margin

	Fifty-two weeks ended					
	January 31, 2021		February 2, 2020		\$ Change	% Change
		% Segment Net Sales		% Segment Net Sales		
Hooker Branded	\$ 22,827	14.1%	\$ 21,512	13.3%	\$ 1,315	6.1%
Home Meridian	(26,071)	-9.2%	(7,169)	-2.1%	(18,902)	263.7%
Domestic Upholstery	(12,418)	-14.8%	6,637	6.9%	(19,055)	-287.1%
All Other	1,298	11.3%	1,727	13.8%	(429)	-24.8%
Consolidated	\$ (14,364)	-2.7%	\$ 22,707	3.7%	\$ (37,071)	-163.3%

Operating profitability decreased both in absolute terms and as a percentage of net sales in fiscal 2021 compared to the same prior-year period due to the factors discussed above.

Interest Expense, net

	Fifty-two Weeks Ended					
	January 31, 2021		February 2, 2020		\$ Change	% Change
		% Net Sales		% Net Sales		
Interest expense, net	\$ 540	0.1%	\$ 1,238	0.2%	\$ (698)	-56.4%

Consolidated interest expense in fiscal 2021 decreased due to lower balances on our term loans as well as lower interest rates.

Income Taxes

	Fifty-two weeks ended					
	January 31, 2021		February 2, 2020		\$ Change	% Change
		% Net Sales		% Net Sales		
Consolidated income tax (benefit)/expense	\$ (4,142)	-0.8%	\$ 4,844	0.8%	\$ (8,986)	-185.5%
Effective Tax Rate	28.4%		22.1%			

We recorded income tax benefit of \$4.1 million for fiscal 2021, of which an income tax benefit of \$10.6 was recorded related to goodwill and trade name impairment charges, compared to \$4.8 million income tax expense for the same prior year period. The effective tax rates for the fiscal 2021 and 2020 were 28.4% and 22.1%, respectively. Our effective tax rate was higher in fiscal 2021 due primarily to the Employer Retention Credit for employers affected by qualified disasters under the Consolidated Appropriations Act of 2020 and increased state income taxes. See Note 16 "Income Taxes" for additional information about our income taxes.

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

	Fifty-two weeks ended					
	January 31, 2021		February 2, 2020		\$ Change	% Change
		% Net Sales		% Net Sales		
Net (Loss)/Income						
Consolidated	\$ (10,426)	-1.9%	\$ 17,083	2.8%	\$ (27,509)	-161.0%
Diluted (loss)/earnings per share	\$ (0.88)		\$ 1.44			

The analysis and discussion of fiscal 2020 compared to fiscal 2019 results is available in Item 7 of our 2020 Annual Report on Form 10-K available through Hooker Furniture and Securities and Exchange Commission websites.

Financial Condition, Liquidity and Capital Resources

Summary Cash Flow Information – Operating, Investing and Financing Activities

	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Net cash provided by operating activities	\$ 68,263	\$ 41,429	\$ 9,662
Net cash used in investing activities	(476)	(4,254)	(4,511)
Net cash used in financing activities	(37,977)	(12,579)	(24,631)
Net increase (decrease) in cash and cash equivalents	\$ 29,810	\$ 24,596	\$ (19,480)

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

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

During fiscal 2019, \$9.7 million generated from operations, \$1.2 million in 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 of capital expenditures, and \$652,000 for insurance premiums on Company-owned life insurance policies.

Liquidity, Financial Resources and Capital Expenditures

Our financial resources include:

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

We believe these resources are sufficient to meet our business requirements and the payment of dividends through fiscal 2022 and for the foreseeable future, including expected capital expenditures and working capital needs.

Loan Agreements and Revolving Credit Facility

We paid off the term loans which were related to the Home Meridian acquisition at the end of fiscal 2021 and currently have one \$35 million revolving credit facility (the “Existing Revolver”). The credit facility was provided for in the amended and restated loan agreement (the “Original Loan Agreement”), which we entered into on February 1, 2016 with Bank of America, N. A. (“BofA”) in connection with the Home Meridian acquisition. We entered a Second Amended and Restated Loan Agreement dated as of September 29, 2017 (the “Second Amended and Restated Loan Agreement”), a First Amendment to Second Amended and Restated Loan Agreement dated as of January 31, 2019, a Second Amendment to Second Amended and Restated Loan Agreement dated as of November 4, 2020, and a Third Amendment to the Second Amended and Restated Loan Agreement dated as of January 27, 2021. Details of our revolving credit facility are outlined below:

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

The loan covenants agreed to under the Second Amended and Restated Loan Agreement continue to apply to us. They include customary representations and warranties and requires us to comply with customary covenants, including, among other things, the following financial covenants:

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

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

We were in compliance with each of these financial covenants at January 31, 2021 and expect to remain in compliance with existing covenants for the foreseeable future. We believe we have financial resources to weather the expected short-term impacts of COVID-19; however, an extended impact may materially and adversely affect our sales, earnings and liquidity.

Revolving Credit Facility Availability

As of January 31, 2021, we had an aggregate \$28.7 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of \$6.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of January 31, 2021. There were no additional borrowings outstanding under the Existing Revolver as of January 31, 2021.

Capital Expenditures

We expect to spend approximately \$7 million in capital expenditures in fiscal 2022 to maintain and enhance our operating systems and facilities. Of those amounts, we expect to spend approximately:

- \$3.2 million outfitting a newly built leased warehouse space in Savannah, Georgia that we expect to occupy in the fall of 2021. The facility will consolidate several older, less flexible Home Meridian segment warehouses into a single strategically located distribution facility near the port of Savannah and major interstate highways. We believe this is critical to servicing customers and is expected to reduce transportation costs and increase operating efficiencies; and
- \$1.4 million on implementation costs for a new common, cloud-based Enterprise Resource Planning (“ERP”) platform which we expect to be online in our legacy Hooker divisions by mid-2022, with other segments following thereafter.

Enterprise Resource Planning

In early calendar 2021, our Board of Directors approved an upgrade to our current ERP system and implementation efforts began shortly thereafter. We expect to implement the ERP upgrade in our legacy Hooker divisions by mid calendar 2022, with Home Meridian and Shenandoah following afterwards. To complete the ERP system implementation as anticipated, we will be required to expend significant financial and human resources. We anticipate spending approximately \$5.5 million over the course of this project, with a significant amount of time invested by our associates.

COVID-19 Cost Cutting and Cash Preservation Measures

During the fiscal 2021 first quarter, we initiated certain measures to reduce operating expenses and preserve cash which included temporary fee reductions for our Board of Directors, temporary salary reductions for officers and certain other managers, strategic staff reductions, the temporary closure of our domestic manufacturing plants and the furlough of manufacturing, warehouse and administrative associates. We also delayed all non-critical capital spending, rationalized our import purchase orders and accepted certain accommodations from our vendors to cut costs and extend payment terms where possible.

While we continue to spend cautiously, business has improved steadily beginning in May 2020 and we have seen greatly increased demand for our products. Consequently, during the second quarter of fiscal 2021, our domestic manufacturing plants reopened and are currently operating at current capacity. During the fiscal 2021 third quarter, temporary salary and fee reductions were rescinded and as of early December 2020 furloughs of our associates have ended. We are in the process of re-building inventory to meet increased customer demand.

Cash and cash equivalents stood at \$65.8 million at fiscal 2021 year-end, an increase of nearly \$30 million compared to the balance of prior year end. We expect these cash balances to decrease as we build inventories to meet increased customer demand.

Dividends

We declared and paid dividends of \$0.66 per share or approximately \$7.8 million in fiscal 2021, an increase of 8.2% or \$0.05 per share compared to \$0.61 per share in fiscal 2020.

On March 1, 2021, our Board of Directors declared a quarterly cash dividend of \$0.18 per share, payable on March 31, 2021 to shareholders of record at March 17, 2021.

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

Commitments and Contractual Obligations

As of January 31, 2021, our commitments and contractual obligations were as follows:

	Cash Payments Due by Period (In thousands)				Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years	
Deferred compensation payments (1)	\$ 1,033	\$ 2,132	\$ 2,192	\$ 4,639	\$ 9,996
Operating leases (2)	7,394	11,254	10,615	9,809	39,072
Total contractual cash obligations	\$ 8,427	\$ 13,386	\$ 12,807	\$ 14,448	\$ 49,068

- (1) These amounts represent estimated cash payments to be paid to participants in our SRIP through fiscal year 2043, which is 15 years after the last current SRIP plan participant is assumed to have retired. SERP benefits are paid over the lifetimes of plan participants, so the year of final payment is unknown. The present value of these benefits (the actuarially derived projected benefit obligation for the SRIP and SERP) were approximately \$10.6 million and \$1.7 million, respectively, on January 31, 2021, and are shown on our consolidated balance sheets, with \$1.0 million recorded in current liabilities and \$11.3 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-22 for additional information about the SRIP and SERP.
- (2) These amounts represent estimated cash payments due under operating leases for real estate utilized in our operations and warehouse and office equipment, as well as short term leases with remaining terms less than 12 months. See Note 11 for additional information and disclosures about our leases.

Off-Balance Sheet Arrangements

Standby letters of credit in the aggregate amount of \$6.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of January 31, 2021. 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.

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 August 2018, the FASB issued ASU No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*. The amendments in this update align the accounting for implementation costs incurred in a hosting arrangement that does not include a license to internal-use software (i.e., a cloud computing arrangement) with one that does. It therefore requires companies to defer potentially significant implementation costs incurred in a cloud computing arrangement that were often expensed as incurred under legacy US GAAP and recognize them as expense over the term of the hosting arrangement. This guidance was effective for fiscal years and interim periods beginning after December 15, 2019. We plan to adopt this guidance in the fiscal 2022 first quarter. We do not expect the adoption of ASU 2018-15 will have a material impact on our consolidated financial statements and related disclosures.

COVID-19

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

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

Outlook

We enter fiscal 2022 with confidence and a positive outlook for our company and our industry. Demand is strong, and we are experiencing significantly increased order rates so far in fiscal 2022 compared to last year this time. Our operational priority is to maximize these high levels of demand by servicing our backlogs, as we work to continue the momentum of the improved profitability achieved during the second half of fiscal 2021.

We are currently experiencing two significant headwinds which we believe to be temporary. The first is the ongoing impact of COVID-19 on global manufacturing capacities, raw materials and the cost and availability of shipping containers. The second is a shortage of upholstery foam created by the recent power grid outage in Texas from severe weather. That power grid outage negatively impacted the oil industry, which produces the by-products used in the fabrication of foam. This has led to allocations of foam to our domestic upholstery segment. We expect the later issue to be a short to mid-term problem. The duration of the global logistics constraints is uncertain, but we believe that ports and freight lines are working to overcome these bottlenecks and expect to see improvements later this year.

Additionally, competition for consumers' discretionary spending such as travel, dining out and entertainment will increase as COVID-19 vaccinations roll out; however, we see sustainable positive market conditions for home furnishings, driven by the robust housing market, favorable demographics and a bright economic outlook. We are confident in our team's ability to execute our strategies to grow profitably and to adapt successfully to unexpected challenges.

Critical Accounting Policies and Estimates

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.

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

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

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

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

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

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

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

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

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

Inventories

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

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 operations and consolidated balance sheets.

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

Intangible Assets and Goodwill

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.

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

Our goodwill, trademarks and trade names are tested for impairment annually as of the first day of our fourth quarter or more frequently if events or changes in circumstances indicate that the asset might be impaired. 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 January 31, 2021, based on our internal valuation, the fair values of our Bradington-Young, Home Meridian, Sam Moore and Shenandoah non-amortizable trademarks and trade names exceeded their carrying values.

Upon the adoption of ASU 2017-04, we perform our annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Management judgment is a significant factor in the goodwill impairment evaluation process. The computations require management to make estimates and assumptions, the most critical of which are potential future cash flows and the appropriate discount rate. Based on our internal goodwill impairment analysis as described above, we have concluded that Shenandoah goodwill in the Domestic Upholstery segment is not impaired as of January 31, 2021.

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.

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. Currently, we have \$14.2 million deferred tax assets that can be used to offset taxable income and reduce our income tax liabilities in the future periods. All deferred tax assets and liabilities are classified as non-current on our consolidated balance sheets. See Note 16 Income Taxes for additional details.

Concentrations of Sourcing Risk

In fiscal 2021, 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 2021 import purchases. A disruption in our supply chain, or from Vietnam or China in general, could significantly impact our ability to fill customer orders for products manufactured in those countries. If such a disruption were to occur, we believe that we would have sufficient inventory on hand and in transit to our U.S. warehouses in Virginia, North Carolina and California to adequately meet demand for several months or slightly longer with an additional month's worth of demand available for immediate shipment from our warehouses in Asia. We believe that we could, most likely at higher cost, source most of the products currently sourced in Vietnam or China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for up to six months before the impact of remedial measures would be reflected in our results. If we were to be unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain from our largest import furniture suppliers, or from Vietnam or China in general, could adversely affect our sales, earnings, financial condition and liquidity.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Borrowings under the revolving credit facility bears interest based on LIBOR plus 1.0%. As such, this debt instrument exposes us to market risk for changes in interest rates. There was no outstanding balance under our revolving credit facility as of January 31, 2021, other than amounts reserved for standby letters of credit in the amount of \$6.3 million.

Raw Materials Price Risk

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

Currency Risk

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements listed in Item 15(a), and which begin on page F-6, of this report are incorporated herein by reference and are filed as a part of this report.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended January 31, 2021. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of January 31, 2021, the end of the period covered by this annual report, to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

In accordance with Section 404 of the Sarbanes-Oxley Act and SEC rules thereunder, management has conducted an assessment of our internal control over financial reporting as of January 31, 2021, based on the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's report regarding that assessment is included on page F-2 of this report, with our consolidated financial statements, and is incorporated herein by reference.

Report of Registered Public Accounting Firm

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended January 31, 2021, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Hooker Furniture Corporation
Part III

In accordance with General Instruction G (3) of Form 10-K, most of the information called for by Items 10, 11, 12, 13 and 14 of Part III will be incorporated by reference to the Company's definitive Proxy Statement for its Annual Meeting of Shareholders scheduled to be held June 3, 2021 (the "2021 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 2021 Proxy Statement and is incorporated herein by reference.

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

Information relating to compliance with Section 16(a) of the Exchange Act will be set forth under the caption "Delinquent Section 16(a) Reports" in the 2021 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 2021 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 2021 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 2021 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 2021 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 2021 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 2021 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information relating to this item will be set forth under the caption "Proposal Three- Ratification of Selection of Independent Registered Public Accounting Firm" in the 2021 Proxy Statement and is incorporated herein by reference.

Hooker Furniture Corporation
Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

Management's Report on Internal Control Over Financial Reporting

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of January 31, 2021 and February 2, 2020

Consolidated Statements of Operations for the fifty-two-week period ended January 31, 2021, the fifty-two-week period ended February 2, 2020, and the fifty-three-week period ended February 3, 2019

Consolidated Statements of Comprehensive Income/(Loss) for the fifty-two-week period ended January 31, 2021, the fifty-two-week period ended February 2, 2020, and the fifty-three-week period ended February 3, 2019

Consolidated Statements of Cash Flows for the fifty-two-week period ended January 31, 2021, the fifty-two-week period ended February 2, 2020, and the fifty-three-week period ended February 3, 2019

Consolidated Statements of Shareholders' Equity for the fifty-two-week period ended January 31, 2021, the fifty-two-week period ended February 2, 2020, and the fifty-three-week period ended February 3, 2019

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules:

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

(b) Exhibits:

3.1 [Amended and Restated Articles of Incorporation of the Company, as amended March 28, 2003 \(incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q \(SEC File No. 000-25349\) for the quarter ended February 28, 2003\)](#)

3.2 [Amended and Restated Bylaws of the Company as amended December 10, 2013 \(incorporated by reference to Exhibit 3.2 of the Company's Form 10-K \(SEC File No. 000-25349\) for the fiscal year ended February 2, 2014\)](#)

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

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

4.3 [Description of the Company's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934, as amended \(incorporated by reference to Exhibit 4.3 of the Company's Annual Report on Form 10-K \(SEC File No. 000-25349\) for the year ended February 2, 2020\).](#)

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

10.1(a) [Form of Executive Life Insurance Agreement dated December 31, 2003, between the Company and certain of its executive officers \(incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q \(SEC File No. 000-25349\) for the quarter ended February 29, 2004\)*](#)

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- 10.1(b) [Form of Outside Director Restricted Stock Agreement \(incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K \(SEC File No. 000-25349\) filed on January 17, 2006\)*](#)
- 10.1(c) [2015 Amendment and Restatement of the Hooker Furniture Corporation Stock Incentive Plan \(incorporated by reference to Appendix A of the Company's Definitive Proxy Statement dated March 1, 2015 \(SEC File No. 000-25349\)\)*](#)
- 10.1(d) [2010 Amended and Restated Hooker Furniture Corporation Supplemental Retirement Income Plan, dated as of June 8, 2010 \(incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q \(SEC File No. 000-25349\) for the quarter ended October 31, 2010\)*](#)
- 10.1(e) [Form of Time-Based Restricted Stock Unit Agreement \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K \(SEC File No. 000-25349\) filed on February 13, 2012\)*](#)
- 10.1(f) [Form of Performance Grant Agreement \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K \(SEC File No. 000-25349\) filed on February 13, 2012\)*](#)
- 10.1(i) [Employment Agreement, dated June 4, 2018, between Anne Jacobsen and the Company \(incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q \(SEC File No. 000-25349\) filed on December 6, 2018\)*](#)
- 10.1(j) [Employment Agreement, dated June 25, 2018, between Donald Lee Boone and the Company \(incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q \(SEC File No. 000-25349\) filed on December 6, 2018\)*](#)
- 10.1(k) [Employment Agreement, dated June 4, 2018, between Jeremy Hoff and the Company \(incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q \(SEC File No. 000-25349\) filed on December 6, 2018\)*](#)
- 10.1(l) [Form of Performance Share Agreement \(incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K \(SEC File No. 000-25349\) filed on May 11, 2018\)*](#)
- 10.1(m) [First Amendment to the 2010 Amended and Restated Hooker Furniture Corporation Supplemental Retirement Income plan \(incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K \(SEC File No. 000-25349\) filed with the SEC on November 15, 2019\)](#)
- 10.2(a) [Second Amended and Restated Loan Agreement, dated as of September 29, 2017, between Bank of America, N.A. and Hooker Furniture Corporation, Bradington-Young, LLC, Sam Moore Furniture LLC and Home Meridian Group, LLC \(incorporated by reference to Exhibit 10.1 of the Company's Form 8-K \(SEC File No. 000-25349\) filed on September 29, 2017\)](#)
- 10.2(b) [First Amendment to Second Amended and Restated Loan Agreement, dated as of February 1, 2019, between Bank of America, N.A. and Hooker Furniture Corporation, Bradington-Young, LLC, Sam Moore Furniture LLC and Home Meridian Group, LLC. \(incorporated by reference to Exhibit 10.2\(d\) of the Company's Form 10-K \(SEC File No. 000-25349\) filed on April 19, 2019\)](#)
- 10.2(c) [Second Amendment to the Second Amended and Restated Loan Agreement, dated as of November 4, 2020, between Bank of America, N.A. and Hooker Furniture Corporation, Bradington-Young, LLC, Sam Moore Furniture LLC, and Home Meridian Group, LLC \(incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q \(SEC File No. 000-25349\) filed on December 10, 2020\)](#)
- 10.2(d) [Third Amendment to Second Amended and Restated Loan Agreement, dated as of January 27, 2021, between Bank of America, N.A. and Hooker Furniture Corporation, Bradington-Young, LLC, Sam Moore Furniture LLC and Home Meridian Group, LLC \(incorporated by reference to Exhibit 10.1 of the Company's Form 8-K \(SEC File No. 000-25349\) filed on January 28, 2021\)](#)

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- 21 List of Subsidiaries:
Bradington-Young LLC, a North Carolina limited liability company
Home Meridian Group, LLC, a Virginia limited liability company
Sam Moore Furniture LLC, a Virginia limited liability company
- 23 [Consent of Independent Registered Public Accounting Firm \(filed herewith\)](#)
- 31.1 [Rule 13a-14\(a\) Certification of the Company's principal executive officer \(filed herewith\)](#)
- 31.2 [Rule 13a-14\(a\) Certification of the Company's principal financial officer \(filed herewith\)](#)
- 32.1 [Rule 13a-14\(b\) Certification of the Company's principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \(furnished herewith\)](#)
- 101 The following financial statements from the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2021, formatted in Extensible Business Reporting Language ("XBRL"): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of comprehensive income/(loss), (iv) consolidated statements of cash flows, (v) consolidated statements of shareholders' equity and (vi) the notes to the consolidated financial statements, tagged as blocks of text (filed herewith)

*Management contract or compensatory plan

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

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

HOOKER FURNITURE CORPORATION

April 16, 2021

By: /s/ Jeremy R. Hoff
Jeremy R. Hoff
Chief Executive Officer and Director (Principal Executive Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Jeremy R. Hoff</u> Jeremy R. Hoff	Chief Executive Officer and Director (Principal Executive Officer)	April 16, 2021
<u>/s/ Paul A. Huckfeldt</u> Paul A. Huckfeldt	Senior Vice President - Finance and Accounting and Chief Financial Officer (Principal Financial and Accounting Officer)	April 16, 2021
<u>/s/ W. Christopher Beeler, Jr.</u> W. Christopher Beeler, Jr.	Director	April 16, 2021
<u>/s/ Maria C. Duey</u> Maria C. Duey	Director	April 16, 2021
<u>/s/ Paulette Garafalo</u> Paulette Garafalo	Director	April 16, 2021
<u>/s/ Tonya H. Jackson</u> Tonya H. Jackson	Director	April 16, 2021
<u>/s/ E. Larry Ryder</u> E. Larry Ryder	Director	April 16, 2021
<u>/s/ Ellen C. Taaffe</u> Ellen C. Taaffe	Director	April 16, 2021
<u>/s/ Paul B. Toms, Jr.</u> Paul B. Toms, Jr.	Director (Board Chair)	April 16, 2021
<u>/s/ Henry G. Williamson, Jr.</u> Henry G. Williamson, Jr.	Director	April 16, 2021

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

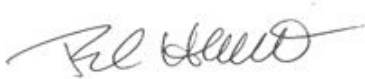
To the Shareholders of
Hooker Furniture Corporation
Martinsville, Virginia

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Securities Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of January 31, 2021.

The effectiveness of the Company's internal control over financial reporting as of January 31, 2021 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report which is included herein.



Jeremy R. Hoff
Chief Executive Officer and Director
(Principal Executive Officer)
April 16, 2021



Paul A. Huckfeldt
Senior Vice President – Finance and Accounting
and Chief Financial Officer
(Principal Financial and Accounting Officer)
April 16, 2021

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 January 31, 2021 and February 2, 2020, the related consolidated statements of operations, comprehensive income/(loss), shareholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes collectively, the consolidated financial statements. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 31, 2021 and February 2, 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2021, 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 January 31, 2021, 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 16, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

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

Critical Audit Matters

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

A. Goodwill Impairment Assessment

As discussed in Note 9 to the consolidated financial statements, the goodwill balance as of January 31, 2021 was \$0.5 million related to the Shenandoah reporting unit. During the first quarter ended May 3, 2020, the Company recorded a goodwill impairment charge of \$23.2 million and \$16.4 million related to the Home Meridian and Shenandoah reporting units, respectively. As discussed in Note 2, the Company performs goodwill impairment testing on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. As of May 3, 2020, management determined it was likely that the carrying values of the Home Meridian and Shenandoah reporting units exceeded their respective fair values and performed a goodwill impairment test. To estimate the fair value of its reporting units, the Company used an income and market approach, specifically the discounted cash flow method, guideline public company method, and guideline transaction method.

We identified the evaluation of goodwill for impairment for the Home Meridian and Shenandoah reporting units as a critical audit matter. Subjective and challenging auditor judgment was required to evaluate the selection of forecasted revenue growth rates and discount rates used to estimate the fair value of the reporting units as they represent subjective determinations of future market and economic conditions. Additionally, the audit effort associated with the evaluation of goodwill for impairment for the Home Meridian and Shenandoah reporting units required specialized skills and knowledge.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's goodwill impairment evaluation process. This included controls related to the development of the forecasted revenue growth rates and discount rate assumptions. We performed sensitivity analyses over the forecasted revenue growth rates and discount rate assumptions to assess their impact on the Company's determination of fair value for the Home Meridian and Shenandoah reporting units. We evaluated the Company's ability to forecast revenue growth rates for the reporting units by comparing the forecasted revenue growth assumptions to historical growth rates, considering future market and economic conditions. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the discount rates used in the determination of fair value, by comparing them against a discount rate range that was independently developed using publicly available market data for comparable entities
- testing the estimate of the reporting units' fair value using the Company's cash flow forecast for the reporting units, and discount rates, and comparing the results to the Company's determination of fair value.

B. Impairment of non-amortizable intangible assets in the Home Meridian segment

As discussed in Note 9 to the consolidated financial statements, the non-amortizable intangible asset balance as of February 2, 2020 was \$8.4 million, of which \$6.7 million related to the Home Meridian reportable segment. During the first quarter ended May 3, 2020, the Company recorded an intangible asset impairment charge of \$4.8 million related to the Home Meridian trade names. The Company performs impairment testing on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired. As of May 3, 2020, management determined it was likely that the carrying value of each trade name exceeded its fair value and performed a trade name impairment test. To value the non-amortizing intangible assets, the Company used the income approach, specifically the relief-from-royalty method.

We identified the evaluation of the impairment of non-amortizable intangible assets in the Home Meridian segment as a critical audit matter. Subjective and challenging auditor judgment was required to evaluate the selection of forecasted revenue growth rates, assumed royalty rates, and discount rates, used to estimate the fair value of the non-amortizable intangible assets in the Home Meridian segment as they represent subjective determinations of future market and economic conditions. Additionally, the audit effort associated with the evaluation of the trade names for impairment required specialized skills and knowledge.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's non-amortizable intangible asset impairment assessment process. This included controls related to the development of the forecasted revenue growth rates, assumed royalty rate, and discount rate assumptions. We performed sensitivity analyses over the revenue growth rates and discount rate assumptions to assess their impact on the Company's determination of fair value for the non-amortizable intangible assets in the Home Meridian segment. We evaluated the reasonableness of management's forecasted revenue growth rates by comparing the forecasts to historical revenue growth rates, current industry conditions and growth plans. We compared the Company's historical revenue forecasts to actual results to assess the Company's ability to accurately forecast. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's assumed royalty rates by comparing the selected royalty rates to independently sourced royalty rates for trademarks within the furniture industry and performing a profit split analysis and assessing the resulting royalty rates
- evaluating the discount rates used in the valuation, by comparing them against a discount rate range that was independently developed using publicly available market data for comparable entities
- testing the estimate of the trade names' fair values using the Company's estimated cash flow forecast for the trade names, assumed royalty rates, and discount rates and comparing the results to the Company's fair value estimates.

/s/ KPMG LLP

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

Raleigh, North Carolina
April 16, 2021

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Hooker Furniture Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Hooker Furniture Corporation and subsidiaries' (the Company) internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of January 31, 2021 and February 2, 2020, the related consolidated statements of operations, comprehensive income/(loss), shareholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated April 16, 2021 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 16, 2021

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)

As of	January 31, 2021	February 2, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 65,841	\$ 36,031
Trade accounts receivable, net (See notes 5 and 6)	83,290	87,653
Inventories (see note 7)	70,159	92,813
Income tax recoverable	-	751
Prepaid expenses and other current assets	4,432	4,719
Total current assets	223,722	221,967
Property, plant and equipment, net (See note 8)	26,780	29,907
Cash surrender value of life insurance policies (See note 10)	25,365	24,888
Deferred taxes (See note 16)	14,173	2,880
Operating leases right-of-use assets (See note 11)	34,613	39,512
Intangible assets, net (See note 9)	26,237	33,371
Goodwill (See note 9)	490	40,058
Other assets	893	1,125
Total non-current assets	128,551	171,741
Total assets	\$ 352,273	\$ 393,708
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$ 32,213	\$ 25,493
Accrued salaries, wages and benefits	7,136	4,933
Income tax accrual (See note 16)	501	-
Customer deposits	4,256	3,351
Current portion of lease liabilities (See note 11)	6,650	6,307
Other accrued expenses	3,354	4,211
Current portion of term loans	-	5,834
Total current liabilities	54,110	50,129
Deferred compensation (See note 13)	11,219	11,382
Lease liabilities (See note 11)	29,441	33,794
Long term debt (See note 12)	-	24,282
Total long-term liabilities	40,660	69,458
Total liabilities	94,770	119,587
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, 11,888 and 11,838 shares issued and outstanding on each date	53,323	51,582
Retained earnings	204,988	223,252
Accumulated other comprehensive loss	(808)	(713)
Total shareholders' equity	257,503	274,121
Total liabilities and shareholders' equity	\$ 352,273	\$ 393,708

See accompanying Notes to Consolidated Financial Statements.

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

For the 52 Week Period Ended January 31, 2021, the 52 Week Period Ended February 2, 2020, and the 53 Week Period Ended February 3, 2019.

	2021	2020	2019
Net sales	\$ 540,081	\$ 610,824	\$ 683,501
Cost of sales	427,333	496,866	536,014
Casualty loss	-	-	500
Gross profit	<u>112,748</u>	113,958	146,987
Selling and administrative expenses	80,410	88,867	91,928
Goodwill impairment charges	39,568	-	-
Trade name impairment charges	4,750	-	-
Intangible asset amortization	<u>2,384</u>	2,384	2,384
Operating (loss)/income	(14,364)	22,707	52,675
Other income, net	336	458	369
Interest expense, net	<u>540</u>	1,238	1,454
(Loss)/income before income taxes	(14,568)	21,927	51,590
Income tax (benefit)/expense	<u>(4,142)</u>	4,844	11,717
Net (loss)/income	<u>\$ (10,426)</u>	<u>\$ 17,083</u>	<u>\$ 39,873</u>
(Loss)/Earnings per share:			
Basic	<u>\$ (0.88)</u>	<u>\$ 1.44</u>	<u>\$ 3.38</u>
Diluted	<u>\$ (0.88)</u>	<u>\$ 1.44</u>	<u>\$ 3.38</u>
Weighted average shares outstanding:			
Basic	<u>11,822</u>	<u>11,784</u>	<u>11,759</u>
Diluted	<u>11,822</u>	<u>11,838</u>	<u>11,783</u>
Cash dividends declared per share	<u>\$ 0.66</u>	<u>\$ 0.61</u>	<u>\$ 0.57</u>

See accompanying Notes to Consolidated Financial Statements.

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

For the 52 Week Period Ended January 31, 2021, the 52 Week Period Ended February 2, 2020, and the 53 Week Period Ended February 3, 2019.

	2021	2020	2019
Net (Loss)/Income	\$ (10,426)	\$ 17,083	\$ 39,873
Other comprehensive income (loss):			
Amortization of actuarial (loss)	(125)	(740)	(305)
Income tax effect on amortization	30	176	73
Gain on pension plan settlement	-	(520)	-
Income tax effect on settlement	-	124	-
Adjustments to net periodic benefit cost	(95)	(960)	(232)
Reclassification of tax effects due to the adoption of ASU 2018-02	-	-	111
Total Comprehensive (Loss)/Income	\$ (10,521)	\$ 16,123	\$ 39,752

See accompanying Notes to Consolidated Financial Statements.

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

For the 52 Week Period Ended January 31, 2021, the 52 Week Period Ended February 2, 2020, and the 53 Week Period Ended February 3, 2019.

	2021	2020	2019
Operating Activities:			
Net (loss)/income	\$ (10,426)	\$ 17,083	\$ 39,873
Adjustments to reconcile net income to net cash provided by operating activities:			
Goodwill and intangible asset impairment charges	44,318	-	-
Depreciation and amortization	6,778	7,100	7,442
Gain on pension settlement	-	(520)	-
(Gain)/Loss on disposal of assets	-	(271)	(73)
Proceeds from casualty loss	-	-	409
Deferred income tax (benefit)/expense	(11,262)	1,940	(1,221)
Non-cash restricted stock and performance awards	1,741	1,296	1,284
Provision for doubtful accounts and sales allowances	4,686	(435)	(799)
Gain on life insurance policies	(1,207)	(831)	(748)
Changes in assets and liabilities:			
Trade accounts receivable	(323)	25,339	(17,982)
Inventories	22,654	12,391	(21,323)
Income tax recoverable	751	(751)	-
Prepaid expenses and other current assets	515	(557)	267
Trade accounts payable	6,686	(15,349)	8,130
Accrued salaries, wages and benefits	2,204	(3,070)	(1,643)
Accrued income taxes	501	(3,159)	(672)
Customer deposits	904	328	(1,270)
Operating lease liabilities	888	299	-
Other accrued expenses	(856)	645	604
Deferred compensation	(289)	(49)	(2,757)
Other long-term liabilities	-	-	141
Net cash provided by operating activities	<u>68,263</u>	<u>41,429</u>	<u>9,662</u>
Investing Activities:			
Purchases of property, plant and equipment	(1,210)	(5,129)	(5,214)
Proceeds received on notes receivable	-	1,449	119
Proceeds from sale of property and equipment	-	16	11
Premiums paid on life insurance policies	(555)	(590)	(652)
Proceeds received on life insurance policies	1,289	-	1,225
Net cash used in investing activities	<u>(476)</u>	<u>(4,254)</u>	<u>(4,511)</u>
Financing Activities:			
Payments for long-term debt	(30,139)	(5,368)	(17,917)
Cash dividends paid	(7,838)	(7,211)	(6,714)
Net cash used in financing activities	<u>(37,977)</u>	<u>(12,579)</u>	<u>(24,631)</u>
Net increase (decrease) in cash and cash equivalents	29,810	24,596	(19,480)
Cash and cash equivalents at the beginning of year	36,031	11,435	30,915
Cash and cash equivalents at the end of year	\$ 65,841	\$ 36,031	\$ 11,435
<i>Supplemental schedule of cash flow information:</i>			
Interest paid, net	\$ 444	\$ 993	\$ 1,338
Income taxes paid, net	5,872	6,818	13,613
<i>Supplemental schedule of noncash investing activities:</i>			
Increase in lease liabilities arising from obtaining right-of-use assets	2,236	625	-
Increase in property and equipment through accrued purchases	33	5	23

See accompanying Notes to Consolidated Financial Statements.

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

For the 52 Week Period Ended January 31, 2021, the 52 Week Period Ended February 2, 2020, and the 53 Week Period Ended February 3, 2019.

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income / (Loss)	Total Shareholders' Equity
	Shares	Amount			
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
Net income			\$ 17,083		\$ 17,083
Gain on pension settlement, net of tax of \$124				(396)	(396)
Unrealized loss on defined benefit plan, net of tax of \$176				(564)	(564)
Cash dividends paid and accrued (\$0.61 per share)			(7,211)		(7,211)
Restricted stock grants, net of forfeitures	53	344			344
Restricted stock compensation cost		790			790
Recognition of PSUs as equity-based awards		899			899
Balance at February 2, 2020	11,838	\$ 51,582	\$ 223,252	\$ (713)	\$ 274,121
Net loss			\$ (10,426)		\$ (10,426)
Unrealized loss on defined benefit plan, net of tax of \$30				\$ (95)	(95)
Cash dividends paid and accrued (\$0.66 per share)			(7,838)		(7,838)
Restricted stock grants, net of forfeitures	50	\$ 169			169
Restricted stock compensation cost		809			809
Performance-based restricted stock units cost		763			763
Balance at January 31, 2021	11,888	\$ 53,323	\$ 204,988	\$ (808)	\$ 257,503

See accompanying Notes to Consolidated Financial Statements.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

For the Fifty-Two Weeks Ended January 31, 2021

NOTE 1 – RECENTLY ADOPTED ACCOUNTING STANDARDS

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. We adopted the provisions of Topic 326 on February 3, 2020, the first day of our 2021 fiscal year using the modified retrospective transition approach. The adoption of this standard did not have a material effect on our consolidated financial statements or results of operations.

In December 2019, the FASB issued ASU 2019-12, Income Tax (Topic 740) – Simplifying the Accounting for Income Taxes. The amendments in this update simplify the accounting for income taxes by removing certain exceptions for intra-period tax allocation, the recognition of deferred tax liabilities after an investment in a foreign entity transitions to or from the equity method, and the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The amendments also introduce new guidance on determining how to apply the income tax guidance to franchise taxes that are partially based on income, clarifying the accounting for transactions that result in a step-up in the tax basis of goodwill, and the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. We elected to adopt ASU 2019-12 on February 3, 2020, the first day of our 2021 fiscal year. While the adoption of ASU 2019-12 impacted the tax benefit recognized in our interim financial statements, it had no material impact on our annual financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

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

Consolidation

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

Operating Segments

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

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

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

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

- **Hooker Branded**, consisting of the operations of our imported Hooker Casegoods and Hooker Upholstery businesses;
- **Home Meridian**, a stand-alone, mostly autonomous business that serves a different type or class of customer than do our other operating segments and at much lower margins;
- **Domestic Upholstery**, which includes the domestic upholstery manufacturing operations of Bradington-Young, Sam Moore and Shenandoah Furniture; and
- **All Other**, consisting of H Contract and Lifestyle Brands. Neither of these operating segments were individually reportable; therefore, we combined them in “All Other” in accordance with ASC 280.

Cash and Cash Equivalents

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

Trade Accounts Receivable

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

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 10 for details.

Inventories

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

Property, Plant and Equipment

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

Leases

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

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

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

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

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

Impairment of Long-Lived Assets

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

Intangible Assets and Goodwill

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

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

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

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

Cash Surrender Value of Life Insurance Policies

We own seventy-seven life insurance policies on certain of our current and former executives and other key employees. These policies had a carrying value of \$25.5 million at January 31, 2021 and have a face value of approximately \$54 million as of that date. Proceeds from the policies are used to fund certain employee benefits and for other general corporate purposes. We account for life insurance as a component of employee benefits cost. Consequently, the cost of the coverage and any resulting gains or losses related to those insurance policies are recorded as a decrease or increase to operating income. Cash payments that increase the cash surrender value of these policies are classified as investing outflows on the Consolidated Statements of Cash Flows, with amounts paid in excess of the increase in cash surrender value included in operating activities. Gains on life insurance policies, which typically occur at the time a policy is redeemed, are included in the reconciliation of net income to net cash used in or provided by operating activities. Substantially all of the cash value of our company owned life insurance is pledged as collateral for our secured term loan.

Revenue Recognition

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

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

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

Cost of Sales

The major components of cost of sales are:

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

Selling and Administrative Expenses

The major components of our selling and administrative expenses are:

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

Advertising

We offer advertising programs to qualified dealers under which we may provide signage, catalogs and other marketing support to our dealers and may reimburse some advertising and other costs incurred by our dealers in connection with promoting our products. The cost of these programs does not exceed the fair value of the benefit received. We charge the cost of point-of-purchase materials (including signage, catalogs, and fabric and leather swatches) to selling and administrative expense as incurred. Advertising costs charged to selling and administrative expense for fiscal years 2021, 2020 and 2019 were \$2.1 million, \$3.4 million, and \$3.3 million, respectively. The costs for other advertising allowance programs are charged against net sales. We also have arrangements with some dealers to reimburse them for a portion of their advertising costs, which provides advertising benefits to us. Costs for these arrangements are expensed as incurred and are netted against net sales in our consolidated statements of operations and comprehensive income/(loss).

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. Currently, we have \$14.2 million deferred tax assets related to net operating loss carryforwards that can be used to offset taxable income and reduce our income tax liabilities in the future periods. All deferred tax assets and liabilities are classified as non-current on our consolidated balance sheets. See Note 16 Income Taxes for additional details.

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:

- 2021 fiscal year and comparable terminology mean the fiscal year that began February 3, 2020 and ended January 31, 2021;
- 2020 fiscal year and comparable terminology mean the fiscal year that began February 4, 2019 and ended February 2, 2020; and
- 2019 fiscal year and comparable terminology mean the fiscal year that began January 29, 2018 and ended February 3, 2019.

NOTE 4 – CASUALTY LOSS

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

NOTE 5 – DOUBTFUL ACCOUNTS AND OTHER ACCOUNTS RECEIVABLE ALLOWANCES

The activity in the allowance for doubtful accounts was:

	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Balance at beginning of year	\$ 903	\$ 908	\$ 1,014
Non-cash charges to cost and expenses	1,262	417	158
Less uncollectible receivables written off, net of recoveries	173	(422)	(264)
Balance at end of year	<u>\$ 2,338</u>	<u>\$ 903</u>	<u>\$ 908</u>

The activity in other accounts receivable allowances was:

	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Balance at beginning of year	\$ 3,493	\$ 4,267	\$ 5,117
Charges to cost and expenses	29,243	31,815	41,606
Less allowances applied	(25,666)	(32,511)	(42,342)
Less uncollectible receivables written off, net of recoveries	(77)	(78)	(114)
Balance at end of year	<u>\$ 6,993</u>	<u>\$ 3,493</u>	<u>\$ 4,267</u>

NOTE 6 – ACCOUNTS RECEIVABLE

	<u>January 31, 2021</u>	<u>February 2, 2020</u>
Trade accounts receivable	\$ 92,621	\$ 91,261
Receivable from factor	-	788
Other accounts receivable allowances	(6,993)	(3,493)
Allowance for doubtful accounts	(2,338)	(903)
Accounts receivable	<u>\$ 83,290</u>	<u>\$ 87,653</u>

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

NOTE 7 – INVENTORIES

	<u>January 31, 2021</u>	<u>February 2, 2020</u>
Finished furniture	\$ 81,290	\$ 106,495
Furniture in process	1,397	1,304
Materials and supplies	9,639	8,479
Inventories at FIFO	92,326	116,278
Reduction to LIFO basis	(22,167)	(23,465)
Inventories	<u>\$ 70,159</u>	<u>\$ 92,813</u>

If the first-in, first-out (FIFO) method had been used in valuing all inventories, net loss would have been \$11.1 million in fiscal 2021, net income would have been \$19.5 million in fiscal 2020 and \$41.5 million in fiscal 2019. We recorded LIFO income of \$1.3 million in fiscal 2021, LIFO expense of \$3.1 million in fiscal 2020 and \$2.1 million in fiscal 2019.

At January 31, 2021 and February 2, 2020, we had \$355,000 and \$424,000, respectively, in consigned inventories, which are included in the “Finished furniture” line in the table above.

At January 31, 2021, we held \$8.4 million in inventory outside of the United States, in China and in Vietnam. At February 2, 2020, we held \$9.6 million in inventory outside of the United States, in China and in Vietnam.

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT

	Depreciable Lives <i>(In years)</i>	January 31, 2021	February 2, 2020
Buildings and land improvements	15 - 30	\$ 31,316	\$ 31,316
Computer software and hardware	3 - 10	15,012	19,166
Machinery and equipment	10	9,314	9,271
Leasehold improvements	Term of lease	10,005	9,737
Furniture and fixtures	3 - 8	2,614	2,597
Other	5	651	651
Total depreciable property at cost		68,912	72,738
Less accumulated depreciation		44,098	44,089
Total depreciable property, net		24,814	28,649
Land		1,077	1,077
Construction-in-progress		889	181
Property, plant and equipment, net		<u>\$ 26,780</u>	<u>\$ 29,907</u>

Depreciation expense for fiscal 2021, 2020 and 2019 was \$4.4 million, \$4.7 million and \$5.0 million, respectively.

Capitalized Software Costs

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

	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Balance beginning of year	\$ 4,277	\$ 5,123	\$ 5,982
Additions	33	286	373
Amortization expense	(1,099)	(1,132)	(1,227)
Disposals	-	-	(5)
Balance end of year	<u>\$ 3,211</u>	<u>\$ 4,277</u>	<u>\$ 5,123</u>

NOTE 9 – INTANGIBLE ASSETS AND GOODWILL

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

Our non-amortizable intangible assets consist of:

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

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

In accordance with ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, we perform our annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. Management judgment is a significant factor in the goodwill impairment evaluation process. The computations require management to make estimates and assumptions, the most critical of which are potential future cash flows and the appropriate discount rate.

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

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

Based on our internal analyses at January 31, 2021, the fair values of our non-amortizable trademarks and trade names exceeded their carrying values and we concluded that Shenandoah goodwill in the Domestic Upholstery segment is not impaired.

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

Non-amortizable Intangible Assets	Segment	January 31, 2021			February 2, 2020		
		Beginning Balance	Impairment Charges	Net Book Value	Beginning Balance	Impairment Charges	Net Book Value
Goodwill	Home Meridian	\$ 23,187	\$ (23,187)	\$ -	\$ 23,187	\$ -	\$ 23,187
	Domestic Upholstery	16,871	(16,381)	490	16,871	-	16,871
Total Goodwill		40,058	(39,568)	490	40,058	-	40,058
Trademarks and trade names - Home Meridian	Home Meridian	11,400	(4,750)	6,650	11,400	-	11,400
Trademarks and trade names - Bradington-Young	Domestic Upholstery	861	-	861	861	-	861
Trademarks and trade names - Sam Moore	Domestic Upholstery	396	-	396	396	-	396
Total Trademarks and trade names		\$ 12,657	\$ (4,750)	\$ 7,907	\$ 12,657	\$ -	\$ 12,657
Total non-amortizable assets		\$ 52,715	\$ (44,318)	\$ 8,397	\$ 52,715	\$ -	\$ 52,715

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

	Amortizable Intangible Assets		
	Customer Relationships	Trademarks	Totals
Balance at February 2, 2020	\$ 19,996	\$ 718	\$ 20,714
Amortization	(2,324)	(60)	(2,384)
Balance at January 31, 2021	\$ 17,672	\$ 658	\$ 18,330

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

<u>Fiscal Year</u>	<u>Amount</u>
2022	2,384
2023	2,384
2024	2,384
2025	2,359
2026	2,359
2027 and thereafter	6,460
	<u>\$ 18,330</u>

NOTE 10 – FAIR VALUE MEASUREMENTS

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

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

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

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

As of January 31, 2021, and February 2, 2020, Company-owned life insurance was measured at fair value on a recurring basis based on Level 2 inputs. The fair value of the Company-owned life insurance is determined by inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Additionally, the fair value of the Company-owned life insurance is marked to market each reporting period and any change in fair value is reflected in income for that period.

Our assets measured at fair value on a recurring basis at January 31, 2021 and February 2, 2020, were as follows

<u>Description</u>	<u>Fair value at January 31, 2021</u>				<u>Fair value at February 2, 2020</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In thousands)							
Assets measured at fair value								
Company-owned life insurance	\$ -	\$ 25,365	\$ -	\$ 25,365	\$ -	\$ 24,888	\$ -	\$ 24,888

NOTE 11 – LEASES

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

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

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

The right-of-use assets and lease liabilities recorded on our Consolidated Balance Sheets as of January 31, 2021 and February 2, 2020 were:

	January 31, 2021	February 2, 2020
Real estate	\$ 33,651	\$ 38,175
Property and equipment	962	1,337
Total operating leases right-of-use assets	<u>\$ 34,613</u>	<u>\$ 39,512</u>
Current portion of operating lease liabilities	\$ 6,650	\$ 6,307
Long term operating lease liabilities	29,441	33,794
Total operating lease liabilities	<u>\$ 36,091</u>	<u>\$ 40,101</u>

Weighted-average remaining lease term is 6.7 years. We used our incremental borrowing rate which is LIBOR plus 1.5% at the adoption date. The weighted-average discount rate is 2.25%. Due to the COVID-19 pandemic, we received concessions on several of our leases, including changes in lease terms and deferred rent payments. We accounted for the concessions as lease modifications and used current LIBOR plus 1.5% for those leases. The weighted-average discount rate decreased due to a decrease in LIBOR.

The following table reconciles the undiscounted future lease payments for operating leases to the operating lease liabilities recorded in the consolidated balance sheet at January 31, 2021:

	Undiscounted Future Operating Lease Payments
2022	\$ 7,364
2023	5,591
2024	5,663
2025	5,280
2026	5,336
2027 and thereafter	9,808
Total lease payments	<u>\$ 39,042</u>
Less: impact of discounting	(2,951)
Present value of lease payments	<u>\$ 36,091</u>

As of January 31, 2021, the Company had an additional lease for a warehouse in Georgia that had not yet commenced with estimated future minimum rental commitments of approximately \$28 million. This lease is expected to commence in Fall of 2021 with a lease term of up to 10 years. Since the lease has not commenced, the undiscounted amounts are not included in the table above.

NOTE 12 – LONG-TERM DEBT

We paid off the term loans which were related to the Home Meridian acquisition in fiscal 2021 and currently have a \$35 million revolving credit facility. The credit facility was provided for in the amended and restated loan agreement (the “Original Loan Agreement”), which we entered into on February 1, 2016 with Bank of America, N. A. (“BofA”) in connection with the Home Meridian Acquisition. We entered a Second Amended and Restated Loan Agreement dated as of September 29, 2017 (the “Second Amended and Restated Loan Agreement”), a First Amendment to Second Amended and Restated Loan Agreement dated as of January 31, 2019, a Second Amendment to Second Amended and Restated Loan Agreement dated as of November 4, 2020, and a Third Amendment to the Second Amended and Restated Loan Agreement dated as of January 27, 2021. Details of our revolving credit facility are outlined below:

- The facility is available between January 27, 2021 and February 1, 2026 or such earlier date as the availability may terminate or such later date as BofA may from time to time in its sole discretion designate in any extension notice;
- During the availability period, BofA will provide a line of credit to the maximum amount of the Existing Revolver;
- The sublimit of the facility available for the issuance of letters of credit was increased to \$10 million;
- The actual daily amount of undrawn letters of credit is subject to a quarterly fee equal to a per annum rate of 1%;

- We may, on a one-time basis, request an increase in the Existing Revolver by an amount not to exceed \$30 million at BofA's discretion; and
- Any amounts outstanding under the Existing Revolver bear interest at a rate, equal to the then current LIBOR monthly rate (adjusted periodically) plus 1.00%. We must also pay a quarterly unused commitment fee at a rate of 0.15% determined by the actual daily amount of credit outstanding during the applicable quarter.

The loan covenants agreed to under the Second Amended and Restated Loan Agreement continue to apply to us. They include customary representations and warranties and requires us to comply with customary covenants, including, among other things, the following financial covenants:

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

The Second Amended and Restated 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. They do not restrict our ability to pay cash dividends on, or repurchase shares of our common stock, subject to our compliance with the financial covenants discussed above, if we are not otherwise in default under the agreements.

We were in compliance with each of these financial covenants at January 31, 2021.

As of January 31, 2021, we had an aggregate \$28.7 million available under the Existing Revolver to fund working capital needs. Standby letters of credit in the aggregate amount of \$6.3 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of January 31, 2021. There were no additional borrowings outstanding under the Existing Revolver as of January 31, 2021.

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 2021, \$1.4 million in fiscal 2020, and \$1.3 million in fiscal 2019.

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 consolidated statements of operations. Service cost is included in our consolidated statements of operations under "Selling and administrative expenses." The adoption resulted in the reclassification of a \$30,000 gain from Selling and administrative expenses to Other income, net in fiscal 2018 consolidated statements of operations.

Executive Benefits

Pension, SRIP and SERP Overview

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

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

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

SRIP and SERP

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

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

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

	SRIP (Supplemental Retirement Income Plan)	
	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020
Change in benefit obligation:		
Beginning projected benefit obligation	\$ 10,256	\$ 9,622
Service cost	128	104
Interest cost	249	351
Benefits paid	(591)	(537)
Actuarial loss	530	716
Ending projected benefit obligation (funded status)	<u>\$ 10,572</u>	<u>\$ 10,256</u>
Accumulated benefit obligation	<u>\$ 10,421</u>	<u>\$ 10,131</u>
Discount rate used to value the ending benefit obligations:	1.75%	2.50%
Amount recognized in the consolidated balance sheets:		
Current liabilities (Accrued salaries, wages and benefits line)	\$ 877	\$ 557
Non-current liabilities (Deferred compensation line)	9,695	9,699
Total	<u>\$ 10,572</u>	<u>\$ 10,256</u>

	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Net periodic benefit cost			
Service cost	\$ 128	\$ 104	\$ 326
Interest cost	249	351	341
Net loss	338	149	172
Net periodic benefit cost	<u>\$ 715</u>	<u>\$ 604</u>	<u>\$ 839</u>
Other changes recognized in accumulated other comprehensive income			
Net loss arising during period	530	716	101
Amortizations:			
Loss	(338)	(149)	(172)
Total recognized in other comprehensive loss (income)	<u>192</u>	<u>567</u>	<u>(71)</u>
Total recognized in net periodic benefit cost and accumulated other comprehensive income	<u>\$ 907</u>	<u>\$ 1,171</u>	<u>\$ 768</u>
Assumptions used to determine net periodic benefit cost:			
Discount rate	2.50%	3.75%	3.75%
Increase in future compensation levels	4.00%	4.00%	4.00%
Estimated Future Benefit Payments:			
Fiscal 2022	\$ 877		
Fiscal 2023	877		
Fiscal 2024	958		
Fiscal 2025	958		
Fiscal 2026	958		
Fiscal 2027 through fiscal 2031	4,066		

For the SRIP, the discount rate used to determine the fiscal 2021 net periodic cost was 2.5%, based on the Mercer yield curve and the plan's expected benefit payments. At January 31, 2021, combining the Mercer yield curve and the plan's expected benefit payments resulted in a rate of 1.75%. This rate was used to value the ending benefit obligations.

At January 31, 2021, the actuarial losses related to the SRIP amounted to \$530,000, net of tax of \$338,000. At February 2, 2020, the actuarial losses related to the SRIP amounted to \$716,000, net of tax of \$149,000. The estimated actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the 2022 fiscal year is \$401,622. There is no expected prior service (cost) or credit amortization.

	SERP (Supplemental Executive Retirement Plan)		
	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	
Change in benefit obligation:			
Beginning projected benefit obligation	\$ 1,860	\$ 1,805	
Service cost	-	-	
Interest cost	46	67	
Benefits paid	(158)	(180)	
Actuarial (gain)/loss	(67)	168	
Ending projected benefit obligation (funded status)	<u>\$ 1,681</u>	<u>\$ 1,860</u>	
Accumulated benefit obligation	<u>\$ 1,681</u>	<u>\$ 1,860</u>	
Discount rate used to value the ending benefit obligations:	2.10%	2.60%	
Amount recognized in the consolidated balance sheets:			
Current liabilities (Accrued salaries, wages and benefits line)	\$ 156	\$ 172	
Non-current liabilities (Deferred compensation line)	1,525	1,688	
Total	<u>\$ 1,681</u>	<u>\$ 1,860</u>	
	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Net periodic benefit cost			
Service cost	\$ -	\$ -	\$ -
Interest cost	46	67	70
Net gain	-	(5)	-
Net periodic benefit cost	<u>\$ 46</u>	<u>\$ 62</u>	<u>\$ 70</u>
Other changes recognized in accumulated other comprehensive income			
Net (gain)/loss arising during period	(67)	168	(88)
Amortizations:			
Gain (Loss)	-	5	-
Total recognized in other comprehensive loss (income)	<u>(67)</u>	<u>173</u>	<u>(88)</u>
Total recognized in net periodic benefit cost and accumulated other comprehensive income	<u>\$ (21)</u>	<u>\$ 235</u>	<u>\$ (18)</u>
Assumptions used to determine net periodic benefit cost:			
Discount rate	2.60%	3.90%	3.64%
Increase in future compensation levels	N/A	N/A	N/A
Estimated Future Benefit Payments:			
Fiscal 2022	\$ 156		
Fiscal 2023	151		
Fiscal 2024	146		
Fiscal 2025	141		
Fiscal 2026	135		
Fiscal 2027 through fiscal 2031	573		

For the SERP, the discount rate assumption used to measure the projected benefit obligations is set by reference to a certain hypothetical AA-rated corporate bond spot-rate yield curve constructed by our actuary, Aon (“Aon”). 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 spot rates of the yield curve to the actuarially projected cash flow patterns to derive the appropriate single effective discount rate. At February 2, 2020, the plan used 2.60% based on rounding the Aon AA Above Median yield curve as of January 31, 2019. This rate was used to determine the fiscal 2021 net periodic cost. At January 31, 2021, combining the Aon AA Above Median yield curve and the plan’s expected benefit payments created a rate of 2.10%. This rate was used to value the ending benefit obligations.

At January 31, 2021, the actuarial gain related to the SERP was \$67,000. At February 2, 2020, the actuarial loss related to the SERP was \$168,000. The estimated net transition (asset)/obligation, prior service (cost) credit and actuarial loss that will be amortized from accumulated other comprehensive income into net periodic benefit cost over fiscal 2020 are immaterial.

The Pension Plan

On January 30, 2019, our Board of Directors voted to terminate the Pension Plan. We settled all Pension Plan obligations during the third quarter of fiscal 2020 with the purchase of nonparticipating annuity contracts for plan participants.

Summarized Pension Plan information as of February 2, 2020 is as follows:

Pulaski Furniture Pension Plan

	Fifty-Two Weeks Ended February 2, 2020
Change in benefit obligation:	
Beginning projected benefit obligation	\$ 10,906
Acquisition	
Service cost	-
Interest cost	303
Benefits paid	(522)
Settlement	(12,557)
Actuarial loss	1,870
Ending projected benefit obligation	\$ -
Change in Plan Assets:	
Beginning fair value of plan assets	\$ 10,992
Actual return on plan assets	1,960
Employer contributions	344
Actual expenses paid	(217)
Settlement	(12,557)
Actual benefits paid	(522)
Ending fair value of plan assets	\$ -
Funded Status of the Plan	\$ -
Discount rate used to value the ending benefit obligations:	N/A
Amount recognized in the consolidated balance sheets:	
Current liabilities (Accrued salaries, wages and benefits line)	\$ -
Non-current liabilities (Deferred compensation line)	-
Net Asset/(Liability)	\$ -

	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Net periodic benefit cost		
Expected administrative expenses	\$ 105	\$ 280
Interest cost	303	415
Net gain	(305)	(575)
Net periodic benefit cost	\$ 103	\$ 120
Settlement/Curtailment Income	(193)	
Total net periodic benefit cost (Income)	\$ (90)	\$ 120
Other changes recognized in other comprehensive income		
Net (gain) loss arising during period	327	464
Amortization:		
Gain	193	-
Total recognized in other comprehensive (income) loss	520	464
Total recognized in net periodic benefit cost and accumulated other comprehensive income	\$ 430	\$ 584
Assumptions used to determine net periodic benefit cost:		
Discount rate	3.8%	3.82%
Increase in future compensation levels	N/A	N/A

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 2021 were \$13.92, \$19.20 and \$29.34, during fiscal 2020 were \$29.77, \$29.21 and \$19.87, during fiscal 2019 were \$37.83 and \$46.88, respectively.

The restricted stock awards outstanding as of January 31, 2021 had an aggregate grant-date fair value of \$1.3 million, after taking vested and forfeited restricted shares into account. As of January 31, 2021, we have recognized non-cash compensation expense of approximately \$796,000 related to these non-vested awards and \$2.5 million for awards that have vested. The remaining \$473,000 of grant-date fair value for unvested restricted stock awards outstanding at January 31, 2021 will be recognized over the remaining vesting periods for these awards. The number of outstanding restricted shares increased due primarily to grants of restricted shares to a larger population of our non-executive employees as an incentive for retention and alignment of individual performance to our values.

For each restricted stock issuance, the following table summarizes restricted stock activity, including the weighted average issue price of those shares on the grant date, the fair value of each grant of restricted stock on the grant date, compensation expense recognized for the unvested shares of restricted stock for each grant and the remaining fair value of the unvested shares of restricted stock for each grant as of January 31, 2021:

	Whole Number of Shares	Grant-Date Fair Value Per Share	Aggregate Grant-Date Fair Value	Compensation Expense Recognized	Grant-Date Fair Value Unrecognized At January 31, 2021
Previous Awards (vested)				\$ 2,487	
Restricted shares Issued on May 7, 2018	7,972	\$ 37.83	\$ 301	\$ 245	\$ 22
Forfeited	(886)		(34)		
Restricted shares Issued on April 17, 2019	15,239	29.97	454	239	153
Forfeited	(2,058)		(62)		
Restricted shares Issued on May 8, 2019	1,027	29.21	30	17	13
Restricted shares Issued on April 7, 2020	17,399	13.92	242	52	138
Forfeited	(3,718)		(52)		
Restricted shares Issued on June 16, 2020	18,750	19.20	360	240	120
Restricted shares Issued on October 19, 2020	1,022	29.34	30	3	27
Awards outstanding at January 31, 2021:	<u>54,747</u>		<u>\$ 1,269</u>	<u>\$ 796</u>	<u>\$ 473</u>

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

The following table presents RSU activities for the year ended January 31, 2021:

	<u>Whole Number of Units</u>	<u>Grant-Date Fair Value Per Unit</u>	<u>Aggregate Grant-Date Fair Value</u>	<u>Compensation Expense Recognized</u>	<u>Grant-Date Fair Value Unrecognized At January 31, 2021</u>
Previous Awards (vested)					
RSUs Awarded on June 4, 2018	6,032	\$ 35.89	216	170	12
Forfeited	(968)		(35)		
RSUs Awarded on April 17, 2019	10,196	\$ 28.01	286	122	86
Forfeited	(2,771)		(78)		
RSUs Awarded on April 7, 2020	17,672	\$ 12.01	212	44	116
Forfeited	(4,310)		(52)		
Awards outstanding at January 31, 2021:	<u>25,851</u>		<u>\$ 550</u>	<u>\$ 336</u>	<u>\$ 214</u>

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

	<u>Whole Number of Units</u>	<u>Grant-Date Fair Value Per Unit</u>	<u>Aggregate Grant-Date Fair Value</u>	<u>Compensation Expense Recognized</u>	<u>Grant-Date Fair Value Unrecognized At January 31, 2021</u>
PSUs Awarded on June 4, 2018	21,606	\$ 35.86	775	749	-
Forfeited	(711)		(25)		
PSUs Awarded on April 17, 2019	36,412	\$ 29.77	1,084	723	281
Forfeited	(2,701)		(80)		
PSUs Awarded on April 7, 2020	69,075	\$ 13.92	962	281	561
Forfeited	(8,621)		(120)		
Awards outstanding at January 31, 2021:	<u>115,060</u>		<u>\$ 2,594</u>	<u>\$ 1,752</u>	<u>\$ 842</u>

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.

All stock awards are designed to encourage retention and to provide an incentive for increasing shareholder value. We have issued restricted stock awards to non-employee members of the board of directors since 2006 and to certain non-executive employees since 2014. We have issued restricted stock units (“RSUs”) to certain senior executives since fiscal 2012 under the Company’s Stock Incentive Plan. Each RSU entitles an executive to receive one share of the Company’s common stock if the executive remains continuously employed with the Company through the end of a three-year service period. The RSUs may be paid in shares of our common stock, cash or both at the discretion of the Compensation Committee of our board of directors. We have issued Performance-based Restricted Stock Units (“PSUs”) to certain senior executives since fiscal 2019 under the Company’s Stock Incentive Plan. Each PSU entitles the executive officer to receive one share of our common stock based on the achievement of two specified performance conditions if the executive officer remains continuously employed through the end of the three-year performance period. One target is based on our annual average growth in our EPS over the performance period and the other target is based on EPS growth over the performance period compared to our peers. The payout or settlement of the PSUs will be made in shares of our common stock.

We expect to continue to grant these types of awards annually in the future. The following table sets forth the number of outstanding restricted stock awards and RSUs and PSUs, net of forfeitures and vested shares, as of the fiscal period-end dates indicated:

	<u>January 31, 2021</u>	<u>February 2, 2020</u>	<u>February 3, 2019</u>
Restricted shares	54,747	45,946	22,070
RSUs and PSUs	140,911	73,060	14,189
	<u>195,658</u>	<u>119,006</u>	<u>36,259</u>

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

	<u>Fifty-Two Weeks Ended January 31, 2021</u>	<u>Fifty-Two Weeks Ended February 2, 2020</u>	<u>Fifty-Three Weeks Ended February 3, 2019</u>
Net (loss)/income	\$ (10,426)	\$ 17,083	\$ 39,873
Less: Dividends on unvested restricted shares	36	25	11
Net earnings allocated to unvested restricted stock	-	60	68
Earnings available for common shareholders	<u>\$ (10,462)</u>	<u>\$ 16,998</u>	<u>\$ 39,794</u>
Weighted average shares outstanding for basic earnings per share	11,822	11,784	11,759
Dilutive effect of unvested restricted stock awards	*	54	24
Weighted average shares outstanding for diluted earnings per share	<u>11,822</u>	<u>11,838</u>	<u>11,783</u>
Basic (loss)/earnings per share	<u>\$ (0.88)</u>	<u>\$ 1.44</u>	<u>\$ 3.38</u>
Diluted (loss)/earnings per share	<u>\$ (0.88)</u>	<u>\$ 1.44</u>	<u>\$ 3.38</u>

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

NOTE 16 – INCOME TAXES

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

	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Current expense			
Federal	\$ 5,858	\$ 2,312	\$ 10,537
Foreign	108	255	118
State	1,154	334	2,247
Total current expense	<u>7,120</u>	<u>2,901</u>	<u>12,902</u>
Deferred taxes			
Federal	(9,554)	1,645	(963)
State	(1,708)	298	(222)
Total deferred taxes	<u>(11,262)</u>	<u>1,943</u>	<u>(1,185)</u>
Income tax (benefit)/expense	<u>\$ (4,142)</u>	<u>\$ 4,844</u>	<u>\$ 11,717</u>

Total tax benefit for fiscal 2021 was \$4.2 million, of which \$4.1 million benefit was allocated to continuing operations and \$ 30,000 tax benefit was allocated to other comprehensive income. Total tax expense for fiscal 2020 was \$4.5 million, of which \$4.8 million expense was allocated to continuing operations and \$ 300,000 tax benefit was allocated to other comprehensive income. 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.

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

	Fifty-Two Weeks Ended January 31, 2021	Fifty-Two Weeks Ended February 2, 2020	Fifty-Three Weeks Ended February 3, 2019
Income taxes at statutory rate	21.0%	21.0%	21.0%
Increase (decrease) in tax rate resulting from:			
State taxes, net of federal benefit	3.0	2.4	3.2
Officer's life insurance	1.7	-1.1	-0.7
Consolidated Appropriation Act provisions	1.8	0.0	0.0
Other	0.9	-0.2	-0.8
Effective income tax rate	<u>28.4%</u>	<u>22.1%</u>	<u>22.7%</u>

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

	<u>January 31, 2021</u>	<u>February 2, 2020</u>
Assets		
Intangible assets	\$ 8,057	\$ -
Deferred compensation	2,765	2,673
Allowance for bad debts	2,235	1,050
Employee benefits	848	607
Inventories	-	600
Capital loss carryover	411	393
Accrued liabilities	511	338
Deferred rent	444	231
Other	369	431
Total deferred tax assets	<u>15,640</u>	<u>6,323</u>
Valuation allowance	<u>(411)</u>	<u>(393)</u>
	<u>15,229</u>	<u>5,930</u>
Liabilities		
Intangible assets	-	1,737
Property, plant and equipment	775	1,313
Inventories	281	-
Total deferred tax liabilities	<u>1,056</u>	<u>3,050</u>
Net deferred tax assets	<u>\$ 14,173</u>	<u>\$ 2,880</u>

At January 31, 2021 and February 2, 2020 our net deferred asset was \$14.2 million and \$2.9 million, respectively. The increase in the valuation allowance of \$18,000 was due to foreign tax credit limitations. We expect to fully realize the benefit of the deferred tax assets, with the exception of the capital loss carry forward and foreign tax credit carry forward, in future periods when the amounts become deductible. The capital loss carry forward is \$1.4 million and expires in fiscal 2022. The foreign tax credit carry forward is \$71,000 and expires beginning in fiscal 2029.

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

We do not have unrecognized tax benefits as of January 31, 2021.

Tax years ending January 28, 2018 through January 31, 2021 remain subject to examination by federal and state taxing authorities.

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 2020, we updated our reportable segments as follows: Domestic upholstery producers Bradington-Young, Sam Moore and Shenandoah Furniture were moved from All other and aggregated into a new reportable segment called "Domestic Upholstery." All Other now consists of H Contract and Lifestyle Brands. Lifestyle Brands is a business in its start-up phase targeted at the interior designer channel. The Hooker Branded and Home Meridian segments were unchanged. Therefore, for financial reporting purposes, we are organized into three reportable segments and "All Other", which includes the remainder of our businesses:

- **Hooker Branded**, consisting of the operations of our imported Hooker Casegoods and Hooker Upholstery businesses;
- **Home Meridian**, a business acquired at the beginning of fiscal 2017, is a stand-alone, mostly autonomous business that serves a different type or class of customer than do our other operating segments and at much lower margins;
- **Domestic Upholstery**, which includes the domestic upholstery manufacturing operations of Bradington-Young, Sam Moore and Shenandoah Furniture; and
- **All Other**, consisting of H Contract and Lifestyle Brands, a new business started in late fiscal 2019. Neither of these operating segments were individually reportable; therefore, we combined them in "All Other" in accordance with ASC 280.

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

	<u>Fifty-Two Weeks Ended</u> <u>January 31,</u> <u>2021</u>	<u>% Net Sales</u>	<u>Fifty-Two Weeks Ended</u> <u>February 2,</u> <u>2020</u>	<u>% Net Sales</u>	<u>Fifty-Three Weeks Ended</u> <u>February 3,</u> <u>2019</u>	<u>% Net Sales</u>
Net Sales						
Hooker Branded	\$ 162,442	30.1%	\$ 161,990	26.4%	\$ 178,710	26.2%
Home Meridian	282,423	52.3%	340,630	55.8%	387,825	56.7%
Domestic Upholstery	83,678	15.5%	95,670	15.7%	106,580	15.6%
All Other	11,538	2.1%	12,534	2.1%	10,386	1.5%
Consolidated	<u>\$ 540,081</u>	<u>100%</u>	<u>\$ 610,824</u>	<u>100%</u>	<u>\$ 683,501</u>	<u>100%</u>
Gross Profit						
Hooker Branded	\$ 51,832	31.9%	\$ 51,462	31.8%	\$ 58,122	32.5%
Home Meridian	39,832	14.1%	36,936	10.8%	62,850	16.2%
Domestic Upholstery	17,121	20.5%	21,120	22.1%	22,503	21.1%
All Other	3,963	34.4%	4,440	35.4%	3,512	33.8%
Consolidated	<u>\$ 112,748</u>	<u>20.9%</u>	<u>\$ 113,958</u>	<u>18.7%</u>	<u>\$ 146,987</u>	<u>21.5%</u>
Operating (Loss)/Income						
Hooker Branded	\$ 22,827	14.1%	\$ 21,512	13.3%	\$ 25,269	14.1%
Home Meridian	(26,071)	-9.2%	(7,169)	-2.1%	18,828	4.9%
Domestic Upholstery	(12,418)	-14.8%	6,637	6.9%	7,607	7.1%
All Other	1,298	11.3%	1,727	13.8%	971	9.4%
Consolidated	<u>\$ (14,364)</u>	<u>-2.7%</u>	<u>\$ 22,707</u>	<u>3.7%</u>	<u>\$ 52,675</u>	<u>7.7%</u>
Capital Expenditures						
Hooker Branded	\$ 377		\$ 690		\$ 843	
Home Meridian	347		496		534	
Domestic Upholstery	475		3,914		3,807	
All Other	11		29		30	
Consolidated	<u>\$ 1,210</u>		<u>\$ 5,129</u>		<u>\$ 5,214</u>	
Depreciation & Amortization						
Hooker Branded	\$ 1,809		\$ 1,930		\$ 1,979	
Home Meridian	2,160		2,218		2,407	
Domestic Upholstery	2,797		2,938		3,049	
All Other	12		14		7	
Consolidated	<u>\$ 6,778</u>		<u>\$ 7,100</u>		<u>\$ 7,442</u>	
Assets						
	<u>As of January 31, 2021</u>	<u>% Total Assets</u>	<u>As of February 2, 2020</u>	<u>% Total Assets</u>		
Hooker Branded	\$ 174,475	53.5%	\$ 144,112	45.0%		
Home Meridian	100,497	30.9%	138,313	43.2%		
Domestic Upholstery	49,370	15.2%	36,085	11.3%		
All Other	1,204	0.4%	1,769	0.6%		
Consolidated Assets	<u>\$ 325,546</u>	<u>100%</u>	<u>\$ 320,279</u>	<u>100%</u>		
Consolidated Goodwill and Intangibles	26,727		73,429			
Total Consolidated Assets	<u>\$ 352,273</u>		<u>\$ 393,708</u>			

Sales by product type are as follows:

	Net Sales (in thousands)								
	Fiscal								
	2021		2020		2019				
Casegoods	\$	329,906	61%	\$	397,192	65%	\$	417,677	61%
Upholstery		210,175	39%		213,632	35%		265,824	39%
	\$	<u>540,081</u>		\$	<u>610,824</u>		\$	<u>683,501</u>	

No significant long-lived assets were held outside the United States at either January 31, 2021 or February 2, 2020. International customers accounted for 2.0% of consolidated invoiced sales in fiscal 2021, 1.6% in fiscal 2020, and 1.2% fiscal 2019. We define international sales as sales outside of the United States and Canada.

NOTE 18 – COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ARRANGEMENTS

Commitments and Off-Balance Sheet Arrangements

We lease office space, warehousing facilities, showroom space and office equipment under leases expiring over the next five years. Rent expense was \$10.7 million in fiscal 2021, \$11.2 million in fiscal 2020, and \$10.1 million in fiscal 2019. Future minimum annual commitments under leases and operating agreements are \$7.4 million in fiscal 2022, \$5.6 million in fiscal 2023, \$5.7 million in fiscal 2024, \$5.3 million in fiscal 2025 and \$5.3 million in fiscal 2026.

We had letters of credit outstanding totaling \$6.3 million on January 31, 2021. We utilize letters of credit to collateralize certain imported inventory purchases and certain insurance arrangements.

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

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

NOTE 19 – CONCENTRATIONS OF RISK

Imported Products Sourcing

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

Factories located in Vietnam and China are a critical resource for Hooker Furniture. In fiscal 2021, imported products sourced from Vietnam and China accounted for 91% of our import purchases and our top five suppliers in those countries accounted for 45% of our fiscal 2021 import purchases. A disruption in our supply chain from Vietnam or China could significantly impact our ability to fill customer orders for products manufactured at that factory or in that country.

Raw Materials Sourcing for Domestic Upholstery Manufacturing

Our five largest domestic upholstery suppliers accounted for 28% of our raw materials supply purchases for domestic upholstered furniture manufacturing operations in fiscal 2021. One supplier accounted for 8.1% of our raw material purchases in fiscal 2021. Should disruptions with these suppliers occur, we believe we could successfully source these products from other suppliers without significant disruption to our operations.

Concentration of Sales and Accounts Receivable

One customer accounted for nearly 12% of our consolidated sales in fiscal 2021. Our top five customers accounted for approximately 30% of our fiscal 2021 consolidated sales. The loss of any one or more of these customers could adversely affect our earnings, financial condition and liquidity. At January 31, 2021, half of our consolidated accounts receivable is concentrated in our top five customers.

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

	Fiscal Quarter			
	First	Second	Third	Fourth
2021				
Net sales	\$ 104,597	\$ 130,537	\$ 149,687	\$ 155,259
Cost of sales	85,944	103,537	116,204	121,648
Gross profit	18,653	27,000	33,483	33,611
Selling and administrative expenses	19,177	18,892	19,850	22,490
Goodwill impairment charges	39,568	-	-	-
Trade name impairment charges	4,750	-	-	-
Net income	(34,819)	5,774	10,093	8,526
Basic (loss)/earnings per share	\$ (2.95)	\$ 0.49	\$ 0.85	\$ 0.72
Diluted (loss)/earnings per share	\$ (2.95)	\$ 0.48	\$ 0.84	\$ 0.71
2020				
Net sales	\$ 135,518	\$ 152,248	\$ 158,176	\$ 164,882
Cost of sales	110,001	123,422	129,777	133,665
Gross profit	25,517	28,826	28,399	31,217
Selling and administrative expenses	22,016	22,462	22,810	21,581
Net income	1,987	4,160	3,920	7,016
Basic earnings per share	\$ 0.17	\$ 0.35	\$ 0.33	\$ 0.59
Diluted earnings per share	\$ 0.17	\$ 0.35	\$ 0.33	\$ 0.59

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

NOTE 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 \$668,000 in lease payments to these entities during fiscal 2021.

NOTE 22- SUBSEQUENT EVENTSCash Dividend

On March 1, 2021, our Board of Directors declared a quarterly cash dividend of \$0.18 per share, payable on March 31, 2021 to shareholders of record at March 17, 2021.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Hooker Furniture Corporation:

We consent to the incorporation by reference in the registration statement (No. 333-128942) on Form S-8 of Hooker Furniture Corporation of our reports dated April 16, 2021, with respect to the consolidated balance sheets of Hooker Furniture Corporation as of January 31, 2021 and February 2, 2020, the related consolidated statements of operations, comprehensive income / (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes, and the effectiveness of internal control over financial reporting as of January 31, 2021, which reports appear in the January 31, 2021 annual report on Form 10-K of Hooker Furniture Corporation.

/s/ KPMG LLP

Raleigh, North Carolina
April 16, 2021

Form 10-K for the Annual Period Ended January 31, 2021
SECTION 13a-14(a) CERTIFICATION

I, Jeremy R. Hoff, certify that:

1. I have reviewed this annual report on Form 10-K of Hooker Furniture Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2021

/s/ Jeremy R. Hoff
Jeremy R. Hoff
Chief Executive Officer and Director

Form 10-K for the Annual Period Ended January 31, 2021
SECTION 13a-14(a) CERTIFICATION

I, Paul A. Huckfeldt, certify that:

1. I have reviewed this annual report on Form 10-K of Hooker Furniture Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 16, 2021

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

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Hooker Furniture Corporation (the “Company”) Annual Report on Form 10-K for the period ended January 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 16, 2021

By: /s/ Jeremy R. Hoff
Jeremy R. Hoff
Chief Executive Officer and Director

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