# United States
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

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# Form 10-Q

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

**For the quarterly period ended May 31, 2004**

**Commission file number 000-25349**

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

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| | |
|---|---|
| **Virginia** | **54-0251350** |
| **(State or other jurisdiction of incorporation or organization)** | **(IRS Employer Identification No.)** |

**440 East Commonwealth Boulevard, Martinsville, VA 24112**
**(Address of principal executive offices, Zip Code)**

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

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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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of **July 7, 2004**.

| | |
|---|---|
| **Common stock, no par value** | **14,475,300** |
| **(Class of common stock)** | **(Number of shares)** |

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands, including share data)

| | May 31, 2004 | November 30, 2003 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 15,816** | $ 14,859 |
| Trade accounts receivable, less allowance for doubtful accounts of **$1,101** and $991 on each respective date | **37,588** | 37,601 |
| Inventories | **52,865** | 42,442 |
| Prepaid expenses and other current assets | **3,536** | 3,924 |
| Total current assets | **109,805** | 98,826 |
| Property, plant and equipment, net | **51,256** | 53,582 |
| Goodwill | **2,396** | 2,396 |
| Intangible assets | **4,852** | 4,940 |
| Other assets | **8,589** | 7,355 |
| Total assets | **$ 176,898** | $ 167,099 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Trade accounts payable | **$ 7,729** | $ 6,945 |
| Accrued salaries, wages and benefits | **6,237** | 5,476 |
| Other accrued expenses | **4,177** | 2,920 |
| Current maturities of long-term debt | **8,445** | 8,671 |
| Total current liabilities | **26,588** | 24,012 |
| Long-term debt, excluding current maturities | **18,975** | 22,166 |
| Deferred compensation | **2,914** | 3,094 |
| Other long-term liabilities | **1,593** | 1,563 |
| Total liabilities | **50,070** | 50,835 |
| Shareholders' equity | | |
| Common stock, no par value, **20,000** shares authorized, **14,475** shares issued and outstanding on each respective date | **6,078** | 4,609 |
| Unearned ESOP shares, **2,780** and 2,870 shares on each respective date | **(17,374)** | (17,935) |
| Retained earnings | **139,628** | 131,468 |
| Accumulated other comprehensive loss | **(1,504)** | (1,878) |
| Total shareholders' equity | **126,828** | 116,264 |
| Total liabilities and shareholders' equity | **$ 176,898** | $ 167,099 |

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

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

| | Three Months Ended May 31, | | Six Months Ended May 31, | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Net sales | **$ 91,490** | $ 80,115 | **$ 169,712** | $ 154,590 |
| Cost of sales | **66,004** | 59,473 | **123,814** | 113,426 |
| Gross profit | **25,486** | 20,642 | **45,898** | 41,164 |
| Selling and administrative expenses | **16,161** | 14,401 | **29,733** | 26,422 |
| Restructuring and related asset impairment charge | | 1,470 | | 1,470 |
| Operating income | **9,325** | 4,771 | **16,165** | 13,272 |
| Other income, net | **84** | 86 | **252** | 276 |
| Income before interest and income taxes | **9,409** | 4,857 | **16,417** | 13,548 |
| Interest expense | **517** | 671 | **1,010** | 1,314 |
| Income before income taxes | **8,892** | 4,186 | **15,407** | 12,234 |
| Income taxes | **3,378** | 1,591 | **5,853** | 4,648 |
| Net income | **$ 5,514** | $ 2,595 | **$ 9,554** | $ 7,586 |
| Basic and diluted earnings per share | **$ .47** | $ .23 | **$ .82** | $ .66 |
| Weighted average shares outstanding | **11,779** | 11,500 | **11,629** | 11,448 |

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

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

| | Six Months Ended | |
|---|---|---|
| | **May 31, 2004** | **May 31, 2003** |
| **Cash flows from operating activities** | | |
| Cash received from customers. | **$ 169,919** | $ 157,231 |
| Cash paid to suppliers and employees | **(157,184)** | (139,891) |
| Income taxes paid, net | **(5,877)** | (7,965) |
| Interest paid, net | **(631)** | (1,135) |
| Net cash provided by operating activities | **6,227** | 8,240 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(1,371)** | (2,451) |
| Acquisition of Bradington-Young, net of cash acquired | | (22,140) |
| Collection on note issued for the sale of Kernersville | **900** | |
| Proceeds from the sale of property and equipment | **12** | |
| Net cash used in investing activities | **(459)** | (24,591) |
| **Cash flows from financing activities** | | |
| Proceeds from long-term debt | | 76,319 |
| Payments on long-term debt | **(3,417)** | (54,876) |
| Payment to terminate an interest rate swap agreement | | (3,001) |
| Cash dividends paid | **(1,394)** | (1,196) |
| Net cash (used in) provided by financing activities | **(4,811)** | 17,246 |
| **Net increase in cash and cash equivalents** | **957** | 895 |
| **Cash and cash equivalents at beginning of period** | **14,859** | 2,316 |
| **Cash and cash equivalents at end of period** | **$ 15,816** | $ 3,211 |
| **Reconciliation of net income to net cash provided by operating activities:** | | |
| Net income | **$ 9,554** | $ 7,586 |
| Depreciation and amortization | **3,838** | 4,221 |
| Non-cash ESOP cost | **2,030** | 1,182 |
| Restructuring and related asset impairment charge | | 1,470 |
| (Gain) loss on disposal of property and equipment | **(11)** | 5 |
| Provision for doubtful accounts | **378** | 419 |
| Changes in assets and liabilities, net of effects of acquisition: | | |
| Trade accounts receivable | **(365)** | 1,948 |
| Inventories | **(10,423)** | 701 |
| Prepaid expenses and other current assets | **(2,028)** | (1,161) |
| Trade accounts payable | **784** | (3,593) |
| Accrued salaries, wages and benefits | **761** | (1,290) |
| Accrued income taxes | **(209)** | (3,169) |
| Other accrued expenses | **2,068** | (2,768) |
| Other long-term liabilities | **(150)** | 2,689 |
| Net cash provided by operating activities | **$ 6,227** | $ 8,240 |

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

**HOOKER FURNITURE CORPORATION AND SUBSIDIARIES**
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in tables in thousands unless otherwise indicated)
For the Quarterly Period Ended May 31, 2004

1. **Preparation of Interim Financial Statements**

The consolidated financial statements of Hooker Furniture Corporation (referred to as "Hooker" or the "Company") have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures prepared in accordance with U.S. generally accepted accounting principles are condensed or omitted pursuant to SEC rules and regulations. However, management believes that the disclosures made are adequate for a fair presentation of results of operations and financial position. Operating results for the interim periods reported herein may not be indicative of the results expected for the year. These financial statements should be read in conjunction with the financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2003.

2. **Inventories**

| | **May 31, 2004** | **November 30, 2003** |
|---|---|---|
| Finished furniture | **$ 50,211** | $ 40,413 |
| Furniture in process | **2,846** | 2,538 |
| Materials and supplies | **11,380** | 10,668 |
| Inventories at FIFO | **64,437** | 53,619 |
| Reduction to LIFO basis | **11,572** | 11,177 |
| Inventories | **$ 52,865** | $ 42,442 |

3. **Property, Plant and Equipment**

| | **May 31, 2004** | **November 30, 2003** |
|---|---|---|
| Buildings | **$ 49,887** | $ 49,738 |
| Machinery and equipment | **48,462** | 48,506 |
| Furniture and fixtures | **25,661** | 24,849 |
| Other | **3,659** | 3,537 |
| Total depreciable property at cost | **127,669** | 126,630 |
| Less accumulated depreciation | **78,700** | 75,335 |
| Total depreciable property, net | **48,969** | 51,295 |
| Land | **2,287** | 2,287 |
| Property, plant and equipment, net | **$ 51,256** | $ 53,582 |

**Notes to Unaudited Consolidated Financial Statements - Continued**

4. **Intangible Assets**

| | May 31, 2004 | November 30, 2003 |
|---|---|---|
| **Amortizable** | | |
| Non-compete agreement | **$ 700** | $ 700 |
| Less accumulated amortization | **248** | 160 |
| Net carrying value | **$ 452** | $ 540 |
| **Non-amortizable** | | |
| Trade names and trademarks | **4,400** | 4,400 |
| Intangible assets | **$4,852** | $ 4,940 |

5. **Long-Term Debt**

| | May 31, 2004 | November 30, 2003 |
|---|---|---|
| Term loan A | **$ 16,420** | $ 17,387 |
| Term loan B | **4,600** | 7,050 |
| Industrial revenue bonds | **6,400** | 6,400 |
| Total long-term debt outstanding | **27,420** | 30,837 |
| Less current maturities | **8,445** | 8,671 |
| Long-term debt, less current maturities | **$ 18,975** | $ 22,166 |

No amounts were outstanding under the Company's revolving credit line on May 31, 2004 or November 30, 2003.

In May 2004, the Company renewed a $20.0 million committed line of credit that is utilized for the issuance of letters of credit, which collateralize its imported inventory purchases.

6. **Restructuring Accrual**

| | Severance and Related Benefits | Other | Total |
|---|---|---|---|
| Balance at November 30, 2003 | $ 43 | $ 50 | $ 93 |
| Health insurance premiums received, net of claims paid | **3** | | **3** |
| Balance at **May 31, 2004** | $ 46 | $ 50 | $ 96 |

7. **Changes to Executive Compensation Arrangements**

In December 2003, in connection with implementing provisions of the Sarbanes-Oxley Act of 2002, the Company modified certain executive compensation arrangements for certain executives of the Company. The modifications were accomplished through the termination of existing salary continuation agreements and split-dollar life insurance agreements and the adoption of a new life insurance program and a new supplemental executive retirement plan which cover each of these executives. In addition, each executive transferred to the Company his ownership interest in the life insurance policy or policies underlying his split-dollar life insurance agreement and each executive received a cash payment from the Company equal to the amount of premiums the executive had previously paid with respect to the life insurance policy or policies underlying his split-dollar life insurance agreement.

The new life insurance program provides death benefit protection for each executive during employment. Coverage under the program automatically terminates when the executive terminates employment with the Company for any reason, other than death, or when the executive attains age 65, whichever occurs first. The policies funding the new life insurance program are owned by the Company. The cash surrender value of those life insurance policies amounted to $1.1 million as of May 31, 2004.

The new supplemental executive retirement plan provides for a monthly supplemental retirement benefit based on the executive's final average monthly compensation as defined in the plan, payable for a 15-year period following the executive's termination of employment, subject to a vesting schedule that may vary for each participant in the plan. In addition, the monthly retirement benefit for each participant in the plan, regardless of age, will become fully vested and the present value of all plan benefits will be paid to participants in a lump sum upon a change in control of the Company (as defined in the plan). Benefits are payable from the general assets of the Company. The Company accounts for its obligation to each participant on the accrual basis. The aggregate liability for all participants under the supplemental executive retirement plan amounted to $716,000 as of May 31, 2004.

8. **Other Comprehensive Income**

| | Three Months Ended May 31, | | Six Months Ended May 31, | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Net income | **$5,514** | $2,595 | **$9,554** | $ 7,586 |
| Gain (loss) on interest rate swaps | **394** | (935) | **(70)** | (2,215) |
| Portion of swaps' fair value reclassified to interest expense | **349** | 341 | **673** | 763 |
| Other comprehensive gain (loss) before tax | **743** | (594) | **603** | (1,452) |
| Income tax benefit (expense) | **(282)** | 226 | **(229)** | 552 |
| Other comprehensive income (loss), net of tax | **461** | (368) | **374** | (900) |
| Comprehensive income | **$5,975** | $2,227 | **$9,928** | $ 6,686 |

The amount reclassified to interest expense includes a gain of $14,000 and a gain of $16,000 for the three month and six-month periods ended May 31, 2004, respectively, related to the ineffective portion of the interest rate swap agreements.

The amount reclassified to interest expense includes a gain of $98,000 for the six-month period ended May 31, 2003, related to the ineffective portion of the interest rate swap agreements. There was no gain or loss recorded for the ineffective portion of the interest rate swap agreements for the three month period ended May 31, 2003.

**9. Employee Stock Ownership Plan Cost**

The Company records non-cash Employee Stock Ownership Plan ("ESOP") cost for the number of shares that it commits to release to eligible employees based on the average market price of the Company's common stock during each respective period. "Unearned ESOP shares" in shareholders' equity is reduced by the Company's aggregate cost basis in the shares committed to be released. "Common stock" is increased by the aggregate difference between the average market price and the cost basis of these shares. The Company committed to release 44,800 shares during the second quarter of fiscal 2004, having a cost basis of $6.25 per share and an average market price of $22.64 per share, and 89,700 shares during the 2004 first half having a cost basis of $6.25 per share and an average market price of $22.63 per share. ESOP cost is allocated between "cost of sales" and "selling and administrative expenses" based on employee compensation.

## Item 2. Management’s Discussion and Analysis

### Overview

The Company’s operations during the 2004 second quarter were principally impacted by the following factors:

- Sales growth in imported wood furniture fueled by improved inventory availability and supported by continued strong incoming order rates;
- Sales growth for upholstered furniture driven by an expanded sales force and distribution network;
- Improved gross profit margin for imported wood furniture resulting from lower inbound freight and other transit-related costs as a percentage of sales and lower levels of price discounting;
- Improved gross profit margin for upholstered furniture driven by lower material, labor and overhead costs as a percentage of sales resulting principally from higher unit volume;
- Declining demand for domestically-produced wood furniture and capacity-related cost issues in the Company’s domestic wood furniture manufacturing operations;
- Higher selling and administrative expenses leveraged against higher sales, resulting in improved operating margin; and,
- The employment of additional resources to comply with new regulatory mandates initiated by the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission and NASDAQ.

The U.S. economy continues to grow. The Company has benefited from this growth through increased demand for its imported wood and upholstered furniture products. However, competition from lower priced foreign imports continues to affect demand for domestically produced wood furniture.

**Management's Discussion and Analysis - Continued**

**Results of Operations**

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

| | Three Months Ended May 31, | | Six Months Ended May 31, | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Net sales | **100.0%** | 100.0% | **100.0%** | 100.0% |
| Cost of sales | **72.1** | 74.2 | **73.0** | 73.4 |
| Gross profit | **27.9** | 25.8 | **27.0** | 26.6 |
| Selling and administrative expenses | **17.7** | 18.0 | **17.5** | 17.0 |
| Restructuring and related asset impairment charge | | 1.8 | | 1.0 |
| Operating income | **10.2** | 6.0 | **9.5** | 8.6 |
| Other income, net | **0.1** | 0.1 | **0.2** | 0.2 |
| Income before interest and income taxes | **10.3** | 6.1 | **9.7** | 8.8 |
| Interest expense | **0.6** | 0.9 | **0.6** | 0.9 |
| Income before income taxes | **9.7** | 5.2 | **9.1** | 7.9 |
| Income taxes | **3.7** | 2.0 | **3.5** | 3.0 |
| Net income | **6.0%** | 3.2% | **5.6%** | 4.9% |

Net sales for the second quarter ended May 31, 2004 increased $11.4 million, or 14.2%, to $91.5 million from $80.1 million in the second quarter of 2003. Shipments of imported wood furniture increased $10.1 million, or 26.2%, to $48.5 million in the 2004 second quarter compared with $38.4 million in the same 2003 period. Shipments from leather upholstery specialist Bradington-Young accounted for $15.3 million in net sales during the 2004 three-month period, an increase of $3.1 million, or 25.2%, compared to $12.2 million during the 2003 second quarter. The increases in net sales for imported wood and upholstered furniture are principally due to higher unit volume. Second quarter 2004 shipments of the Company's domestically produced wood furniture declined $1.8 million, or 6.0%, to $27.7 million from $29.5 million in the year earlier quarter, principally due to lower unit volume. For the 2004 second quarter, average selling prices increased for imported wood furniture products, but declined for domestically manufactured wood and upholstered furniture, compared to the 2003 second quarter. Average selling prices decreased for domestically produced wood and upholstery products primarily due to a higher proportion of lower-priced items. In addition, average selling prices for domestic wood furniture were lower as a result of competitive pressure from lower priced imports to value price these products. Overall, average selling prices increased for the 2004 second quarter compared to the same 2003 period.

For the first half of 2004, the Company reported net sales of $169.7 million, an increase of $15.1 million, or 9.8%, compared to $154.6 million in the 2003 first half. Imported wood furniture shipments increased $13.9 million, or 19.0%, to $87.1 million in the 2004 first half compared to $73.2 million in the 2003 six-month period. The increase in shipments of imported wood furniture is principally due to higher unit volume. Shipments from Bradington-Young accounted for $27.5 million in net sales during the first six months of 2004 compared to $20.9 million during the five months following its acquisition by the Company at the beginning of January 2003. First half 2004 shipments of the Company's domestically produced wood furniture declined $5.4 million, or 9.0%, to $55.1 million from $60.5 million in the first half of 2003. For the 2004 first half, average selling prices increased for imported wood and for upholstered furniture products compared to the 2003 first half. However, overall, average selling prices decreased due to the higher proportion of lower-priced imported products shipped and a decline in average selling prices for domestically manufactured wood furniture.

Gross profit margin increased to 27.9% of net sales in the 2004 second quarter compared to 25.8% in the 2003 second quarterly period and increased to 27.0% of net sales in the 2004 first half compared to 26.6% in the first half of 2003. Improved margins on imported wood furniture and Bradington-Young upholstered furniture drove the improvement. Imported wood furniture margins improved as a result of lower inbound freight and other transit-related costs as well as lower levels of promotional discounting than in the prior year quarter. Bradington-Young's margins improved principally as a result of lower raw material costs as a percentage of sales. Also, Bradington-Young's labor and overhead costs as a percentage of sales declined as a result of higher sales volume. Additionally, the increased proportion of imported furniture shipments helped to improve gross profit margin in the 2004 periods since these products typically carry higher gross profit margins than do domestically manufactured products (however imported furniture typically requires a higher level of sourcing, warehousing and distribution costs, which are reflected in selling and administrative expenses, compared to domestically produced furniture).

Gross profit margin for domestic wood furniture declined during the 2004 second quarter compared with the same 2003 period. Lower overhead and other costs as a percentage of sales, resulting from the closing of the Kernersville, N.C. manufacturing facility in August 2003, were more than offset by increasing production costs as a percentage of sales, resulting from continued declines in order rates. In addition, the Company continues to experience competitive pressure from lower priced imports to value price domestically produced wood furniture.

Selling and administrative expenses increased $1.8 million to $16.2 million in the second quarter of 2004 from $14.4 million in the 2003 quarterly period. For the first half of 2004, selling and administrative expenses increased $3.3 million to $29.7 million compared with $26.4 million for the 2003 six-month period. The increases in the 2004 periods are principally due to:

- higher selling, warehousing and distribution costs to support higher import sales;
- increased sales and marketing expenses to support higher upholstery sales; and
- higher legal and professional expenses incurred to comply with the corporate governance mandates brought about by the Sarbanes-Oxley Act of 2002.

Selling and administrative expenses for the 2003 first half includes only five months of operating expenses for Bradington-Young following its acquisition by the Company at the beginning of January 2003 compared to six months of operating expenses during the 2004 first half. As a percentage of net sales, selling and administrative expenses decreased to 17.7% in the 2004 second quarter from 18.0% in the same 2003 period as a result of higher net sales in the 2004 period. Selling and administrative expenses increased to 17.5% of net sales in the 2004 first half compared to 17.0% in the 2003 six-month period principally as a result of the increased expenses described in the previous paragraph.

The non-cash cost of the Company's Employee Stock Ownership Plan ("ESOP") for the 2004 second quarter increased $306,000 to $1.0 million compared to $709,000 in the second quarter of 2003. For the first half of 2004, non-cash ESOP cost increased $848,000 to $2.0 million from $1.2 million in the same 2003 period. The Company records non-cash ESOP cost for the number of shares that it commits to release to eligible employees based on the average market price of the Company's common stock during each respective period. The increase in both 2004 periods is principally attributed to the increase in the average market price of the Company's common stock as compared to the prior year periods. The cost of the plan is allocated to cost of goods sold and selling and administrative expenses based on employee compensation. Substantially all of Bradington-Young's employees became eligible to participate in the ESOP plan effective January 1, 2004, consequently no ESOP cost was allocated to Bradington-Young during 2003.

Profitability for the 2003 three and six-month periods was negatively impacted by a special $1.5 million pretax ($911,000 after tax, or $0.08 per share) restructuring and asset impairment charge related to the closing and sale of the Company's Kernersville, N.C. manufacturing facility in 2003. This pretax restructuring charge reduced operating margin by 1.8% of net sales in the 2003 three-month period and by 1.0% of net sales for the 2003 first half.

Interest expense decreased $154,000 to $517,000 during the second quarter of 2004 from $671,000 in the 2003 period. For the 2004 first half, interest expense decreased $304,000 to $1.0 million from $1.3 million in the 2003 first half. The decreases in both 2004 periods are principally due to a $15.0 million debt prepayment made by the Company in the fourth quarter of 2003.

The Company's effective tax rate approximated 38.0% in the 2004 and 2003 periods.

Second quarter 2004 net income increased to $5.5 million, or $0.47 per share, compared to $2.6 million, or $0.23 per share, in the comparable 2003 period. Net income for the 2004 first half increased to $9.6 million, or $0.82 per share, compared to $7.6 million, or $0.66 per share, in the 2003 first half.

**Outlook**

The Company is optimistic about the 2004 third quarter, expecting an 8%-12% sales increase compared to the 2003 third quarter. Order backlog for imported wood furniture and domestically produced upholstery has improved and the backlog of domestically produced wood furniture is comparable to last year at this time. The Company also experienced favorable dealer reaction to its imported furniture and upholstered furniture introductions at the April 2004 International Furniture Market. The Company continues to carefully monitor domestic wood furniture production schedules and capacity utilization in light of current order rates.

In June 2004, the U.S. Department of Commerce made an initial ruling that Chinese manufacturers are dumping wood bedroom furniture in the U.S. market and imposed preliminary duties on those imports. The Company imports certain lines of wood bedroom furniture and produces other lines in its domestic plants. Imported wood bedroom furniture accounts for less than 4% of the Company's net sales. Based on its preliminary review, the Company does not believe that the imposition of the duties announced by the U.S. Department of Commerce on wood bedroom furniture imported from China will have a material affect on the Company's sales or profitability.

**Financial Condition, Liquidity and Capital Resources**

Balance Sheet and Working Capital

As of May 31, 2004, assets totaled $176.9 million, increasing from $167.1 million at November 30, 2003 principally as a result of increased purchases of imported products inventory. Shareholders' equity at May 31, 2004 was $126.8 million, compared to $116.3 million at November 30, 2003. The Company's long-term debt, including current maturities, was $27.4 million at May 31, 2004, decreasing from $30.8 million at November 30, 2003 as a result of scheduled debt payments.

Working capital increased to $83.2 million as of May 31, 2004, from $74.8 million at the end of fiscal 2003, reflecting the net effect of an $11.0 million increase in current assets (principally an increase in inventories) partially offset by a $2.6 million increase in current liabilities. The increase in current liabilities is principally due to increases in other accrued expenses and accrued salaries, wages and benefits.

Cash Flows – Operating, Investing and Financing Activities

During the six months ended May 31, 2004, cash generated from operations ($6.2 million) and the proceeds from the collection of a note receivable ($900,000), issued in connection with the November 2003 sale of the Kernersville, N.C., manufacturing facility, funded the repayment of long-term debt ($3.4 million), dividend payments ($1.4 million), capital expenditures (net of disposals, $1.4 million) and an increase in available cash and cash equivalents ($957,000).

During the six months ended May 31, 2003, proceeds from borrowings ($76.3 million) and cash generated from operations ($8.2 million), funded the acquisition of Bradington-Young ($22.1 million, net of cash acquired), the refinancing and repayment of long-term debt ($54.9 million, including the repayment of $4.1 million of debt assumed in the Bradington-Young acquisition), a payment to terminate an interest rate swap agreement ($3.0 million), capital expenditures ($2.5 million), dividend payments ($1.2 million) and an increase in available cash and cash equivalents ($895,000).

Cash generated from operations of $6.2 million during the 2004 six-month period decreased $2.0 million from $8.2 million in the 2003 period. The decrease was due to higher payments to suppliers and employees, partially offset by higher payments received from customers and lower income tax and interest payments. Payments to suppliers and employees increased $17.3 million, principally to fund increased purchases of imported wood furniture and higher production levels of upholstered furniture (including an additional month of Bradington-Young upholstery production and operating costs compared to the prior year), and higher selling and administrative expenses. Cash received from customers increased $12.7 million as a result of higher sales of imported wood furniture and higher sales of upholstered furniture (including an additional month of Bradington-Young upholstery shipments compared to the prior year). Tax payments decreased $2.1 million due to differences in the timing of required payments due in each respective period.

Investing activities used $459,000, net, during the 2004 six-month period compared to $24.6 million in the 2003 period. The Company acquired Bradington-Young in January 2003 for cash payments of $22.1 million (net of cash acquired). Purchases of plant, equipment and other assets to maintain and enhance the Company's facilities and business operating systems declined $1.1 million to $1.4 million in the 2004 second quarter compared with $2.5 million in the 2003 period. During the 2004 second quarter, the Company collected $900,000 on a note receivable issued in connection with the November 2003 sale of the Kernersville, N.C. manufacturing facility.

The Company used cash of $4.8 million for financing activities in the 2004 period compared to generating cash of $17.2 million from financing activities in the 2003 period. During the 2004 period, the Company repaid long-term debt in the amount of $3.4 million and paid cash dividends of $1.4 million.

During the 2003 period, the Company borrowed (i) $42.8 million under new term loan agreements ($18.3 million under "Term Loan A" and $24.5 million under "Term Loan B") to complete the refinancing of its long-term debt in April 2003, (ii) $26.7 million to fund the purchase of Bradington-Young and to repay debt assumed in the acquisition, and (iii) $6.8 million under its revolving credit line to fund other operating, investing, and financing cash flow activities. Also during the 2003 period, the Company repaid (i) $17.8 million under an existing term loan and the $25.0 million in bank debt used to acquire Bradington-Young, primarily in connection with refinancing its long-term debt, (ii) $8.0 million under its revolving credit line, and (iii) $4.1 million of debt assumed in the Bradington-Young acquisition. The Company also paid $3.0 million to terminate an interest rate swap agreement and paid dividends of $1.2 million during the 2003 six-month period.

### Swap Agreements

The aggregate fair market value of the Company's swap agreements decreases when interest rates decline and increases when interest rates rise. The aggregate decrease in the fair market value of the effective portion of the agreements of $1.5 million after tax ($2.4 million pretax) as of May 31, 2004, and $1.9 million after tax ($3.0 million pretax) as of November 30, 2003, is reflected under the caption "accumulated other comprehensive loss" in the consolidated balance sheets. See Note 8 to the Financial Statements included in this report for a discussion of the effect on comprehensive income of changes in the fair market value of the Company's swap agreements.

### Debt Covenant Compliance

The credit facility for the Company's revolving credit line and Term Loans A and B contains, among other things, financial covenants as to minimum tangible net worth, debt service coverage, the ratio of funded debt to earnings before interest, taxes, depreciation, and amortization, and maximum capital expenditures. The Company was in compliance with these covenants as of May 31, 2004.

### Liquidity and Capital Expenditures

As of May 31, 2004, the Company had $13.7 million available under its revolving credit line to fund working capital needs, and $30.3 million available under additional committed and uncommitted lines of credit, to support the issuance of letters of credit. The Company believes it has the financial resources (including available cash and cash equivalents, expected cash flow from operations, and lines of credit) needed to meet business requirements for the foreseeable future, including capital expenditures, working capital, repurchases of common stock under the Company's stock repurchase program, and dividends on the Company's common stock. Cash flow from operations is highly dependent on order rates and the Company's operating performance. The Company expects to spend an aggregate of $1.6 to $2.6 million in capital expenditures during the remainder of fiscal 2004 to maintain and enhance its facilities and operating systems.

### Dividends

At its June 23, 2004 meeting, the board of directors of Hooker Furniture Corporation declared a cash dividend of $0.06 per share, payable on August 31, 2004 to shareholders of record August 16, 2004.

## Forward-Looking Statements

Certain statements made in this report are not based on historical facts, but are forward-looking statements. These statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "would," or "anticipates," or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy.

These statements reflect the Company's reasonable judgment with respect to future events and 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 cyclical nature of the furniture industry;
- domestic and international competition in the furniture industry;
- general economic or business conditions, both domestically and internationally;
- fluctuations in the price of key raw materials, including lumber and leather;
- supply disruptions or delays affecting imported products;
- adverse political acts or developments in, or affecting, the international markets from which the Company imports products, including duties or tariffs imposed on products imported by the Company;
- fluctuations in foreign currency exchange rates affecting the price of the Company's imported products; and
- capital costs.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates, which could impact its results of operations and financial condition. The Company manages its exposure to these risks through its normal operating and financing activities and through the use of interest rate swap agreements with respect to interest rates.

The Company's obligations under its lines of credit, industrial revenue bonds and term loans, all bear interest at variable rates. The Company's outstanding debt (including current maturities) as of May 31, 2004, amounted to $6.4 million under the industrial revenue bonds, $16.4 million under Term Loan A and $4.6 million under Term Loan B. As of May 31, 2004, no balance was outstanding under the Company's revolving credit line. The Company has entered into interest rate swap agreements that, in effect, fix the rate of interest on the industrial revenue bonds at 4.7% through 2006 and Term Loan A at 3.8% through 2010. A fluctuation in market interest rates of one percentage point (or 100 basis points) would not have a material impact on the Company's results of operations or financial condition.

For imported products, the Company generally negotiates firm pricing with its foreign suppliers, for periods typically of up to one year. The Company accepts the exposure to exchange rate movements beyond these negotiated periods without using derivative financial instruments to manage this risk. Since the Company transacts its purchases of import products in U.S. Dollars, a decline in the relative value of the U.S. Dollar could increase the cost of imported products when the Company renegotiates pricing. As a result, a weakening U.S. Dollar exchange rate could adversely impact sales volume and profit margins during such periods. However, the Company generally expects to reflect substantially all of the effect of any price changes from suppliers in the price it charges for its imported products. Because the majority of the Company's imports are purchased from countries such as China, whose currencies are presently pegged to the U.S. Dollar, most of the Company's exposure to foreign currency fluctuation is negated.

**Item 4. Controls and Procedures**

In preparing for its initial Management’s Annual Report on Control Over Financial Reporting for the fiscal year ending November 30, 2004 (the “Report on Financial Reporting Controls”), the Company has been actively engaged in the review, documentation and testing of its internal control over financial reporting. During the quarter ended May 31, 2004, the Company identified what it considered to be a significant deficiency in internal controls that potentially could result in the recognition of revenue for certain sales of wood furniture prior to shipment. The Company has developed procedures to provide assurance that the revenue from those shipments will be recognized at the proper time. Those procedures will be implemented during July 2004.

Based on their most recent review, which was made as of the end of the Company’s fiscal quarter ended May 31, 2004, and taking into account the internal control deficiency discussed in the preceding paragraph and mitigating controls that were in place during the quarter, the Company’s principal executive officer and principal financial officer have concluded that the Company’s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company’s management, including its 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 Security and Exchange Commission’s rules and forms.

Also in connection with preparation for its Report on Financial Reporting Controls, the Company also identified and initiated a number of measures to improve the effectiveness of its internal control over financial reporting, during the quarter. In general, these measures included improved documentation, improved system access controls, additional segregation of duties, and documented reviews and approvals of work performed or procedures executed. These control improvements were not implemented in response to identified material weaknesses or significant deficiencies in internal control over financial reporting, but rather were taken to strengthen existing controls. The Company believes these control improvements, and additional control improvements the Company plans to implement, are reasonably likely to have, in the aggregate, a material positive effect on its internal control over financial reporting for future periods.

Other than the corrective measures and the control improvements discussed in the preceding paragraphs and corrective measures taken to address certain significant deficiencies discussed in the Company’s Annual Report on Form 10-K for the fiscal year ended November 30, 2003, there have been no changes in the Company’s internal control over financial reporting for the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 2. Changes in Securities and Use of Proceeds

In June 2001, the Company announced that its board of directors had authorized the repurchase of up to $3.0 million of the Company's common stock and announced an increase in that authorization of $2.2 million in October 2001, for an aggregate authorization of $5.2 million. There is no expiration date for this authorization. Repurchases may be made from time to time in the open market, or in privately negotiated transactions, at prevailing market prices that the Company deems appropriate. No shares of common stock were repurchased by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) during the second quarter of 2004. Through May 31, 2004, the Company had repurchased approximately 584,000 shares at a total cost of $2.5 million or an average of $4.29 per share. Based on the market value of the common stock as of May 28, 2004, the remaining $2.7 million of the authorization would allow the Company to repurchase approximately 124,000 shares, or 0.9%, of the 14.5 million shares outstanding, or 1.2% of the Company's outstanding shares excluding the 4.1 million shares held by the ESOP.

### Item 4. Submission of Matters to a Vote of Security Holders

On March 30, 2004, the Company held its Annual Meeting of Shareholders. At the meeting, the following business was transacted:

The following directors of the Company were elected for a term of one year. The votes cast for the election of each director were:

| Director | For | Withheld |
|---|---|---|
| Paul B. Toms, Jr. | 13,158,389 | 768,275 |
| Douglas C. Williams | 13,159,905 | 766,759 |
| J. Clyde Hooker | 13,145,042 | 781,622 |
| W. Christopher Beeler, Jr. | 13,887,676 | 38,988 |
| John L. Gregory, III | 13,139,598 | 787,066 |
| Irving M. Groves, Jr. | 13,788,821 | 137,843 |
| A. Frank Hooker, Jr. | 13,007,919 | 918,745 |
| Robert A. Taylor | 13,914,227 | 12,437 |
| L. Dudley Walker | 13,919,222 | 7,442 |

The shareholders also ratified the selection of KPMG LLP as the Company's independent registered public accounting firm for fiscal year 2004. The votes cast were:

| | | |
|---|---|---|
| For – 13,764,894 | Against – 133,962 | Abstain – 27,808 |

## Item 5. Other Information

EBIT and EBITDA

Set forth below is the Company's income before interest and income taxes, or EBIT, and income before interest, income taxes, depreciation and amortization, or EBITDA, for the three and six month periods ended May 31, 2004 and 2003. This information has been derived from the Company's unaudited consolidated financial statements. For each period presented, EBIT and EBITDA have been reconciled to the Company's net cash provided by operating activities. The Company provides these non-GAAP measures because it believes they are widely accepted financial indicators of the Company's liquidity. This information should be read in conjunction with the Financial Statements, including the related Notes, and Management's Discussion and Analysis included elsewhere in this quarterly report on Form 10-Q and in the Company's annual report on Form 10-K for the year ended November 30, 2003.

| | For the Three Months Ended May 31, | | For the Six Months Ended May 31, | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Net cash provided by operating activities | **$ 1,681** | $ 2,228 | **$ 6,227** | $ 8,240 |
| Net increase in assets and liabilities, net of effects of acquisition | **6,951** | 5,050 | **9,562** | 6,643 |
| Gain (loss) on disposal of property and equipment | | (1) | **11** | (5) |
| Restructuring and related asset impairment charge | | (1,470) | | (1,470) |
| Provision for doubtful accounts | **(158)** | (313) | **(378)** | (419) |
| Non-cash ESOP cost | **(1,015)** | (709) | **(2,030)** | (1,182) |
| Depreciation and amortization | **(1,945)** | (2,190) | **(3,838)** | (4,221) |
| Net income | **5,514** | 2,595 | **9,554** | 7,586 |
| Income taxes | **3,378** | 1,591 | **5,853** | 4,648 |
| Interest expense | **517** | 671 | **1,010** | 1,314 |
| Income before interest and income taxes | **9,409** | 4,857 | **16,417** | 13,548 |
| Depreciation and amortization | **1,945** | 2,190 | **3,838** | 4,221 |
| Income before interest, income taxes, depreciation, and amortization | **$ 11,354** | $ 7,047 | **$ 20,255** | $ 17,769 |

Resignation of Director

Effective July 1, 2004, Irving M. Groves, Jr., resigned as a member of the board of directors of the Company. Mr. Groves served as chair of the Compensation Committee and a member of the Audit Committee.

**Item 6. Exhibits and Reports on Form 8-K**

(a) Exhibits

| | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation of the Company, amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q (SEC File No. 000-25349) for the fiscal quarter ended February 28, 2003) |
| 3.2 | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form 10 (SEC File No. 000-25349)) |
| 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) |
| 10.1* | Commitment Letter and related Promissory Note, each dated May 18, 2004, between Branch Banking & Trust Company of Virginia ("BB&T") and the Company, renewing the BB&T Credit Line |
| 31.1* | Rule 13a-14(a) Certification of the Company's principal executive officer |
| 31.2* | Rule 13a-14(a) Certification of the Company's principal financial officer |
| 32.1* | Rule 13a-14(b) Certification of the Company's principal executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2* | Rule 13a-14(b) Certification of the Company's principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

(b) Reports on Form 8-K

Current Report on Form 8-K, dated March 8, 2004, furnished to the SEC on March 17, 2004, announcing the resignation of Alan D. Cole from the Company's board of directors effective March 8, 2004.

Current Report on Form 8-K, dated March 25, 2004, furnished to the SEC March 29, 2004, announcing the Company's results of operations for the first quarter of fiscal year 2004.

Current Report on Form 8-K, dated May 28, 2004, furnished to the SEC on May 28, 2004, announcing the appointment of Mark Schreiber to the Company's board of directors effective June 1, 2004, and resignation of J. Clyde Hooker, Jr., Chairman Emeritus, from the Company's board of directors effective May 31, 2004, for health reasons.

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* Filed herewith

## SIGNATURE

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

**HOOKER FURNITURE CORPORATION**

Date: July 6, 2004

By: /s/ R. Gary Armbrister

R. Gary Armbrister
Chief Accounting Officer
(Principal Accounting Officer)

**Exhibit 10.1**

May 17, 2004

Mr. E. Larry Ryder
Executive Vice President-Finance &
Administration
Hooker Furniture Corporation
Post Office Box 4708
Martinsville, VA 24115

Dear Larry:

Branch Banking and Trust Company of Virginia (“Bank”) is pleased to renew its line of credit at the amount of $20,000,000 to accommodate the issuance of Letters of Credit on behalf of Hooker Furniture Corporation. Terms and conditions of this commitment are as follows:

**Borrower:** The Borrower/Applicant shall be Hooker Furniture Corporation.

**Purpose:** The line of credit shall be used exclusively for the issuance of Commercial Letters of Credit as required in normal operations.

**Amount:** The maximum amount of this line of credit shall be Twenty Million Dollars ($20,000,000).

**Term:** This commitment shall be outstanding until April 30, 2005, at which time it will expire and be subject to review. All Letters of Credit issued under this line shall remain in force until their respective dates of expiration. The Bank may, however, at its option require the Borrower to post cash collateral equal to the undrawn amount of all letters credit outstanding upon the expiration of this commitment.

**Advances/Repayment:** Each Letter of Credit will be issued under a $20,000,000 promissory note to be executed by Borrower which shall provide that any advance of funds by Bank resulting from the issuance of Letters of Credit shall be repayable upon demand (the “Master Demand Note”).

**Loan Documents:** The documents evidencing this commitment and any letters of credit or funds outstanding thereunder shall include but not be limited to this loan agreement (the “Loan Agreement”), the Master Demand Note and any Applications for Irrevocable Commercial Letters of Credit (“L/C Applications”) (collectively the “Loan Documents”).

**Interest Rate:** Funds advanced under the Master Demand Note shall bear interest at Bank’s Prime Rate adjusted daily as Bank’s Prime Rate changes.

**<u>Fees</u>:** The Borrower and the Bank's International Services Division shall agree upon all fees.

**<u>Collateral</u>:** Unsecured other than customary liens arising from the L/C Applications.

**<u>Negative Pledge</u>:** The Borrower agrees that it will not create, incur, assume or suffer to exist, any lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than liens permitted under Section 7.01 (excluding subsection 7.01 (a) thereof) of that Credit Agreement dated as of April 30, 2003 among Hooker Furniture Corporation as Borrower and Bank of America, N.A., as Administrative Agent (the "B of A Agreement") as in effect on April 30, 2003 without regard to any subsequent amendments thereto.

**<u>Financial Covenants</u>:** All financial covenants in the B of A Agreement including but not limited to those contained in Section 6.12 thereof as amended from time to time are hereby incorporated herein by reference and shall constitute covenants hereunder.

**<u>Events of Default</u>:** Any default or event of default under any of the Loan Documents or any event of default under the B of A Agreement, that certain letter of credit facility dated as of June 19, 2002 between the Borrower and Wachovia Bank, National Association (the "Wachovia L/C Facility") or any other debt in excess of $500,000 shall constitute an Event of Default hereunder. Upon the occurrence of an Event of Default hereunder in addition to any other remedies contained in the Loan Documents and at its option Bank may (1) terminate its obligation to issue additional letters of credit, (2) declare any unreimbursed drawings under letters of credit to be immediately due and payable in full and (3) demand cash collateral to secure the Borrower's reimbursement obligations under any outstanding letters of credit.

**<u>Reporting</u>:** The Borrower shall furnish to Bank unqualified, audited financial statements within 120 days of each fiscal year-end and quarterly unaudited financial statements within 45 days of each fiscal quarter-end. The Borrower shall furnish to Bank copies of any reports required under the B of A Agreement or reports filed with the Securities and Exchange Commission. The Borrower shall immediately provide Bank with written notice of any event of default under the B of A Agreement, the Wachovia L/C Facility or any other debt in excess of $500,000.

Larry, we sincerely appreciate your business and look forward to continuing our mutually beneficial relationship with Hooker Furniture. If the terms of our commitment described above are acceptable, please indicate by signing, dating, and returning the original of this letter to my attention before May 31, 2004.

Thank you for your assistance in this request.. If you have any questions or concerns, please give me a call at 666-3257.

Sincerely,

Scott Taylor
Senior Vice President & City Executive

**Accepted this 18th day of May, 2004**

**HOOKER FURNITURE CORPORATION**

By: /s/ E. Larry Ryder

E. Larry Ryder
Title: Executive Vice President-Finance & Administration

By: /s/ Robert W. Sherwood

Robert W. Sherwood
Title: Vice President – Credit, Secretary, & Treasurer

**BB&T**
**PROMISSORY NOTE**

| | | |
|---|---|---|
| Borrower: | Hooker Furniture Corporation | |
| Account Number: | 9530265983 | Note Number: 90001 |
| Address: | P. O. Box 4708 | Date: April 30, 2004 |
| | Martinsville, Virginia 24115 | |

THE UNDERSIGNED REPRESENTS THAT THE LOAN EVIDENCED HEREBY IS BEING OBTAINED FOR BUSINESS/COMMERCIAL OR AGRICULTURAL PURPOSES. For value received, the undersigned, jointly and severally, if more than one, promises to pay to **BRANCH BANKING AND TRUST COMPANY OF VIRGINIA,** a Virginia banking corporation (the "Bank"), or order, at any of Bank's offices in the above referenced city (or such other place or places that may be hereafter designated by Bank), the sum of Twenty Million Dollars and no/100th ($20,000,000.00), in immediately available coin or currency of the United States of America.

**Interest shall accrue from the date hereof on the unpaid principal balance outstanding from time to time at the:**

- Variable rate of the Bank's Prime Rate per annum to be adjusted daily as the Bank's Prime Rate changes.

**Principaland interest is payable as follows:**

- Principal plus accrued interest is due in full on demand. Prior to an event of default, Borrower may borrow, repay, and reborrow hereunder pursuant to the terms of the Commitment Letter, hereinafter defined.

In addition, the undersigned promises to pay to Bank, or order, a late fee in the amount of four percent (4%) of any installment past due for fifteen (15) or more days. When any installment payment is past due for fifteen (15) or more days, subsequent payments shall first be applied to the past due balance. All interest shall be computed and charged for the actual number of days elapsed on the basis of a year consisting of three hundred sixty (360) days. In the event periodic accruals of interest shall exceed any periodic fixed payment amount described above, the fixed payment amount shall be immediately increased, or additional supplemental interest payments required on the same periodic basis as specified above (increased fixed payments or supplemental payments to be determined in the Bank's sole discretion), in such amounts and at such times as shall be necessary to pay all accruals of interest for the period and all accruals of unpaid interest from previous periods. Such adjustments to the fixed payment amount or supplemental payments shall remain in effect for so long as the interest accruals shall exceed the original fixed payment amount and shall be further adjusted upward or downward to reflect changes in the variable interest rate. In no event shall the fixed payment amount be reduced below the original fixed payment amount specified above.

**This note ("NOTE") is given by the undersigned in connection with the following agreements (if any) between the undersigned and the Bank:**

- Loan Agreement dated April 30, 2003 and various Applications for Irrevocable Commercial Letters of Credit executed by Hooker Furniture Corporation.

All of the terms, conditions and covenants of the above described agreements (the "Agreements") are expressly made a part of this Note by reference in the same manner and with the same effect as if set forth herein at length and any holder of this Note is entitled to the benefits of and remedies provided in the Agreements and any other agreements by and between the undersigned and the Bank.

In addition to collateral pledged pursuant to the terms of the Agreements (if any) described above, the undersigned, as collateral security for the indebtedness evidenced by this note, hereby grants the Bank a security interest and lien in and to all deposit accounts, certificates of deposit, securities and stocks now or hereafter in Bank's possession or on deposit with the Bank.

If any stock or securities are pledged to Bank herein, the security interest includes all stock splits, reissued shares, substituted shares, and all proceeds thereof, which the undersigned promises to deliver to Bank.

No delay or omission on the part of the holder in exercising any right hereunder shall operate as a waiver of such right or of any other right of such holder, nor shall any delay, omission or waiver on any one occasion be deemed a bar to or waiver of the same or of any other right on any future occasion. Every one of the undersigned and every endorser or guarantor of this note regardless of the time, order or place of signing waives presentment, demand, protest and notices of every kind and assents to any one or more extensions or postponements of the time of payment or any other indulgences, to any substitutions, exchanges or releases of collateral if at any time there be available to the holder collateral for this note, and to the additions or releases of any other parties or persons primarily or secondarily liable.

The failure to pay any part of the principal or interest when due on this Note or to fully perform any covenant, obligation or warranty on this or on any other liability to the Bank by any one or more of the undersigned, by any affiliate of the undersigned (as defined in 11 USC Section (101) (2)), or by any guarantor or surety of this Note (said affiliate, guarantor, and surety are herein called Obligor), or if any financial statement or other representation made to the Bank by any of the undersigned or any Obligor shall be found to be materially incorrect or incomplete, or in the event the default pursuant to any of the Agreements or any other obligation of any of the undersigned or any Obligor in favor of the Bank, or in the event the Bank demands that the undersigned secure or provide additional security for its obligations under this Note and security deemed adequate and sufficient by the Bank is not given when demanded, or in the event one or more of the undersigned or any Obligor shall die, terminate its existence, allow the appointment of a receiver for any part of its property, make an assignment for the benefit of creditors, or where a proceeding under bankruptcy or insolvency laws is initiated by or against any of the undersigned or any Obligor, or in the event the Bank should otherwise deem itself, its security interest, or any collateral unsafe or insecure; or should the Bank in good faith believe that the prospect of payment or other performance is impaired, or if there is an attachment, execution, or other judicial seizure of all or any portion of the Borrower's or any Obligor's assets, including an action or proceeding to seize any funds on deposit with the

Bank, and such seizure is not discharged within 20 days, or if final judgment for the payment of money shall be rendered against the Borrower or any Obligor which is not covered by insurance and shall remain undischarged for a period of 30 days unless such judgment or execution thereon is effectively stayed, or the termination of any guaranty agreement given in connection with this Note, then any one of the same shall be a material default hereunder and this Note and other debts due the Bank by any one or more of undersigned shall immediately become due and payable without notice, at the option of the Bank. From and after any event of default hereunder, interest shall accrue on the sum of the principal balance and accrued interest then outstanding at the variable rate equal to the Bank's Prime Rate plus 5% per annum ("Default Rate"), provided that such rate shall not exceed at any time the highest rate of interest permitted by the laws of the State of Virginia, and further provided that such rate shall apply after judgment. In the event of any default, the then remaining unpaid principal amount and accrued but unpaid interest then outstanding shall bear interest at the Default Rate called for hereunder until such principal and interest have been paid in full. In addition, upon default, the Bank may pursue its full legal remedies at law or equity, and the balance due hereunder may be charged against any obligation of the Bank to any party including any Obligor. **Bank shall not be obligated to accept any check, money order, or other payment instrument marked "payment in full" on any disputed amount due hereunder, and Bank expressly reserves the right to reject all such payment instruments. Borrower agrees that tender of its check or other payment instrument so marked will not satisfy or discharge its obligation under this Note, disputed or otherwise, even if such check or payment instrument is inadvertently processed by Bank unless in fact such payment is in fact sufficient to pay the amount due hereunder.**

The term "Prime Rate," if used herein, means the rate of interest per annum announced by the Bank from time to time and adopted as its Prime Rate. The Prime Rate is one of several rate indexes employed by the Bank when extending credit. Any change in the interest rate resulting from a change in the Bank's Prime Rate shall become effective as of the opening of business on the effective date of the change. If this Note is placed with an attorney for collection, the undersigned agrees to pay, in addition to principal and interest, all costs of collection, including but not limited to reasonable attorneys' fees. All obligations of the undersigned and of any Obligor shall bind his heirs, executors, administrators, successors, and/or assigns. Use of the masculine pronoun herein shall include the feminine and the neuter, and also the plural. If more than one party shall execute this Note, the term "undersigned" as used herein shall mean all the parties signing this Note and each of them, and all such parties shall be jointly and severally obligated hereunder. Wherever possible, each provision of this Note shall be interpreted in such a manner to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or invalid under such law, such provision shall be ineffective but only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Note. All of the undersigned hereby waive all exemptions and homestead laws. The proceeds of the loan evidenced by this Note may be paid to any one or more of the undersigned. From time to time the maturity date of this Note may be extended, or this Note may be renewed in whole or in part, or a new note of different form any be substituted for this Note, or the rate of interest may be modified, or changes may be made in consideration of loan extensions, and the holder hereof, from time to time may waive or surrender, either in whole or in part any rights, guaranties, secured interest, or liens, given for the benefit of the holder in connection with the payment and the securing the payment of this Note; but no such occurrence shall in any manner affect, limit, modify, or otherwise impair any rights, guaranties or security of the holder not specifically waived, released, or surrendered in writing, nor shall the undersigned makers, or any guarantor, endorser, or any person who is or might be liable hereon, either primarily or contingently, be released from such event. The holder hereof, from time to time, shall have the unlimited right to release any person who might be liable hereon, and such release shall not affect or discharge the liability of any other person who is or might be liable hereon. No waivers and modifications shall be valid unless in writing and signed by the Bank. The Bank may, at its option, charge any fees for the modification, renewal, extension, or amendment of any of the terms of the Note permitted by N.C.G.S.§24-1 .1. In case of a conflict between the terms of this Note and the Loan Agreement or Commitment Letter issued in connection herewith, the priority of controlling terms shall be first this Note, then the Loan Agreement, and then the Commitment Letter. This Note shall be governed by and construed in accordance with the laws of Virginia; provided however that any Mortgage encumbering the Borrower's property in South Carolina shall be governed by and construed in accordance with the laws of South Carolina, and the Borrower hereby submits to the jurisdiction of South Carolina in connection with any foreclosure or enforcement proceeding undertaken in connection with the Borrower's property situated in South Carolina.

IN WITNESS WHEREOF, the undersigned, on the day and year first written above, has caused this note to be executed under seal.

**HOOKER FURNITURE CORPORATION**

| | | | |
|---|---|---|---|
| ATTEST: | /s/ Robert W. Sherwood | By: | /s/ E. Larry Ryder |
| | Robert W. Sherwood | | E. Larry Ryder |
| Title: | Vice President- Credit, Secretary, & Treasurer | Title | Executive Vice President - Finance & Administration |
| | | By: | /s/ Robert W. Sherwood |
| | | | Robert W. Sherwood |
| | | Title: | Vice President-Credit, Secretary & Treasurer |

**Form 10-Q for the Quarterly Period Ended May 31, 2004**
**SECTION 13a-14(a) CERTIFICATION**

I, Paul B. Toms, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hooker Furniture Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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)) 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 quarterly report is being prepared;
   b) 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 quarterly report based on such evaluation; and
   c) 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 registrant's board of directors (or persons performing the equivalent function):
   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 controls over financial reporting.

Date: July 6, 2004

/s/ Paul B. Toms, Jr.

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

**Exhibit 31.2**

**Form 10-Q for the Quarterly Period Ended May 31, 2004**
**SECTION 13a-14(a) CERTIFICATION**

I, E. Larry Ryder, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Hooker Furniture Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly 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)) 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 quarterly report is being prepared;
   b) 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 quarterly report based on such evaluation; and
   c) 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 registrant's board of directors (or persons performing the equivalent function):
   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 controls over financial reporting.

Date: July 6, 2004

/s/ E. Larry Ryder

E. Larry Ryder
Executive Vice President - Finance and
Administration and Chief Financial Officer

**Exhibit 32.1**

**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”) Quarterly Report on Form 10-Q for the period ending May 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Paul B. Toms, Jr., Chief Executive Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (“Section 906”), that, to the best of my 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: July 6, 2004

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

Paul B. Toms, Jr.
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**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”) Quarterly Report on Form 10-Q for the period ending May 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, E. Larry Ryder, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (“Section 906”), that, to the best of my 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: July 6, 2004

By: /s/ E. Larry Ryder

E. Larry Ryder
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.