

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, 2010

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
(I.R.S. Employer Identification Number)

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

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

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

Title of Each Class
Common Stock, no par value

**Name of Each Exchange
on Which Registered**
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 x

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 x

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 o

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

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

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

Large accelerated filer o
Non-accelerated filer o

Accelerated filer x
Smaller reporting company o
(Do not check if a smaller reporting company)

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

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: \$141.8 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of April 12, 2010:

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

10,774,743
(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 8, 2010 are incorporated by reference into Part III.

TABLE OF CONTENTS

Part I	Page
Item 1. Business	3
Item 1A. Risk Factors	11
Item 1B. Unresolved Staff Comments	13
Item 2. Properties	14
Item 3. Legal Proceedings	14
Item 4. Submission of Matters to a Vote of Security Holders	14
Executive Officers of Hooker Furniture Corporation	15
Part II	
Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities	16
Item 6. Selected Financial Data	18
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	33
Item 8. Financial Statements and Supplementary Data	34
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	34
Item 9A. Controls and Procedures	34
Item 9B. Other Information	35
Part III	
Item 10. Directors, Executive Officers and Corporate Governance	36
Item 11. Executive Compensation	36
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	36
Item 13. Certain Relationships and Related Transactions, and Director Independence	36
Item 14. Principal Accountant Fees and Services	36
Part IV	
Item 15. Exhibits and Financial Statement Schedules	37
 Signatures	 38
 Index to Consolidated Financial Statements	 F-1

**Hooker Furniture Corporation
Part I**

ITEM 1. BUSINESS

General

Incorporated in Virginia in 1924 and celebrating our 85th anniversary in 2009, Hooker Furniture Corporation (“Company”, “we”, “us”, and “our”) is ranked among the nation’s top 10 largest publicly traded furniture sources, based on 2008 shipments to U.S. retailers, according to *Furniture/Today*, a leading trade publication. We are a key resource for residential wood, metal and upholstered furniture. Our major wood furniture product categories include home entertainment, home office, accent, dining, bedroom and bath furniture under the Hooker Furniture brand, and youth furniture sold under the Opus Designs by Hooker brand. Our residential upholstered seating companies include Cherryville, N.C.-based Bradington-Young, LLC, a specialist in upscale motion and stationary leather furniture, and Bedford, Va.-based Sam Moore Furniture LLC, a specialist in upscale occasional chairs with an emphasis on cover-to-frame customization. An extensive selection of designs and formats along with finish and cover options in each of these product categories makes us a comprehensive resource for retailers primarily targeting the upper-medium price range. Our principal customers are retailers of residential home furnishings who are broadly dispersed throughout North America. Customers include independent furniture stores, specialty retailers, department stores, catalog merchants, interior designers and national and regional chains.

We market wood and metal furniture under the Hooker Furniture, Envision and Opus Designs by Hooker brand names, and upholstered furniture under the Bradington-Young, Sam Moore and Envision brand names. Furniture is designed and marketed as stand-alone products or products within small multi-piece groups or broader collections offering a unifying style, design theme and finish. Examples of Hooker Furniture collections include Beladora, North Hampton and Kensington. Products also are marketed by product category, such as The Great Entertainers, SmartWorks Home Office and Opus Designs Youth Furniture by Hooker. Our wood and metal furniture is typically designed for and marketed in the medium to high price range. Under the Bradington-Young upholstery brand, we offer a broad variety of residential leather and fabric upholstered furniture and specialize in leather reclining and motion chairs, sofas, club chairs and executive desk chairs. Under the Sam Moore upholstery brand, we offer upscale occasional chairs with an emphasis on fabric-to-frame customization in the upper-medium to high-end price niches. Domestically produced upholstered furniture is targeted at the upper-medium and upper price ranges, while imported upholstered furniture is targeted at the medium and upper-medium price ranges. Hooker is a full-line resource for retailers, offering furniture collections and products for virtually every room of the home.

We have transformed our company from a predominantly wood furniture manufacturer to a product design, global sourcing, logistics and marketing company for residential wood and upholstered furniture. Prior to 2003, nearly seventy percent of our net sales were derived from the sale of domestically produced wood furniture; subsequently, sales of our better valued imported wood furniture rapidly overtook, and have now replaced sales of our domestically made furniture. We systematically closed our domestic wood furniture plants as our product mix increasingly shifted toward imported wood and metal furniture. In March 2007, we closed our Martinsville, Va. wood furniture production facility, the last of our domestic wood furniture plants, marking our exit from domestic wood furniture manufacturing. This completed our transformation from a wood furniture manufacturer to a company that both markets high-value wood, metal and upholstered furniture sourced globally and manufactures upholstered furniture.

Our goal to expand our offerings to furniture retailers led to the acquisitions of Bradington-Young in January 2003 and Sam Moore Furniture in April 2007. These acquisitions provided Hooker’s customers with a broad array of upholstered seating options to complement our wood and metal furniture offerings. In December 2007, we acquired certain assets of Opus Designs Furniture, a specialist in moderately-priced youth furniture. The Opus Designs acquisition provides us with expanded product offerings in a previously under-developed niche. In order to meet the needs of a younger and less affluent consumer, we introduced our Envision product line in April 2009.

With our exit from domestic wood furniture manufacturing, and the addition of upholstery, expanded bedroom offerings, and a product line focused on meeting the needs of a younger and less affluent consumer, Hooker Furniture’s transition to a design, marketing, logistics and global sourcing business model focused on imported wood and metal and domestically produced and imported upholstered home furnishings is complete.

Strategy and Mission

Our mission is to “enrich the lives of the people we touch,” using the following strategy:

- § To offer world-class style, quality and product value as a complete residential wood, metal and upholstered furniture resource through excellence in product design, manufacturing, global sourcing, marketing, logistics, sales, and customer service.
- § To be an industry leader in sales growth and profitability performance, providing an outstanding investment for our shareholders and contributing to the well-being of our employees, customers, suppliers and community neighbors.
- § To nurture the relationship-focused, team-oriented and honor-driven corporate culture that has distinguished our company for over 85 years.

Home furnishings account for all of Hooker’s net sales. The percentages of net sales provided by each of our major product sub-categories for the fifty-two week fiscal year that ended January 31, 2010, the fifty-two week fiscal year that ended February 1, 2009, and the fifty-three week fiscal year that ended February 3, 2008, were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Wood and metal furniture products	69%	72%	75%
Upholstered furniture products	31%	28%	25%
Total	100%	100%	100%

Product Design, Product Collections and Styles

Our product lines cover most major style categories, including European and American traditional, transitional, urban, country, casual and cottage designs. We offer furniture in a variety of materials, such as various types of wood, metal, leather and fabric, as well as veneer and rattan, often accented with marble, stone, slate, ceramic, glass, brass and/or hand-painted finishes. Products are designed to be attractive to consumers both as individual furniture pieces and as pieces within whole-home collections. We believe our wide variety of product categories, styles and finishes enables us to anticipate and respond quickly to changing consumer preferences.

We offer retailers a comprehensive furniture resource, particularly in the upper-medium price point, which has been our historical price niche. In an effort to broaden the appeal of our line to both consumers and retailers, over the past year we have offered a good-better-best merchandising assortment. Broadening our merchandising price range makes us a more complete resource for our established dealers and increases the scope of our offerings to additional retailers who are positioned below or above our core upper-medium price point range.

At the Hooker, Bradington-Young and Sam Moore divisions, we have addressed the medium price points through our new Envision line, products of more casual styles in moderate scaling and more affordable price points aimed at younger shoppers aged 25 to 44 with household incomes of \$75,000 and below. We have addressed the “best” price points and styling at Hooker through collections such as Beladora and Sanctuary.

Based on sales and market acceptance, we believe our products represent good value, and the style and quality of our furniture compares favorably with more premium-priced products.

The product life cycle for furniture continues to shorten as consumers demand innovative new features, functionality, style, finishes and fabrics that will enhance their lifestyle while providing value and durability. We believe our distinctive product design, development and market-launch process provides us with a competitive advantage. New styles in each of our product categories are designed and developed semi-annually to replace discontinued products and collections, and in some cases, to enter new product categories. Our collaborative product design process begins with the marketing team identifying customer needs and trends and conceptualizing product ideas and features. A variety of sketches are produced, usually by independent designers, from which prototype furniture pieces are built. We invite some of our independent sales representatives and a representative group of dealers to view and critique the prototypes. Based on this input, we may modify the designs and then prepare samples for full-scale production. We generally introduce new product styles at the International Home Furnishings Market (“the Market”) held each Fall and Spring in High Point, North Carolina, and support new product launches with promotions, public relations, product brochures, online marketing and point-of-purchase consumer materials. The flexibility of our global sourcing business model gives us the ability to offer a wide range of styles, materials and price points to a variety of retailers serving a range of consumer markets.

We continue to strive for innovation in the home office and home entertainment furniture categories, where we believe we are perceived as an industry leader.

Our approach to the home entertainment category is to offer presentation formats for TV sizes from 32" up to 73" in a variety of sizes and styles. Our stacking console program offers three sizes of consoles that may be displayed on retail floors in a pyramid formation to help the retailer maximize sales per square foot, while helping the consumer to easily evaluate size options. The smallest consoles in the stacking console program take 32" to 42" TVs; the middle size consoles take 50" to 55" TVs, and the largest consoles take 60" and up TVs. Sales of consoles with hutches also continue to grow, both with larger units that have back panels for mounting the TV and smaller units that include stands for 55" and smaller monitors on stands. This year, we are developing a new category within home entertainment for gaming consoles. Gaming consoles are designed to accommodate gaming stations like the Sony PlayStation®, Microsoft X-Box®, and the Nintendo Wii®. These units are more casual in design to fit in family rooms, take up to 65" monitors, and feature media storage drawers and a speaker compartment.

In the home theater and wall unit category, sales of large units designed for rooms with 10- and 12- foot ceilings have cooled off somewhat, but are still a substantial business. They can accommodate up to 73" TV's, and we offer several styles that fit into the large atrium family rooms in suburban homes. We have had success in moving to some smaller scaled transitional designs to appeal to a more urban, younger customer. Our new lower priced Envision product has a retail price point that is 1/3 less than most Hooker products.

In home office, Hooker continues to offer full sized executive office solutions. We are also focusing on smaller-scaled executive desks and credenza/hutches at 66" wide (compared to widths of 72" and up) to fit smaller scaled homes. Modular home office introductions also fit these smaller spaces, and we had several new styles and formats this year, including one that is at a 36" height so consumers can work from a taller chair or standing up. We have also augmented the home office modular segment with a lower priced product from our "Kendra" collection in the Envision line, again aimed at the younger, more urban consumer.

Bradington-Young continues to focus on strengthening the value proposition of the domestic and import leather upholstery product lines through the introduction of innovative products and programs. On the domestic side of the business, the continuing implementation of Lean Manufacturing process improvement technology is contributing to increasing value to the consumer through the reduction of non-value added costs and improved service to our customers. Following the success of Hooker and Sam Moore at this past October 2009 Market, Bradington-Young launched a new lifestyle upholstery product line under the Envision brand. Envision targets a younger consumer desiring high quality transitional styling in a more moderate price range. The introduction of Envision was highly successful and will be produced in domestic factories. Bradington-Young has also created a brand positioning statement from which to build on: "Comfort Never Looked So Good." This brand positioning statement will be used for all communications to dealers, consumers and employees. Lastly, Bradington-Young continues to expand its dealer base through aggressive merchandising and marketing initiatives targeting the Top 100 home furnishings dealers.

Sam Moore's product offerings fill several niches in the occasional chair category, offering exposed wood as well as fully upholstered seating. Sam Moore's occasional seating covers multiple styles that include upholstered swivel rockers, club chairs, wings, chaises, benches, ottomans, office chairs, settees, dining chairs and barstools in 18th Century, French, traditional, transitional, and contemporary styles. Most chair styles are available in a choice of either fabric or leather.

Sam Moore has a modern finishing facility that offers a choice of 30 different finishes for any exposed wood chair selection. Over one-half of the styles shipped are custom ordered with the customer's choice of leather, fabric and finish. In addition, Sam Moore customers may provide their own fabric (customer's own material "COM") to be applied to a chair. In fact, COM is the most popular fabric application choice of customers.

At the April High Point Market, the Sam Moore showroom was relocated to a new space that is contiguous to the Bradington-Young showroom, with a combined lobby/reception function. As a result, customer visits and new account additions were significantly increased for both companies. Also at that market, Sam Moore introduced Envision by Sam Moore, a new collection of more moderately priced chairs, styled to appeal to younger, more lifestyle oriented consumers. Along with more fashion forward fabrics and frame designs in the core product line, Sam Moore's product line is now more updated for today's consumers and marketplace.

It is Sam Moore's goal to be "America's Premier Chair Specialist" by offering a quality product from a complete selection of chairs in fresh leathers and fabrics with exceptional wood finishes.

During fiscal year 2010, we focused on updating product offerings for Opus Designs by Hooker Furniture, a specialist in moderately priced youth furniture, which we acquired in December 2007. Since that time, the sales, marketing, merchandising and operations of Opus Designs have been successfully integrated into our company, and the line positioned itself for growth by gaining floor placements with approximately 600 new retail customers. Despite a double-digit sales downturn in the furniture industry, sales of Opus Designs products increased slightly during fiscal 2009, but decreased by \$1 million in fiscal year 2010. Opus Designs by Hooker is poised to introduce several new groups in 2010 to expand its appeal. Focusing on upscale finishes, cleaner lines, superior quality and more transitional styling, the groups will reflect the changing tastes of the youth furniture consumer.

Sourcing

Hooker Furniture has the capability, resources, longstanding business relationships and experience to efficiently and cost effectively source our wood, metal and upholstered furniture.

Imported Products

We have sourced products from foreign manufacturers since 1988. We have imported finished furniture in a variety of styles, materials and product lines. We believe the best way to leverage our financial strength and differentiate our import business from the industry is through innovative and collaborative design, outstanding products, great value, consistent quality, easy ordering, and quick delivery through world-class global logistics and distribution systems. Imported wood, metal and upholstered furniture accounted for approximately 76% of net sales in fiscal 2010, 77% of net sales in fiscal 2009 and 76% of net sales in fiscal 2008.

Hooker imports products primarily from China, the Philippines, Indonesia, Vietnam, and Thailand through direct relationships with factories and with agents representing other factories. Because of the large number and diverse nature of the foreign factories from which we source our imported products, we have significant flexibility in the placement of products in any particular factory or country. Factories located in China are our primary resource for imported furniture. In fiscal 2010, imported products sourced from China accounted for approximately 94% of import purchases; and the factory in China from which we directly source the most product accounted for approximately 42% of our worldwide purchases of imported product. A sudden disruption in our supply chain from this factory, or from China in general, could significantly compromise our ability to fill customer orders for products manufactured at that factory or in that country. If such a disruption were to occur, we believe that we would have sufficient inventory to adequately meet demand for approximately four months. Also, with the broad spectrum of product we offer, we believe that, in some cases, buyers could be offered similar product available from alternative sources. We believe that we could, most likely at higher cost, source most of the products currently sourced in China from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for up to six months. If we were to be unsuccessful in obtaining those products from other sources or at a comparable cost, then a sudden disruption in our supply chain from our largest import furniture supplier, or from China in general, could have a short-term material adverse effect on our results of operations. Given the capacity available in China and other low-cost producing countries, we believe the risks from these potential supply disruptions are manageable.

Our imported furniture business is subject to the usual risks inherent in importing products manufactured abroad, including, but not limited to, supply disruptions and delays, currency exchange rate fluctuations, economic and political developments and instability, as well as the laws, policies, and actions of foreign governments and the United States affecting trade, including tariffs.

For imported products, Hooker generally negotiates firm pricing with its foreign suppliers in U.S. Dollars, typically for a term of at least one year. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk. 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 effects of any price increases from suppliers in the prices we charge for imported products. 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 could decrease the cost of imported products and favorably impact net sales and profit margins during affected periods. See also "Item 7A. Quantitative and Qualitative Disclosures about Market Risk."

Manufacturing and Raw Materials

At January 31, 2010, Hooker Furniture operated approximately 615,000 square feet of manufacturing and supply plant capacity in North Carolina and Virginia for its domestic upholstered furniture production. We consider the machinery and equipment at these locations generally to be modern and well-maintained.

We believe that there is a viable future for domestically produced upholstery, which, as an industry, has been less affected by import competition over the last five years than wood furniture production. Domestic seating companies with strong positions in the upper-medium to high-end price point have been the domestic furniture manufacturers least impacted by lower cost imports. In addition, domestic upholstery manufacturers have two key competitive advantages compared to imported upholstery manufacturers:

- offering customized cover-to-frame and fabric-to-frame combinations to the upscale consumer and interior design trade; and,
- offering quick four- to six-week product delivery of custom products.

Due to these and other competitive advantages, we remain committed to maintaining domestic production of upholstered furniture.

Bradington-Young's strategy for its upholstered furniture production operation is to be a comprehensive leather resource for retailers positioned in the upper and upper-medium price ranges. Bradington-Young offers a broad selection of approximately 273 leather covers for domestically produced upholstered furniture. The motion category comprises approximately 56% of Bradington-Young's domestic production. The upholstery manufacturing process begins with the cutting of leather or fabric and the cutting and precision machining of frames. Precision frames are important for motion furniture to operate properly and to provide durable service over the life of the products. Finally, the cut leather or fabric upholstery, frames, foam and other materials are assembled to build reclining chairs, executive seating, stationary seating and multiple-seat reclining furniture.

Sam Moore's strategy for its upholstery production operation is to be a complete source of fashionable upholstered chairs for all rooms of the home and other upholstered accent pieces, such as decorative upholstered headboards. Sam Moore offers a diverse range of approximately 200 different styles of upholstered products in over 550 fabric choices and over 100 leather choices. Sam Moore produces 95% of its products domestically at its single, large manufacturing facility in Bedford, Va.

Significant materials used in manufacturing upholstered furniture products include leather or fabric, foam, wooden frames and metal mechanisms. Most of the leather is imported from Italy, South America and China. Leather is purchased as full hides, which Bradington-Young and Sam Moore then cut and sew, and as pre-cut and sewn hides processed by the vendor to pattern specifications.

Costs for leather and leather products from Asia decreased modestly during fiscal 2010 due to economic pressures. As a result, Bradington-Young dealer prices were unchanged at the Fall Market. Late in the year, upward price pressure increased due to hide shortage and increased demand.

We believe that our sources for raw materials are adequate and that we are not dependent on any one supplier. Hooker's five largest suppliers accounted for approximately 31% of our raw materials supply purchases for domestic upholstered furniture manufacturing operations in fiscal 2010. Two suppliers accounted for more than 10% of our raw material purchases at 14% and 11% of total raw materials purchases, respectively. Should disruptions with either of these suppliers occur, we believe that we could successfully source these products from other suppliers without significant disruptions to our operations.

Distribution

Hooker companies utilize 95,000 square feet of showroom space in High Point, N.C. to introduce new products and collections and increase sales of existing products during the industry's Spring and Fall Pre-Markets and Markets. The Company also works directly with several large customers to develop proprietary products exclusively for those customers.

We sell our furniture through over 75 independent sales representatives to retailers of residential home furnishings, who are broadly dispersed throughout North America, including:

- independent furniture retailers such as Furnitureland South of Jamestown/High Point, N.C., Mathis Brothers of Oklahoma and California, Baer's Furniture of South Florida, and Berkshire Hathaway-owned companies Star Furniture, Jordan's Furniture, Nebraska Furniture Mart and R.C. Willey;
- department stores such as Macy's and Dillard's;
- regional chain stores such as Raymour & Flanigan and Haverty's;
- national chain stores such as Z Gallerie and Crate & Barrel; and
- catalog merchandisers such as Frontgate and the Horchow Collection, a unit of Neiman Marcus.

Hooker sold to more than 4,100 customers during fiscal 2010. No single customer accounted for more than 4% of our net sales in 2010. No significant part of our business is dependent upon a single customer, the loss of which would have a material effect on our business. However, the loss of several of our major customers could have a material impact on our business. In addition to our broad domestic customer base, approximately 4% of our net sales in 2010 were to international customers.

We believe this broad network of retailers and independent sales representatives reduces our exposure to regional recessions and allows us to capitalize on emerging trends in channels of distribution.

Hooker offers tailored merchandising programs, such as our SmartLiving ShowPlace in-store galleries, Seven Seas Treasures boutiques and Home Entertainment and SmartWorks Home Office galleries, to address each channel of distribution. These galleries are currently dedicated principally to furniture groups and whole-home collections under the Hooker, Bradington-Young, Sam Moore, and Opus Designs by Hooker Furniture brands, with plans to increase the number of galleries that carry our brands. These galleries typically comprise 3,500 to 8,000 square feet of retail space. The mission of the SmartLiving program is to develop progressive partnerships with retailers by providing a merchandising and marketing plan to drive increased sales and profitability and positively influence consumers' purchase decisions, satisfaction and loyalty through an enhanced shopping experience.

Currently, we have approximately 60 SmartLiving Showplace Galleries established throughout the country. There are approximately 340 dealers who dedicate space in their stores to display our Seven Seas Treasures line of imported upscale and casual dining room furniture, metal beds, occasional tables and functional accents, including hand-painted furniture, carved writing desks, tables and chests. In the home entertainment and home office categories, in which we are recognized as an industry leader, we have well-developed product specialty gallery programs supported by semi-annual national sales promotions, a special website dealer locator and point-of-purchase collateral materials. Over 280 dealers have Home Entertainment by Hooker galleries and more than 200 dealers have SmartWorks Home Office galleries in their retail stores. There are more than 130 Opus Designs by Hooker Furniture youth furniture galleries around the country. In addition, over 1,450 retailers offer Bradington-Young leather upholstery products and over 1,500 retailers offer Sam Moore Furniture occasional seating products.

During fiscal 2010, we hired a seasoned international furniture sales specialist as our Vice President of International Sales. We believe that our broad array of product across price points and covering both wood furniture and upholstery, makes us an attractive supplier to the international marketplace. With the variety of product our suppliers can deliver, we are able to design product catering to the needs of a particular geographic region. We believe that, over a few years, we can grow our international sales to a much more meaningful part of our business. Subsequent to the fiscal 2010 year-end, we hired an executive, who had previously served as a third generation independent sales representative for Hooker, as our Director of National Accounts in order to focus on growing our business at targeted national and regional key accounts. We believe we can significantly grow our business with this important group of dealers through this focused attention.

Warehousing, Inventory and Supply Chain Management

During fiscal year 2010, we continued to refine our supply chain and sourcing operations via systems enhancements and personnel additions in both the U.S. and China. Investments made in a new Global Purchasing System and a web-based Global Sourcing Management System, coupled with upgrades to current demand and inventory planning platforms, should help improve order fulfillment rates.

We distribute furniture to retailers from our distribution centers and warehouses in Virginia and North Carolina, as well as directly from Asia via our Container Direct Program. We have warehousing and distribution arrangements in China with two of our largest suppliers of imported products. The warehouse and distribution facilities are owned by the suppliers and operated by those suppliers and a third party utilizing a global warehouse management system that updates daily our central inventory management and order processing systems. Under the Container Direct Program, we offer directly to retailers in the U.S. a focused mix of over 1,400 of our best selling items sourced from these three suppliers. The program features an internet-based product ordering system and a delivery notification system that is easy to use and available to our pre-registered dealers. In addition, we also ship containers directly from a variety of other suppliers in Asia. We are committed to exploring ways to continually improve our distinctive, value-added Container Direct Program through additional warehouses at key vendors, product consolidation and routing strategies aimed at shortening delivery times and providing significant cost savings for retailers.

Seven Seas Seating, Bradington-Young's line of imported upholstered furniture, experienced rapid growth from its introduction in the 2003 fourth quarter through fiscal year 2008. In fiscal year 2009, net sales of Seven Seas Seating declined by \$1.3 million, or 9.2% to \$12.9 million as compared to \$14.2 million in fiscal 2008. Fiscal year 2010 sales were essentially flat at \$12.7 million. Unlike domestic upholstered production, Seven Seas Seating products are purchased based on a forecast of product demand and shipped out of inventory from 109,000 square feet of leased warehouse space in Cherryville, N.C. Seven Seas Seating may also be purchased under the Container Direct Program, and a container order can include any of the product produced at a given supply plant.

In April 2009 Sam Moore introduced its Paris Flea Market line of imports. The line is a diverse product mix including ottomans, benches, chairs, loveseats, and sofas. There are 63 styles in the line produced by 3 factories in China. Sam Moore warehouses these styles and orders mixed containers according to rate of sale. Orders are shipped from their facility in Bedford, Va. In addition to Paris Flea Market, Sam Moore also imports one club chair and ottoman set and a recliner. They are ordered by container from an additional supplier in China and shipped from the Bedford, Va. facility. All styles can be ordered and shipped directly to the customer in full containers. Sam Moore also imports one style chair from yet another factory in China that is shipped directly to the customer in container load quantities.

Hooker Furniture schedules purchases of imported furniture and production of domestically manufactured upholstered furniture based upon actual and anticipated orders and product acceptance at the Spring and Fall Markets. We strive to provide imported and domestically produced furniture on-demand for our dealers. During fiscal year 2010, we shipped 77% of all wood and metal furniture orders and 68% of all upholstery orders within 30 days of order receipt. It is our policy and industry practice to allow order cancellation for wood and metal furniture up to the time of shipment; therefore, customer orders for wood and metal furniture are not firm. However, domestically produced upholstered product orders are predominantly custom-built and shipped within six weeks after the order is received and consequently, cannot be cancelled once the leather or fabric is cut.

Our backlog of unshipped orders for all of our products amounted to \$29.2 million or approximately 7 weeks of sales as of January 31, 2010. For the last three years, over 95% of all orders booked were ultimately shipped. Management considers orders and backlogs to be one helpful indicator of sales for the upcoming 30-day period, but because of our quick delivery and our cancellation policy, management does not consider order backlogs to be a reliable indicator of expected long-term business.

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. While the markets in which Hooker competes 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 China, have stabilized in recent years, and some overseas companies have increased both their presence through wholesale distributors based in the United States and their shipments directly to U.S. retailers during that period.

The primary competitive factors for home furnishings in our price points include price, style, availability, service, quality and durability. We believe that our design capabilities, ability to import and/or manufacture upholstered furniture, product value, longstanding customer and supplier relationships, significant distribution and inventory capabilities, ease of ordering, financial strength, experienced management and customer support are significant competitive advantages.

In November 2004 and January 2005, the U.S. Department of Commerce found that certain Chinese furniture manufacturers were dumping bedroom products into the U.S. market and imposed tariffs on Chinese companies for wood bedroom products exported to the U.S. The tariff rates were approved in a subsequent action by the International Trade Commission, based on measured damage to the U.S. furniture manufacturing industry caused by illegal dumping. Tariffs on imported bedroom furniture have not and are not expected to have a material adverse effect on our results of operations.

Employees

As of January 31, 2010, we had approximately 768 permanent employees. None of our employees are represented by a labor union. We consider our relations with our employees to be good.

Patents and Trademarks

The Hooker Furniture, Bradington-Young, Sam Moore and Opus Designs by Hooker Furniture trade names represent many years of continued business. We believe these trade names are well-recognized and associated with quality and service in the furniture industry. We also own a number of patents and trademarks, none of which are considered to be material.

Hooker, the "H" logo, Bradington-Young, the "B-Y" logo, Sam Moore, Sam Moore Furniture Industries, Sam Moore Furniture, LLC, America's Premier Chair Specialist, Opus Designs by Hooker Furniture, Forever Young, Envision Lifestyle Collections by Hooker Furniture, Albany Park, Abbott Place, Beladora, Belle Vista, Benetton, Casablanca, North Hampton, Kinston, Kemperton, Kendra, Legends, Summerglenn, Vineyard, Villagio, Chatham, Brookhaven, Belle Grove, Villa Grande, Villa Florence, Fairview, Mirabel, Danforth, Small Office Solutions, Preston Ridge, Sanctuary, Sectional Sofas by Design, Seven Seas, Seven Seas Seating, SmartLiving ShowPlace, SmartWorks Home Office, SmartWorks Home Center, The Great Entertainers, Wexford Square and Waverly Place are registered trademarks of Hooker Furniture Corporation.

Governmental Regulations

Our company is subject to federal, state, and local laws and regulations in the areas of safety, health, environmental pollution controls and importing. Compliance with these laws and regulations has not in the past had any material effect on our earnings, capital expenditures, or competitive position; however, the effect of compliance in the future cannot be predicted. We believe that we are in material compliance with applicable federal, state and local safety, health, environmental and importing regulations.

Additional Information

You may visit us online at www.hookerfurniture.com, www.bradington-young.com, www.opusdesigns.net, www.sammoore.com, and www.envisionfurniture.com. Hooker makes available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other documents as soon as practical after they are filed with or furnished to to the Securities and Exchange Commission. A free copy of our Form 10-K may also be obtained by contacting Robert W. Sherwood, Vice President - Credit, Secretary and Treasurer at our corporate offices.

Forward-Looking Statements

Certain statements made in this report, including under “Item 1 - Business” and “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations,” 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:

- current economic conditions and instability in the financial and credit markets including their potential impact on our (i) sales and operating costs and access to financing, (ii) customers and suppliers and their ability to obtain financing or generate the cash necessary to conduct their business;
- general economic or business conditions, both domestically and internationally;
- price competition in the furniture industry;
- changes in domestic and international monetary policies and fluctuations in foreign currency exchange rates affecting the price of our imported products and raw materials;
- the cyclical nature of the furniture industry, which is particularly sensitive to changes in consumer confidence, the amount of consumers’ income available for discretionary purchases, and the availability and terms of consumer credit;
- risks associated with the cost of imported goods, including fluctuation in the prices of purchased finished goods and transportation and warehousing costs;
- supply, transportation and distribution disruptions, particularly those affecting imported products;
- adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products;
- risks associated with domestic manufacturing operations, including fluctuations in capacity utilization and the prices of key raw materials, transportation and warehousing costs, domestic labor costs and environmental compliance and remediation costs;
- our ability to successfully implement our business plan to increase sales and improve financial performance;
- achieving and managing growth and change, and the risks associated with acquisitions, restructurings, strategic alliances and international operations;
- risks associated with distribution through retailers, such as non-binding dealership arrangements;
- capital requirements and costs;
- competition from non-traditional outlets, such as catalogs, internet and home improvement centers;
- changes in consumer preferences, including increased demand for lower quality, lower priced furniture due to declines in consumer confidence and/or discretionary income available for furniture purchases and the availability of consumer credit; and
- higher than expected costs associated with product quality and safety, including regulatory compliance costs related to the sale of consumer products and costs related to defective products.

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

ITEM 1A. RISK FACTORS

Our business is subject to a variety of risks. The risk factors detailed 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, financial condition and 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 our business.

An economic downturn could result in a decrease in sales and earnings.

The furniture industry is subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Home furnishings are generally considered a postponeable purchase by most consumers. Economic downturns could affect consumer spending habits by decreasing the overall demand for home furnishings. These events could also impact retailers, Hooker's primary customers, possibly resulting in a decrease in our sales or earnings. Changes in interest rates, consumer confidence, new housing starts, existing home sales, and geopolitical factors have particular significant effects on our Company. A recovery in the Company's sales could lag significantly behind a general recovery in the economy after an economic downturn due to the postponeable nature and relatively significant cost of home furnishings purchases.

We may lose market share due to competition, which would decrease future sales and earnings.

The furniture industry is very competitive and fragmented. Hooker competes with many domestic and foreign manufacturers. Some competitors have greater financial resources than we have and often offer extensively advertised, well-recognized, branded products. Competition from foreign producers has increased dramatically over the past decade. We may not be able to meet price competition or otherwise respond to competitive pressures, including increases in supplier and production costs. Also, due to the large number of competitors and their wide range of product offerings, we may not be able to continue to differentiate our products (through styling, finish and other construction techniques) from those of our competitors. In addition, large retail furniture dealers have the ability and could at any time begin to obtain offshore sourcing on their own. As a result, we are continually subject to the risk of losing market share, which may lower sales and earnings.

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

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 result in lower sales and earnings.

A loss of several large customers through business consolidations, failures or other reasons could result in a decrease in future sales and earnings.

The loss of several of our major customers through business consolidations, failures or otherwise, could materially adversely affect our sales and earnings. Lost sales may be difficult to replace. Amounts owed to Hooker by a customer whose business fails, or is failing, may become uncollectible.

Our ability to grow sales and earnings depends on the successful execution of our business strategies.

We are primarily a residential furniture design, sourcing, marketing and logistics company with domestic upholstery manufacturing capabilities. Our ability to maintain and grow sales and earnings depends on the continued correct selection and successful execution and refinement of our overall business strategies and business systems for designing, marketing, sourcing, distributing and servicing our products. We must also make good decisions about product mix and inventory availability targets. Since we have exited domestic manufacturing of wood furniture and are now completely dependent on offshore suppliers for wood and metal furniture products, we must continue to enhance relationships and business systems that allow us to continue to work more efficiently and effectively with our global sourcing suppliers. We must also continue to evaluate the appropriate mix between domestic manufacturing and foreign sourcing for upholstered products. All of these factors affect our ability to grow sales and earnings.

We depend on suppliers in China for a very high proportion of our imported furniture products, and a disruption in supply from China or from our most significant Chinese supplier could undermine our ability to timely fill customer orders for these products and adversely affect our sourcing costs.

In fiscal 2010, imported products sourced from China accounted for approximately 94% of our import purchases and the factory in China from which we directly source the largest portion of our import products accounted for approximately 42% of our worldwide purchases of imported products. A sudden disruption in our supply chain from this factory, or from China in general, could significantly impact our ability to fill customer orders for products manufactured at that factory or in that country. If such a disruption were to occur, we believe that we would have sufficient inventory to adequately meet demand for approximately four months. We believe that we could, most likely at higher cost, source most of the products currently sourced in 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 remedial measures could be implemented. If we were to be unsuccessful in obtaining those products from other sources or at comparable cost, then a sudden disruption in our supply chain from our largest import furniture supplier, or from China in general, could have a short-term material adverse effect on our results of operations.

Changes in the value of the U.S. Dollar compared to the currencies for the countries from which we obtain our products could adversely affect net sales and profit margins.

For imported products, we generally negotiate firm pricing with our foreign suppliers in U.S. Dollars, typically for periods of at least one year. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk. 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 adversely impact net sales and profit margins during affected periods.

Our dependence on offshore suppliers could, over time, adversely affect our ability to service customers, which could lower future sales and earnings.

We rely exclusively on offshore suppliers for our wood and metal furniture products. Our offshore 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 vendors, potentially at a higher cost, or may be forced to discontinue products. Also, delivery of goods from offshore vendors may be delayed for reasons not typically encountered for domestically manufactured wood and metal furniture, such as shipment delays caused by customs or labor issues. Our failure to fill customer orders during an extended business interruption by a major offshore supplier could negatively impact existing customer relationships resulting in decreased sales and earnings.

We rely on offshore sourcing for all of our wood and metal products, and for some of our upholstered products. We are subject to changes in local government regulations, which could result in a decrease in earnings.

Changes in political, economic, and social conditions, as well as laws and regulations in the foreign countries where we source our products could have an adverse impact on our performance. These changes could make it more difficult to provide products and service to customers. International trade 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 could increase our costs and decrease our earnings. For example beginning in 2004, the U.S. Department of Commerce has imposed tariffs on wooden bedroom furniture coming into the United States from China. In this case, none of the rates imposed were of sufficient magnitude to alter our import strategy in any meaningful way; however, these tariffs are subject to review and could be increased in the future.

If demand for our domestically manufactured upholstered furniture declines and we respond by realigning manufacturing, our near-term earnings could decrease.

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

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 costs, any of which could decrease our sales or earnings.

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. The inability to meet customers' demands could result in the loss of future sales. We may not always be able to pass along price increases in raw materials to our customers due to competition and market pressures.

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

Accounting rules require that long-lived assets be tested for impairment when circumstances indicate, but at least annually. We have \$22.7 million in net long-lived assets, consisting primarily of property, plant and equipment, trademarks and trade names, which based upon the outcome of the annual test, could result in the write-down of all or a portion of these assets. A write-down of our assets would, in turn, reduce our earnings and net worth. Over the past three fiscal years, we have written down \$6.2 million in long lived assets. It is possible that we will have additional write-downs in the future, resulting in additional reductions to our earnings and net worth. Factors which may lead to additional write-downs of our long lived assets 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 assets use; or
- § 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

We may engage in acquisitions and investments in companies, which could disrupt our business, dilute our earnings per share and decrease the value of our common stock.

We may acquire or invest in businesses that offer complementary products and that we believe offer competitive advantages. However, we may fail to identify significant liabilities or risks that 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 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Set forth below is information with respect to our principal properties. We believe all of these properties are well-maintained and in good condition. We believe our manufacturing facilities are efficiently utilized. During fiscal 2010, we estimate our upholstery plants operated at approximately 75% 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 imports operation on a short and 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 and represent approximately 2.0 million square feet of owned or leased space.

Location	Primary Use	Approximate Size in Square Feet	Owned or Leased
Martinsville, Va.	Corporate Headquarters	43,000	Owned
Martinsville, Va.	Distribution and Imports	580,000	Owned
Martinsville, Va.	Distribution	189,000	Owned
Martinsville, Va.	Customer Support Center	146,000	Owned
Martinsville, Va.	Distribution	200,000	Leased (1)
High Point, N.C.	Showroom	95,000	Leased (2)
Cherryville, N.C.	Manufacturing and Offices	144,000	Owned (3)
Cherryville, N.C.	Manufacturing Supply Plant	53,000	Owned (3)
Cherryville, N.C.	Distribution and Imports	74,000	Leased (3) (4)
Cherryville, N.C.	Distribution and Imports	35,000	Leased (3) (5)
Hickory, N.C.	Manufacturing	91,000	Owned (3)
Bedford, Va.	Manufacturing and Offices	327,000	Owned (6)

(1) Lease expires December 31, 2010

(2) Lease expires April 30, 2014

(3) Comprise the principal properties of Bradington-Young

(4) Lease expires June 30, 2010 and provides for a one year extension, at our election.

(5) Lease expires June 30, 2010.

(6) Comprise the principal properties of Sam Moore Furniture LLC

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

Location	Primary Use	Approximate Size in Square Feet
Guangdong, China	Distribution	210,000 (1)
Guangdong, China	Distribution	35,000 (2)

(1) This property is subject to an operating agreement that expires on July 31, 2010 and automatically renews for one year on its anniversary date unless notification of termination is provided 120 days prior to such anniversary.

(2) This property is subject to an operating agreement that expires on May 31, 2010 and automatically renews for one year on its anniversary date.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. RESERVED

**EXECUTIVE OFFICERS OF
HOOKER FURNITURE CORPORATION**

Hooker Furniture's executive officers and their ages as of April 15, 2010 and the year each joined the company are as follows:

Name	Age	Position	Year Joined Company
Paul B. Toms, Jr.	55	Chairman, President and Chief Executive Officer	1983
E. Larry Ryder	62	Executive Vice President - Finance and Administration, Assistant Secretary and Assistant Treasurer	1977
Alan D. Cole	60	President and Chief Executive Officer - Upholstery	2007
Bruce R. Cohenour	52	Executive Vice President - Marketing	2007
Raymond T. Harm	60	Senior Vice President - Sales	1999
Arthur G. Raymond, Jr.	62	Senior Vice President - Operations	2010

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

E. Larry Ryder has been Executive Vice President - Finance and Administration and Chief Financial Officer since December 2000, Assistant Treasurer since 1998, and Assistant Secretary since 1990. Mr. Ryder was Senior Vice President - Finance and Administration and Chief Financial Officer from December 1987 to December 2000, Treasurer from 1989 to 1998, and Vice President - Finance and Administration from 1983 to 1987. Prior to 1983, Mr. Ryder served in various financial management positions. Mr. Ryder joined the Company in 1977 and was a Director from 1987 until 2003.

Alan D. Cole has been President and Chief Executive Officer - Upholstery since August 2008. Mr. Cole joined the Company in April 2007 as Executive Vice President - Upholstery Operations. Prior to joining the Company, Mr. Cole was President and Chief Executive Officer of Schnadig Corporation, a manufacturer and marketer of a full line of medium-priced home furnishings from 2004 to 2006. Mr. Cole has been President of Parkwest LLC, a real estate development firm from 2002 to the present. Mr. Cole also served as a member of the Company's Board of Directors in 2003.

Bruce R. Cohenour has been Executive Vice President - Marketing since May 2009. Mr. Cohenour joined the Company in February 2007 as Senior Vice President of National Accounts and Business Development. Prior to joining the Company, Mr. Cohenour served as an independent sales representative for the Company from 1995 to 2006.

Raymond T. Harm has been Senior Vice President - Sales since joining the Company in 1999. Prior to joining the Company, Mr. Harm served as Vice President - Sales for The Barcalounger Company, a manufacturer of upholstered motion furniture from 1992 to 1999.

Arthur G. Raymond, Jr. has been Senior Vice-President of Operations since joining the Company in 2010. Prior to joining the Company, Mr. Raymond served as President of A.G. Raymond & Company, Inc., a management and technical consulting firm serving the furniture industry, from 1980 through 2010.

Hooker Furniture Corporation
Part II

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

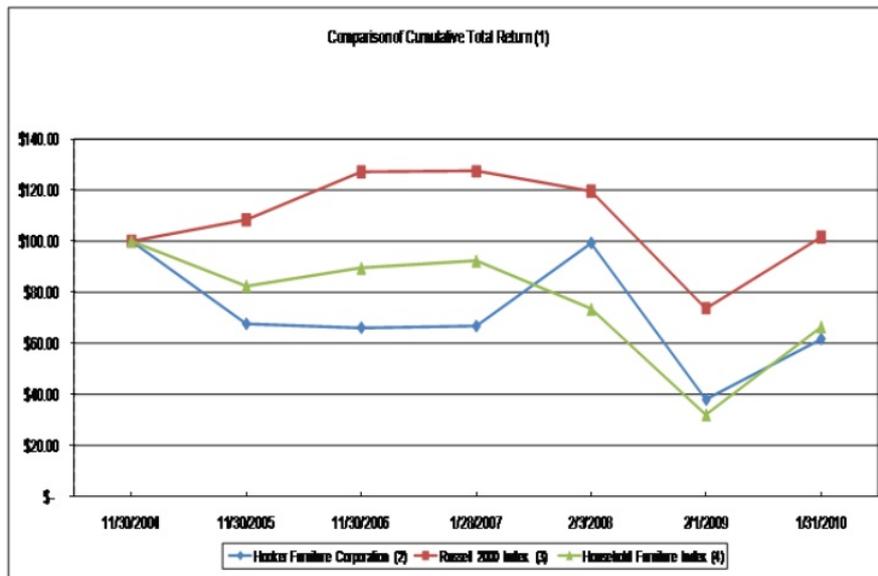
Our stock is traded on the NASDAQ Global Select Market under the symbol "HOFT". The table below sets forth the high and low sales prices per share for our common stock and the dividends per share we paid with respect to our common stock for the periods indicated.

	Sales Price Per Share		Dividends Per Share
	High	Low	
November 2, 2009 - January 31, 2010	\$ 13.67	\$ 10.94	\$ 0.10
August 3 - November 1, 2009	14.44	12.38	0.10
May 4 - August 2, 2009	14.11	11.06	0.10
February 2 - May 3, 2009	12.17	5.11	0.10
November 3, 2008 - February 1, 2009	10.09	5.64	0.10
August 4 - November 2, 2008	20.59	8.35	0.10
May 5 - August 3, 2008	21.94	15.80	0.10
February 4 - May 4, 2008	24.00	19.20	0.10

As of January 31, 2010, we had approximately 1,847 beneficial shareholders. We pay dividends on our common stock on or about the last day of February, May, August and November, when declared by the Board of Directors, to shareholders of record approximately two weeks earlier. Although we presently intend to continue to declare 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 from time to time 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 an industry index, the Household Furniture Index, for the period from November 30, 2004 to January 31, 2010. The Household Furniture Index combines all home furnishings companies whose securities are registered with the SEC under the Securities Exchange Act of 1934.



- (1) The graph shows the cumulative total return on \$100 invested at the beginning of the measurement period in the Company's Common Stock or the specified index, including reinvestment of dividends.
- (2) On August 29, 2006, we approved a change in our fiscal year. After the fiscal year ended November 30, 2006, our fiscal year ends on the Sunday nearest to January 31. Information regarding the change in the Company's fiscal year is available in the Company's Form 8-K filed September 1, 2006. In making the transition to a new fiscal year, the Company completed a two-month transition period that began December 1, 2006 and ended January 28, 2007. The Company's fiscal years ended January 31, 2010, February 1, 2009, February 3, 2008 and the transition period are reflected in the Performance Graph.
- (3) 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.
- (4) The Household Furniture Index (SIC Codes 2510 and 2511) as prepared by Zack's Investment Research. On March 9, 2010, Zacks Investment Research reported that the Household Furniture Index consisted of: Bassett Furniture Industries, Inc., Chromcraft Revington, Inc., Ethan Allen Interiors Inc., Flexsteel Industries, Inc., Furniture Brands International, Inc., Furniture Brands International, Inc., Hooker Furniture Corporation, La-Z-Boy Incorporated, Natuzzi S.p.A, Tempur Pedic International, Inc., Leggett and Platt, Inc., Sealy Corp., Select Comfort Corp. and Stanley Furniture Company, Inc.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for each of our last five fiscal years and for the two-month transition period ended January 28, 2007 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.

	For The 52 Weeks Ended (8)		For the 53 Weeks Ended (8)	For the Two Months Ended (8)	For the Twelve Months Ended (8)	
	January 31, 2010 (1)(2)	February 1, 2009 (1)(2)	February 3, 2008 (1)(2)	January 28, 2007	Nov. 30, 2006	Nov. 30, 2005
(In thousands, except per share data)						
Income Statement Data:						
Net sales	\$ 203,347	\$ 261,162	\$ 316,801	\$ 49,061	\$ 350,026	\$ 341,775
Cost of sales	154,931	200,878	235,057	37,876	269,681	265,051
Gross profit	48,416	60,284	81,744	11,185	80,345	76,724
Selling and administrative expenses	41,956	45,980	51,738	7,028	50,680	50,319
ESOP termination compensation charge (3)	-	-	-	18,428	-	-
Restructuring (credits) charges (4)	-	(951)	309	2,973	6,881	5,250
Goodwill and intangible asset impairment charges (5)	1,274	4,914	-	-	-	-
Operating income (loss)	5,186	10,341	29,697	(17,244)	22,784	21,155
Other (expense) income, net	(99)	323	1,472	129	(77)	(646)
Income (loss) before income taxes	5,087	10,664	31,169	(17,115)	22,707	20,509
Income taxes	2,079	3,754	11,514	1,300	8,569	8,024
Net income (loss)	3,008	6,910	19,655	(18,415)	14,138	12,485
Per Share Data:						
Basic and diluted earnings per share (5)	\$ 0.28	\$ 0.62	\$ 1.58	\$ (1.52)	\$ 1.18	\$ 1.06
Cash dividends per share	0.40	0.40	0.40	-	0.31	0.28
Net book value per share (6)	11.86	12.06	12.18	12.23	13.49	12.50
Weighted average shares outstanding (basic)	10,753	11,060	12,442	12,113	11,951	11,795
Balance Sheet Data:						
Cash and cash equivalents	\$ 37,995	\$ 11,804	\$ 33,076	\$ 47,085	\$ 31,864	\$ 16,365
Trade accounts receivable	25,894	30,261	38,229	37,744	45,444	43,993
Inventories	36,176	60,248	50,560	62,803	68,139	68,718
Assets held for sale (7)	-	-	-	3,475	-	1,656
Working capital	87,894	91,261	102,307	127,193	124,028	110,421
Total assets	149,099	153,467	175,232	202,463	201,299	189,576
Long-term debt (including current maturities)	-	5,218	7,912	10,415	11,012	13,295
Shareholders' equity	127,592	129,710	140,826	162,310	162,536	148,612

- (1) On April 28, 2007, we acquired substantially all of the assets of Bedford, Va.-based fabric upholstered seating specialist Sam Moore Furniture. Shipments of Sam Moore upholstered furniture products accounted for \$22.2 million in net sales for fiscal 2010, \$25.4 million in net sales for fiscal 2009 and for \$20.8 million in net sales for fiscal 2008 following the acquisition.
- (2) On December 14, 2007, we acquired the assets of Opus Designs Furniture, LLC, a specialist in imported moderately-priced youth bedroom furniture. Shipments of Opus youth bedroom furniture products accounted for \$4.6 million in net sales for fiscal 2010, \$5.6 million in net sales for fiscal 2009 and for \$636,000 in net sales for fiscal 2008 following the acquisition.
- (3) On January 26, 2007, we terminated our Employee Stock Ownership Plan (ESOP). The termination resulted in an \$18.4 million non-cash, non-tax deductible charge to earnings in January 2007.
- (4) We have closed facilities in order to reduce and ultimately eliminate our domestic wood furniture manufacturing capacity. As a result, we recorded restructuring charges and credits, principally for severance and asset impairment, as follows:
 - a) in fiscal 2009 we recorded credits of \$951,000 (\$592,000 after tax), or \$0.05 per share related to previously accrued employee benefits and environmental costs not expected to be paid;
 - b) in fiscal 2008, we recorded charges of \$309,000 (\$190,000 after tax), or \$0.02 per share, principally related to the March 2007 closing and sale of our Martinsville, Va. manufacturing facility;
 - c) in the 2007 two-month transition period, we recorded charges of \$3.0 million (\$1.8 million after tax), or \$0.15 per share, principally for severance and related benefits for salaried and hourly employees related to the planned closing of our Martinsville, Va. manufacturing facility;
 - d) in fiscal 2006, we recorded charges of \$6.9 million (\$4.3 million after tax), or \$0.36 per share, principally related to the planned closing of our Martinsville, Va. manufacturing facility and the closing of our Roanoke, Va. facility; and
 - e) in fiscal 2005, we recorded charges of \$5.3 million (\$3.3 million after tax), or \$0.28 per share, principally related to the closing of our Pleasant Garden, N.C. facility.

- (5) In 2010, based on our impairment assessments of goodwill and other intangible assets, we recorded asset impairment charges of \$661,000 (\$412,000, after tax) or \$0.04 per share on our Opus Designs trade name and \$613,000 (\$382,000, pretax) or \$0.04 per share on our Bradington-Young trade name. In fiscal 2009, we recorded asset impairment charges of \$3.8 million (\$2.5 million, after tax), or \$0.22 per share, primarily related to the write-off of goodwill resulting from the acquisition of Opus Designs in 2007 and of Bradington-Young in 2003, and \$1.1 million (\$685,000 after tax) or \$0.06 per share to write down the Bradington-Young trade name.
- (6) Net book value per share is derived by dividing (a) "shareholders' equity" by (b) the number of common shares issued and outstanding, excluding unearned ESOP and restricted shares, all determined as of the end of each fiscal period.
- (7) In connection with the closings of the Martinsville, Va. plant in March 2007, the Roanoke, Va. plant in August 2006, the Pleasant Garden, N.C. plant in October 2005 and the Maiden, N.C. plant in October 2004, we reclassified substantially all of the related property, plant and equipment to "assets held for sale." The carrying value of these assets approximated fair value less anticipated selling expenses. We completed the sale of the assets located in Martinsville, Va. in December 2007, the assets located in Roanoke, Va. in October 2006, the assets located in Pleasant Garden, N.C. in May 2006 and the assets located in Maiden, N.C. in January 2005.
- (8) On August 29, 2006, we approved a change in our fiscal year. After the fiscal year that ended November 30, 2006, our fiscal years will end on the Sunday closest to January 31. In connection with the change in our fiscal year, we had a two-month transition period that ended January 28, 2007.

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

The following discussion should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements, including the related Notes, contained elsewhere in this annual report.

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 (for example, the fiscal year that ended February 3, 2008 was fifty-three weeks). Our quarterly periods are based on thirteen-week "reporting periods" (which will end on a Sunday) rather than quarterly periods consisting of three calendar months. As a result, each quarterly period generally will be thirteen weeks, or 91 days, long.

The financial statements filed as part of this annual report on Form 10-K include the:

- § fifty-two week period that began February 2, 2009 and ended on January 31, 2010 (fiscal 2010);
- § fifty-two week period that began February 4, 2008 and ended on February 1, 2009 (fiscal 2009);
- § fifty-three week period that began January 29, 2007 and ended on February 3, 2008 (fiscal 2008);

Overview

We have seen a growing consumer preference for lower-priced, high-quality imported furniture products since 2001. Led by this change in consumer demand, from 2003 to 2008 we systematically increased our focus on high-quality imported home furnishings with a coordinated exit from domestic wood furniture manufacturing. We closed our last domestic wood manufacturing plant during the fiscal year 2008 first quarter and completed the sale of all wood furniture manufacturing assets no longer needed in the business in December 2007. As a result, we have replaced a domestic manufacturing model for wood furniture, which had high overhead and high fixed costs, with a low overhead, variable cost import model.

In early 2007, we completed the acquisition of substantially all of the assets of Sam Moore Furniture Industries, Inc., a Bedford, Virginia manufacturer of upscale occasional chairs with an emphasis on fabric-to-frame customization in the upper-medium to high-end price niches. We began operating the business as Sam Moore Furniture LLC during the fiscal 2008 second quarter. On December 14, 2007, we completed our acquisition of certain assets of Opus Designs Furniture, LLC, a specialist in moderately-priced imported youth furniture. We have integrated this business with our existing imported wood and metal furniture business and now offer this brand to customers as Opus Designs by Hooker.

We are now focused on imported wood and metal furniture, and both domestically produced and imported upholstered home furnishings. Maintaining domestic upholstered furniture manufacturing allows us to offer four to six week turnaround on orders for custom leather and fabric upholstered seating and remains an important part of our strategy.

Since the Fall of 2006, our business has been impacted by low levels of consumer confidence and a weak housing market. By late 2008, this malaise, exacerbated by weak credit markets, had spread to the broader U.S. economy. As a result, the residential home furnishings industry has seen an unprecedented decline in demand for its products. Year-over-year declines in net sales have continued through the fiscal 2010.

Results of operations for the fifty-two weeks ended January 31, 2010 and February 1, 2009 and the fifty-three weeks ended February 3, 2008 reflect the continuing deterioration in the retail environment for home furnishings. Discretionary purchases of furniture, particularly at the upper-middle price points, have been highly affected by low consumer confidence. Current economic factors, such as rising unemployment and difficult housing and mortgage markets, have resulted in a weak retail environment. We believe however, that our business model provides us with flexibility to respond to changing market conditions by adjusting import inventory purchases from suppliers. We also believe that the current economic downturn is temporary and upon economic recovery, we will be well positioned to respond quickly to increased demand.

Following are the principal factors that impacted our results of operations during the fifty-two week period ended January 31, 2010:

- § Net sales declined by \$57.8 million, or 22.1%, to \$203.3 million during fiscal 2010 compared to net sales of \$261.2 million during fiscal year 2009. The continuing decline in net sales mirrors the year-over-year decline in incoming order rates we have experienced since the fiscal 2006 third quarter resulting from an industry-wide slow down in business at retail.
- § Gross margins for fiscal 2010 improved due primarily to lower freight costs on wood and metal furniture and primarily due to lower inventories for the year as well as stable pricing on imports; however, gross margins in our upholstery units declined due to higher fixed costs as a percent of net sales.
- § Selling and administrative expenses decreased in absolute terms compared to fiscal year 2009 but increased as a percent of net sales due to the effect of the fixed nature of certain selling and administrative costs as a percent of the lower net sales reported in fiscal 2010.
- § Operating income decreased principally due to lower net sales, higher fixed operating and domestic upholstery overhead costs as a percent of net sales and impairment charges of \$1.3 million related to the impairment of the our Bradington-Young and Opus Designs trade names, partially offset by an approximate \$700,000 favorable adjustment to our workers compensation accrual due to the exit from our captive insurance arrangement.

Results of Operations

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

	Fifty-two weeks ended		Fifty-three
	January 31, 2010	February 1, 2009	Weeks ended February 3, 2008
Net sales	100.0%	100.0%	100.0%
Cost of sales	76.2	76.9	74.2
Gross profit	23.8	23.1	25.8
Selling and administrative expenses	20.6	17.6	16.3
Restructuring (credits) charges	-	(0.4)	0.1
Goodwill and intangible asset impairment charges	0.6	1.9	-
Operating income	2.6	4.0	9.4
Other income (expense), net	(0.1)	0.1	0.5
Income before income taxes	2.5	4.1	9.8
Income taxes	1.0	1.5	3.6
Net income	1.5	2.6	6.2

Fiscal 2010 Compared to Fiscal 2009

For fiscal 2010, Hooker Furniture reported net sales of \$203.3 million, a decrease of \$57.8 million, or 22.1%, compared to \$261.2 million in fiscal 2009. Net sales of our wood and metal furniture decreased \$47.9 million, or 25.4%, to \$140.4 million during fiscal 2010 compared to net sales of \$188.2 million in fiscal 2009, principally due to lower unit volume. The decline in wood and metal furniture unit volume was attributed to a sharp decline in sales as a result of the industry-wide slow down in business at retail.

Unit volume decreased for Hooker wood and metal furniture, Bradington-Young domestic leather upholstery and Sam Moore upholstered furniture compared to fiscal 2009. Unit volume increased for Bradington-Young imported leather upholstery. Sales of imported upholstery increased less than one percent from the prior year, while domestic upholstery sales declined approximately 15.7% in the same period. These unit volume declines were partially offset by sales of our new Envision product line, which was recently introduced to address the needs of a younger consumer.

Overall average selling prices decreased less than two percent in the 2010 fiscal year compared to the 2009 period. Selling price increases implemented in September 2009 in response to higher costs for imported finished goods and raw materials for domestically produced upholstery were offset by aggressive discounting. Only Sam Moore's imported upholstered furniture showed higher average selling prices in fiscal 2010. This was primarily due to the mix of products sold.

Overall gross profit margin for fiscal 2010 increased to 23.8% of net sales compared to 23.1% in fiscal 2009 due to margin improvements in the case goods division partially offset by lower gross margins in the upholstery operations. Wood furniture margins improved from 25.6% of net sales in fiscal 2009 to 29.0% of net sales in fiscal 2010 primarily due to lower shipping costs on imported wood furniture and lower warehousing costs in the case goods operation due to the elimination of a distribution facility in California, partially offset by higher discounting. Upholstery margins declined from 16.6% in fiscal 2009 to 12.2% in fiscal 2010 due to higher fixed operating costs as a percent of net sales resulting primarily from lower net sales in fiscal 2010.

For fiscal 2010, selling and administrative expenses decreased \$4.0 million, or 8.8%, to \$42.0 million, compared with \$46.0 million in 2009, largely due to lower selling expense attributed to lower sales volume, reduced salaries and benefits due to staff reductions, a favorable adjustment of \$738,000 to our worker's compensation accrual due to the exit from our captive insurance arrangement, and lower bonuses and severance payments than in 2009. As a percentage of net sales, selling and administrative expenses increased to 20.6% in fiscal 2010 from 17.6% in the fiscal 2009 period, due primarily to lower net sales.

During fiscal 2010, we recorded \$1.3 million (\$794,000 after tax, or \$0.07 per share) in intangible asset impairment charges related to the write-down of our Bradington-Young and Opus Designs trade names.

During fiscal 2009, we recorded \$4.9 million (\$3.1million after tax, or \$0.28 per share) in goodwill and intangible asset impairment charges, principally related to:

- § a write-off of \$1.4 million in goodwill resulting from the 2007 acquisition of Opus Designs
- § a write-off of \$2.4 million in goodwill remaining from the Company's purchase of Bradington-Young in 2003; and
- § an impairment charge of \$1.1 million in the value of the Bradington-Young trade name.

Additionally, we recorded restructuring credits of \$951,000 (\$592,000 after tax or \$0.05 per share) in fiscal 2009 for previously accrued employee benefits and environmental remediation costs not expected to be paid.

Because of the factors outlined above, our operating income margin for fiscal 2010 decreased to 2.6% of net sales, compared to operating income margin of 4.0% of net sales for fiscal 2009. Wood furniture operating margins declined modestly from 8.1% of net sales in fiscal 2009 to 7.9% of net sales in fiscal 2010, reflecting the variable cost oriented import business model, while upholstery operating margins declined from -6.8% of net sales to -9.3% of net sales due to the impact of lower sales on the higher fixed cost structure of our domestic upholstery manufacturing facilities.

Excluding the effect of restructuring and goodwill and intangible asset impairment charges, operating profitability in fiscal 2010 still declined year over year compared to fiscal 2009. The following table reconciles operating income as a percentage of net sales ("operating margin") to operating margin excluding these charges and credits ("restructuring and special charges/credits") as a percentage of net sales for each period:

	January 31, 2010	February 1, 2009
Operating margin, including restructuring and special charges	2.6%	4.0%
Goodwill and intangible asset impairment charges	0.6	1.9
Restructuring (credits) charges	-	(0.4)
Operating margin, excluding restructuring and special (credits) charges	3.2%	5.5%

The operating margin excluding the impact of restructuring charges and special charges is a “non-GAAP” financial measure. We provide this information because we believe it is useful to investors in evaluating our ongoing operations. Non-GAAP financial measures are intended to provide insight into selected financial information and should be evaluated in the context in which they are presented. These measures are not intended to reflect our overall financial results.

Other expense, net was \$99,000, for fiscal 2010, compared to other income, net of \$323,000 for fiscal 2009. The decline was primarily the consequence of a decrease in interest income on cash balances from lower interest rates and lower interest expense due to the early payoff of our term loan.

Our effective tax rate increased to 40.9% for fiscal 2010, compared to 35.2% for fiscal 2009. The increase was principally a result of the establishment of a valuation allowance against certain state net operating loss carryforwards (2.7%), a late-payment penalty (2.0%) and recognition of subpart F income (3.1%). The dollar amounts of the permanent benefits for officers’ life insurance and contributions of property were not materially different than in prior years. Their percentages are larger this year because of the smaller amount of pre-tax income.

Net income for fiscal 2010 declined by 56.5%, or \$3.9 million, to \$3.0 million, or \$0.28 per share, from \$6.9 million, or \$0.62 per share, for fiscal 2009. As a percent of net sales, net income decreased to 1.5% in fiscal 2010 compared to 2.6% for fiscal 2009.

Fiscal 2009 Compared to Fiscal 2008

For fiscal 2009, Hooker Furniture reported net sales of \$261.2 million, a decrease of \$55.6 million, or 17.6%, compared to \$316.8 million in fiscal 2008. Net sales of our wood and metal furniture decreased \$48.7 million, or 20.6%, to \$188.2 million during fiscal 2009 compared to net sales of \$236.9 million in fiscal 2008, principally due to lower unit volume. The decline in wood and metal furniture unit volume was attributed to a sharp decline in sales as a result of the industry-wide slow down in business at retail and lower shipments of discontinued domestically produced wood furniture.

Based on operating days in each period, and excluding the impact of discontinued, domestically produced wood furniture, average daily net sales declined 15.1% to \$1.0 million per day during the 251-day 2009 fiscal year, compared to \$1.2 million per day during the 255-day 2008 fiscal year. We experienced lower average daily unit volume shipments overall and in every product category, except youth bedroom and upholstered seating, which increased due to the acquisition of Opus Designs in December 2007 and the inclusion of a full year of sales for Sam Moore, which was acquired in April 2007.

Overall, average selling prices declined significantly. The primary contributors to the overall decline were:

- § the sharp drop in the average selling price of upholstered furniture. This drop was due to the increased proportion of upholstery sales of less expensive, predominantly fabric-covered products manufactured by Sam Moore, which was in its first full year as a Hooker subsidiary, and
- § the impact of our exit from the domestic wood and metal furniture business.

The unit volume of higher priced domestically produced wood products was partially replaced by lower priced imports. The remaining domestic wood products were heavily discounted during fiscal 2009. The average selling price for imported wood and metal furniture decreased due to heavier discounting in a challenging market and the mix of products shipped. Bradington-Young’s imported and domestically produced leather upholstered furniture showed higher average selling prices while Sam Moore’s average prices declined in both categories.

Gross profit margin for fiscal 2009 decreased to 23.1% of net sales compared to 25.8% in fiscal 2008, primarily due to:

- § increased product and shipping and warehousing costs,
- § lower fixed cost absorption due to lower sales of domestically produced upholstered furniture, and
- § higher warehousing and distribution expenses due to the addition of two facilities in China and one in California.

These costs were partially offset by lower salary and benefit expenses resulting from staff reductions at our Bradington-Young and domestic wood and metal furniture operations.

For fiscal 2009, selling and administrative expenses decreased \$5.8 million, or 11.1%, to \$46.0 million, compared with \$51.7 million in 2008, due to:

- § last year's donation of two former Bradington-Young's showrooms to a local university, and
- § lower selling expenses, professional fees and administrative payroll costs.

These costs were partially offset by higher bad debt expenses.

As a percentage of net sales, selling and administrative expenses increased to 17.6% in fiscal 2009 from 16.3% in fiscal 2008, due to lower net sales in the current year.

During fiscal 2009, we recorded \$4.9 million (\$3.1million after tax, or \$0.28 per share) in goodwill and intangible asset impairment charges, principally related to:

- § a write-off of \$1.4 million in goodwill resulting from the 2007 acquisition of Opus Designs
- § a write-off of \$2.4 million in goodwill remaining from the Company's purchase of Bradington-Young in 2003;
- § an impairment charge of \$1.1 million in the value of the Bradington-Young trade name.

We also recorded restructuring credits of \$951,000 (\$592,000 after tax or \$0.05 per share) in fiscal 2009 for previously accrued employee benefits and environmental costs not expected to be paid.

During fiscal 2008, we recorded \$309,000 (\$190,000 after tax, or \$0.02 per share) in restructuring and asset impairment charges (net of restructuring credits).

Our operating income margin for fiscal 2009 decreased to 4.0% of net sales, compared to operating income margin of 9.4% of net sales for fiscal 2008, principally due to:

- § the \$3.7 million increase in restructuring and goodwill and intangible asset impairment costs;
- § the decrease in gross profit margin to 23.1% from 25.8%; and
- § the increase in selling and administrative expenses as a percentage of net sales to 17.6% in 2009 compared to 16.3% in fiscal 2008, due to the decline in sales (although these costs decreased \$5.8 million or 11.1%).

Excluding the effect of restructuring and goodwill and intangible asset impairment charges, operating profitability in fiscal 2009 still declined year over year compared to fiscal 2008, primarily as a result of lower gross profit margins on our imported wood and metal furniture and domestic and imported upholstered furniture. The following table reconciles operating income as a percentage of net sales ("operating margin") to operating margin excluding these charges ("restructuring and special charges") as a percentage of net sales for each period:

	Fifty-Two Weeks Ended February 1, 2009	Fifty-Three Weeks Ended February 3, 2008
Operating margin, including restructuring and special charges	4.0%	9.4%
Goodwill and intangible asset impairment charges	1.9	
Donation of two showrooms		0.3
Restructuring (credits) charges	(0.4)	0.1
Operating margin, excluding restructuring and special charges	<u>5.5%</u>	<u>9.8%</u>

The operating margin excluding the impact of restructuring charges and special charges is a "non-GAAP" financial measure. We provide this information because we believe it is useful to investors in evaluating our ongoing operations. Non-GAAP financial measures are intended to provide insight into selected financial information and should be evaluated in the context in which they are presented. These measures are not intended to reflect our overall financial results.

Other income, net was \$323,000, or 0.1% of net sales, for fiscal 2009, compared to other income, net of \$1.5 million for fiscal 2008, primarily the consequence of a decrease in interest income from lower interest rates and lower cash balances.

Our effective tax rate decreased to 35.2% for fiscal 2009, compared to 36.9% for fiscal 2008. The decrease was principally a result of an increase in non-cash charitable contributions of finished furniture as a percentage of pretax income and lower net cost related to our captive insurance program.

Net income for fiscal 2009 declined by 64.8%, or \$12.8 million, to \$6.9 million, or \$0.62 per share, from \$19.7 million, or \$1.58 per share, for fiscal 2008. As a percent of net sales, net income decreased to 2.6% in fiscal 2009 compared to 6.2% for fiscal 2008.

Financial Condition, Liquidity and Capital Resources

Balance Sheet and Working Capital

Total assets decreased \$4.4 million to \$149.1 million at January 31, 2010 from \$153.5 million at February 1, 2009, principally due to a \$24.1 million decrease in inventories, a \$4.4 million decrease in net receivables, a \$1.9 million decrease in property, plant, and equipment and the write-off of \$1.3 million in intangible assets from prior acquisitions were partially offset by a \$26.2 million increase in cash and cash equivalents and a \$1.3 million increase in the cash surrender value of life insurance policies.

Working capital decreased by \$3.4 million to \$87.9 million as of January 31, 2010, from \$91.3 million at February 1, 2009, principally as a result of decreases in inventories, trade receivables and prepaid expenses, offset by an increase in cash and cash equivalents and a decrease in current liabilities. Current liabilities decreased to \$15.6 million at January 31, 2010, from \$15.8 million at February 1, 2009 as a result of lower current maturities of long-term debt and accrued salaries and accrued taxes offset by higher trade accounts payable and other accrued expenses. Our long-term debt, including current maturities, decreased \$5.2 million to \$0.0 on January 31, 2010, compared to \$5.2 million on February 1, 2009 as a result of the early payment of our term loan in August 2009. Shareholders' equity at January 31, 2010 decreased \$2.1 million to \$127.6 million compared to \$129.7 million on February 1, 2009, since dividend payments exceeded net income.

Summary Cash Flow Information – Operating, Investing and Financing Activities

	Fifty-Two Weeks Ended		Fifty- Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Net cash provided by operating activities	\$ 37,425	\$ 3,730	\$ 43,825
Net cash used in investing activities	(1,707)	(3,752)	(14,267)
Net cash used in financing activities	(9,527)	(21,250)	(43,567)
Net increase (decrease) in cash and cash equivalents	\$ 26,191	\$ (21,272)	\$ (14,009)

During fiscal year 2010, cash generated from operations (\$37.4 million) funded payments on our long-term debt (\$5.2 million), cash dividends (\$4.3 million), capital expenditures (\$1.7 million), and life insurance premium payments (\$1.4 million) and increased cash and cash equivalents by (\$26.2 million.)

During fiscal year 2009, cash generated from operations (\$3.7 million) and a decrease in cash and cash equivalents (\$21.3 million) funded purchases of our common stock (\$14.1 million), cash dividends (\$4.5 million), payments on long-term debt (\$2.7 million), capital expenditures (\$2.3 million) and life insurance premium payments (\$1.3 million).

During fiscal year 2008, cash generated from operations (\$43.8 million), a decrease in cash and cash equivalents (\$14.0 million), proceeds from the sale of property, plant and equipment (\$3.7 million, principally from the sale of the Martinsville, Va. facility) and proceeds received from certain life insurance policies (\$1.2 million) funded purchases of our common stock (\$36.0 million), acquisitions (\$15.8 million), cash dividends (\$5.0 million), payments on long-term debt (\$2.5 million), capital expenditures (\$1.9 million) and life insurance premium payments (\$1.4 million).

In fiscal year 2010, cash generated from operations of \$37.4 million increased \$33.7 million compared to \$3.7 million in fiscal 2009. The increase was due to a \$90.0 million decline in cash paid to suppliers and employees (primarily due to lower purchases of imported products and sales of existing inventory) and a \$5.8 million decline in tax payments due to lower profitability, partially offset by a \$61.7 million decrease in cash received from customers due to the decline in sales.

In fiscal year 2009, cash generated from operations of \$3.7 million decreased \$40.1 million compared to \$43.8 million in fiscal 2008. The decrease was due to a \$51.7 million decline in cash received from customers due to the decline in sales, partially offset by a \$7.1 million decrease in cash payments to suppliers and employees (principally due to a lower purchases of imported products) and a \$5.5 million decline in tax payments principally due to lower profitability. Despite lower inventory purchases in fiscal 2009, inventories increased by \$9.7 million in fiscal 2009 due to the natural lag between the decline in customer order rates and our reduction of orders with our suppliers.

In fiscal year 2008, cash generated from operations of \$43.8 million increased \$20.0 million from \$23.8 million in fiscal 2006. The increase was due to a \$50.6 million decline in payments to suppliers and employees (principally due to a decline in the purchase of imported products) and a \$1.3 million decrease in interest paid, net due to an increase interest income and a decline in interest expense. The increase was partially offset by a \$27.9 million decrease in cash received from customers and a \$4.0 million increase in income taxes paid, principally due to increased taxable income.

Investing activities consumed \$1.7 million in fiscal 2010 compared to \$3.8 million consumed in fiscal 2009. In fiscal 2010, we invested in \$1.7 million in property, plant and equipment, \$1.4 million for life insurance premium payments, partially offset by proceeds received from Company-owned life insurance policies of \$987,000 and proceeds from the sale of property, plant and equipment of \$337,000.

Investing activities consumed \$3.8 million of cash in fiscal year 2009 compared to consuming \$14.3 million in fiscal 2008. In fiscal 2009, we invested \$2.3 million in property, plant and equipment, \$1.3 million for life insurance premium payments and \$181,000 to complete the acquisition of Opus Designs. In fiscal year 2008, the investments of \$10.6 million to acquire Sam Moore, \$5.3 million to acquire Opus Designs and the \$1.9 million investments in property, plant and equipment exceeded the \$3.7 million in proceeds from the sale of property, plant and equipment (principally from the sale of the Martinsville, Va. facility). Capital expenditures in each period were to maintain and enhance our business operating systems and facilities and for the purchase of equipment and other assets.

Financing activities consumed cash of \$9.5 million in fiscal 2010 compared to \$21.3 million in fiscal 2009. During fiscal year 2010, we made payments of \$5.2 million on our long-term debt (both a scheduled payment and the repayment in full of our long-term debt in conjunction with the amendment of our credit agreement), a payment of \$4.9 million on our short-term debt and paid cash dividends of \$4.3 million. These payments were partially offset by short-term borrowings of \$4.9 million.

Financing activities consumed cash of \$21.3 million in fiscal year 2009 compared to \$43.6 million in fiscal 2008. During fiscal year 2009, we expended cash of \$14.1 million to repurchase approximately 800,000 shares of Hooker common stock, which completed the share repurchase program originally authorized in fiscal 2007. We also paid dividends of \$4.5 million and made scheduled debt payments of \$2.7 million. During fiscal year 2008, we expended cash of \$36.0 million for the repurchase of 1.7 million shares of Hooker common stock, cash dividends of \$5.0 million and \$2.5 million for scheduled debt payments.

Debt Covenant Compliance

The credit agreement for our revolving credit facility contains, among other things, financial covenants as to minimum tangible net worth, the ratio of funded debt to earnings before interest, taxes, depreciation, amortization, non-cash charges and maximum capital expenditures. We are in compliance with these covenants as of January 31, 2010.

Swap Agreements

We are party to an interest rate swap agreement that provided, in effect, for a fixed interest rate on our term loans through September 1, 2010. Prior to our fiscal 2010 third quarter, we accounted for our interest rate swap agreement as a cash flow hedge, and recognized the fair value of the agreement on the balance sheet in shareholders' equity under the caption "accumulated other comprehensive income." The related gains or losses on this instrument were recorded through comprehensive income (loss) and, accordingly, were included in accumulated other comprehensive income on the balance sheet until recognized in net income.

In connection with the amendment of our credit agreement, effective August 11, 2009, we repaid our term loans in full. As a result, our interest rate swap no longer qualified as an effective hedge and we recognized a charge of \$112,000 to income, which represented the balance under accumulated other comprehensive income on the date the loans were repaid. Through the remainder of the term of this interest rate swap, which terminates on September 1, 2010, all future changes in the swap's fair value will be charged against net income. During our fiscal year ended January 31, 2010, we recognized aggregate charges of \$55,000 against net income for the change in the swap's fair value after the date our term loans were repaid.

In addition, in 2003 we terminated a similar swap agreement, which, prior to its termination, provided, in effect, a fixed interest rate on our term loans. We made a \$3.0 million payment to terminate that former swap agreement, which through the periods ended August 2, 2009 was being amortized over the remaining repayment period of the loans. Upon the repayment of our terms loans, we wrote-off the remaining \$61,000 unamortized balance of this swap termination payment during the fiscal 2010 third quarter.

Amendment of Credit Agreement and Repayment of Term Loans

On August 11, 2009, we amended our credit agreement. The amendment included the following terms:

- upon execution of the amendment, we were required to repay in full the remaining balance of the term loans outstanding under the agreement (\$3.8 million, plus accrued interest);
- effective as of July 30, 2009, the funded debt to EBITDA ratio under the credit agreement was changed from 1.25:1.0 to 2.0:1.0; and
- effective as of July 30, 2009, the debt service coverage ratio under the credit agreement was eliminated.

The other terms of the credit agreement, including our \$15 million revolving line of credit, were unchanged. A copy of the amendment was included as Exhibit 10.1 to our Form 8-K, filed with the SEC on August 13, 2009.

Liquidity, Financial Resources and Capital Expenditures

As of January 31, 2010, we had an aggregate \$13.1 million available under our revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.9 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of January 31, 2010. There were no additional borrowings outstanding under the revolving credit line on January 31, 2010. Any principal outstanding under the credit line is due March 1, 2011.

We believe that we have 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, and working capital, as well as to pay dividends on our common stock, and repayments of outstanding debt. Cash flow from operations is highly dependent on incoming order rates and our operating performance. We expect to spend \$4 to \$6 million in capital expenditures during fiscal year 2011 to maintain and enhance our operating systems and facilities.

Woodleaf Closing

During our fiscal 2010 second quarter, we decided to transition frame production from our Bradington-Young Woodleaf, North Carolina plant (a leased facility) to Bradington-Young's Cherryville, North Carolina facility by the end of December 2009. On July 17, 2009, we announced our plans to sell the frame production operation, including the associated machinery and equipment, as an on-going business. However, at November 1, 2009 we had not found, and did not anticipate finding, a buyer for this operation. Consequently, during the 2010 fiscal third quarter, we recorded \$132,000 for severance (the majority of which was paid during our fiscal 2010 fourth quarter) and \$48,000 in accelerated depreciation on fixed assets utilized at this location. We recorded an additional \$32,000 in accelerated depreciation during our fiscal 2010 fourth quarter and have exited this location.

We expect that exiting the Woodleaf operation and moving frame production to Cherryville will reduce fixed overhead costs by approximately \$350,000 annually (or about \$0.02 to \$0.03 per share after tax) following the completion of the transition period beginning in fiscal 2011.

Supplier Commitments

From May 2007 through September 2009, we advanced payments to, and provided financing guarantees for, one of our finished goods suppliers to facilitate the supplier's purchase of raw materials and other related items in order to help ensure timely delivery of finished goods to us. The balance of the advances and other miscellaneous amounts to this supplier at January 31, 2010 was \$124,000. In order for the supplier to obtain additional bank financing, we issued a standby letter of credit on July 14, 2008 as security in the amount of \$600,000. In conjunction with the issuance of the letter of credit, we entered into a security agreement with the supplier and the supplier's shareholders, which provides us with a security interest in certain assets of the supplier and its shareholders. During September 2009, prior to the expiration of the letter of credit, the supplier ceased operations, and defaulted on its bank notes, and its lender drew on our \$600,000 letter of credit. Subsequently, we reimbursed our letter of credit provider for the \$600,000. Due to the location and nature of the pledged collateral, we may incur substantial costs to obtain and foreclose on it. Consequently, we recorded:

- a charge of \$300,000 during the third quarter of fiscal 2010 to write down the value of the pledged collateral to our estimate of its net realizable value (\$300,000); and
- charges totaling \$124,000 during the our third and fourth quarters of fiscal 2010 to reserve against the potential uncollectability of the outstanding advances and other miscellaneous amounts due from the supplier.

The estimated net realizable amount for the pledged collateral of \$300,000 as of January 31, 2010 is recorded in our consolidated balance sheets in "other assets." Based on a recent appraisal, we believe that the net realizable value of \$300,000 is reasonable and approximates the collateral's fair value. We are currently working with the supplier and its shareholders to have the pledged collateral conveyed to us.

Common Stock and Dividends

Since February 7, 2007, our Board of Directors has authorized the repurchase of \$50 million of our common stock in a series of repurchase authorizations, subject to the limitations of a trading plan under Rule 10b-5-1 of the Securities Exchange Act of 1934 and certain board imposed guidelines. We completed these share repurchases in August 2008.

On January 15, 2010, awards totaling 2,831 shares of restricted common stock were granted to the five non-employee members of our Board of Directors. Each award is subject to vesting requirements and other limitations in accordance with the Hooker Furniture 2005 Stock Incentive Plan.

On April 13, 2010, our Board of Directors declared a quarterly cash dividend of \$0.10 per share, payable on May 28, 2010, to shareholders of record May 14, 2010.

Commitments and Contractual Obligations

As of January 31, 2010, our commitments and contractual obligations were as follows:

	Payments Due by Period (In thousands)					Total
	Less than 1 Year	1-3 Years	3-5 Years	More than 5 years		
Deferred compensation payments	\$ 436	\$ 999	\$ 1,457	\$ 11,395	\$ 14,287	
Operating leases	1,349	1,903	937	-	4,189	
Other long-term obligations	885	404	162	36	1,487	
Total contractual cash obligations	<u>\$ 2,670</u>	<u>\$ 3,306</u>	<u>\$ 2,556</u>	<u>\$ 11,431</u>	<u>\$ 19,963</u>	

Standby letters of credit in the aggregate amount of \$1.9 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of January 31, 2010. There were no additional borrowings outstanding under the revolving credit line on January 31, 2010.

Strategy and Outlook

Our strategy is to offer world-class style, quality and product value as a complete residential wood, metal and upholstered furniture resource through excellence in product design, global sourcing, manufacturing, logistics, sales, marketing and customer service. We strive to be an industry leader in sales growth and profitability performance, thereby providing an outstanding investment for our shareholders and contributing to the well-being of our employees, customers, suppliers and community neighbors. Additionally, we strive to nurture the relationship-focused, team-oriented and honor-driven corporate culture that has distinguished our company for over 85 years.

We have been executing this strategy since 2003 in part through:

- § exiting domestic wood furniture manufacturing to concentrate on imported wood and metal and domestically produced and imported upholstered home furnishings;
- § expanding product offerings to become a more complete and important resource to our furniture retailers through:
 - Ø the acquisitions of upholstery manufacturers Bradington-Young LLC (2003) and Sam Moore LLC (2007), and in youth furniture lines through the purchase of Opus Designs LLC (2007) and by organically expanding the styles and price points offered in existing product lines; and
 - Ø the introduction of our Envision product line in April 2009, which was designed to meet the needs of a younger and less affluent consumer and debuted on sales floors during our fiscal year 2010 third quarter.
- § continuing to improve and expand our supply chain capabilities, with improvements in forecasting and demand-planning software and stock keeping unit ("SKU") optimization;
- § filling key leadership positions with people who have the skill sets and experience needed under our new business model; and
- § expanding service capabilities for our container direct customers by adding warehousing at two important suppliers' plants in China.

The year over year declines in quarterly incoming orders, which began in the Fall of 2006, continued during our 2010 fiscal year. We believe that recovery may be slow, irregular, and easily derailed. Our outlook for fiscal 2011 is one of continued cautious optimism. We believe that our product, inventory availability, and business model uniquely position us to take advantage of any upturn in the economy. That optimism, however, is tempered by the uniqueness of the present economic situation. Thus, we believe that continued attention to cost control is necessary.

Our new Envision product line was introduced in April 2009 and debuted on retail sales floors during the fiscal year 2010 third quarter. While response to this new line has been encouraging, we have not yet seen an overall rebound in purchases of big-ticket consumer products such as furniture. So we remain cautious in our planning and continue to take actions to address challenges to our profitability. Some of those actions include:

- § deferring, reducing or eliminating certain spending plans;
- § continuing to refine the management of our supply chain, warehousing and distribution operations; and
- § adjusting our inventory levels to reflect current business conditions and lower sales volumes.

The performance of our domestic upholstery operations have been particularly impacted by the prolonged sales downturn due to the higher fixed overhead costs for those operations as a percentage of reduced net sales. To mitigate the impact of these sales declines we are:

- § pursuing additional distribution channels and offering an array of new products and designs that we believe will generate sales growth;
- § taking actions to streamline our domestic upholstery operations, improve efficiency and reduce overhead; and,
- § continuing to evaluate our manufacturing capacity utilization, work schedules and operating costs to better match costs to current sales volume levels.

Due to excess capacity, our upholstery division reported an operating loss of 9.3% of net sales for fiscal 2010 as compared to an operating loss of 6.8% of net sales for fiscal 2009. We have responded to this decline in performance by intensifying our focus on cost reduction and sales growth initiatives for our upholstery operations including reductions of personnel, consolidating manufacturing facilities, implementing Lean Manufacturing process improvement technology and introducing technological changes to reduce labor costs. In terms of sales growth, we have focused on updating our upholstery lines with more contemporary offerings while retaining our best selling traditionally-styled items. Consequently, we recently introduced the Envision line and the Paris Flea Market collection, which integrates stand-alone elements from all three Hooker brands –including both upholstery and wood furniture– in a fresh and exciting way. We believe both Envision and Paris Flea Market represent a compelling value for consumers and will ultimately drive sales across the entire Company. We are encouraged by the response to these product offerings at the Spring and Fall International Home Furnishings Markets. With continued emphasis on cost control and product development, coupled with a continued improvement in business, we believe we can return our upholstery division to profitability in fiscal 2011.

Fourth quarter results of operations suggest that recovery will be slow and inconsistent. Wood furniture sales of \$35.9 million in the fiscal 2010 fourth quarter declined \$5.1 million, or 12.4%, from the fiscal 2009 fourth quarter, while upholstery sales fared better, showing a \$1.3 million increase from \$15.6 million in the fiscal 2009 fourth quarter to \$16.8 million in the fiscal 2010 period. Wood furniture gross margins were improved from 28.4% of net sales in the fiscal 2009 fourth quarter to 35.0% of net sales in the fiscal 2010 fourth quarter, due principally to lower freight costs on imported furniture and the impact of cost reduction initiatives, while upholstery gross margins declined slightly from 13.7% of net sales in the fiscal 2009 fourth quarter to 13.5% of net sales in the fiscal 2010 period despite the higher net sales due to higher discounting and costs incurred to exit our Woodleaf, N.C. frame manufacturing facility. Wood furniture operating margins improved from 7.0% of net sales in the fiscal 2009 fourth quarter to 15.4% in the fiscal 2010 quarter due to lower freight costs, cost reduction initiatives and \$614,000 lower intangible asset impairment charges, while upholstery operating margins improved to -5.8% of net sales in the fiscal 2010 fourth quarter, from -27.7% of net sales in the fiscal 2009 quarter, principally due to lower intangible asset impairment charges \$3.5 million in the current year, partially offset by slightly higher cost of goods sold and operating costs on higher sales volumes, but also as a percent of net sales.

Environmental Matters

Hooker Furniture is committed to protecting the environment. As a part of our business operations, our manufacturing sites generate non-hazardous and hazardous wastes; the treatment, storage, transportation and disposal of which are subject to various local, state and national laws relating to protecting the environment. We are in various stages of investigation, remediation or monitoring of alleged or acknowledged contamination at current or former manufacturing sites for soil and groundwater contamination and visible air emissions, none of which we believe is material to our results of operations or financial position. 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.

Critical Accounting Policies and Estimates

Hooker Furniture's significant accounting policies are described in "Note 1 – Summary of Significant Accounting Policies" to the consolidated financial statements beginning at page F-1 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.

Allowance for Doubtful Accounts. We evaluate the adequacy of our allowance for doubtful accounts at the end of each quarter. In performing this evaluation, we analyze the payment history of our significant past due accounts, subsequent cash collections on these accounts and comparative accounts receivable aging statistics. Based on this information, along with consideration of the general condition of the economy, we develop what we consider to be a reasonable estimate of the uncollectible amounts included in accounts receivable. This estimate involves significant judgment and actual uncollectible amounts may differ materially from our estimate.

Valuation of Inventories. We value all of our inventories at the lower of cost (using the last-in, first-out (“LIFO”) method) or market. LIFO cost for all of our inventories is determined using the dollar-value, link-chain method. This method allows for the more current cost of inventories to be reported in cost of sales, while the inventories reported on the balance sheet consist of the costs of inventories acquired earlier, subject to adjustment to the lower of cost or market. Hence, if prices are rising, the LIFO method will generally lead to higher cost of sales and lower profitability as compared to the first-in, first-out (“FIFO”) method. We evaluate our inventory for excess or slow moving items based on recent and projected sales and order patterns. We establish an allowance for those items when the estimated market or net sales value is lower than their recorded cost. This estimate involves significant judgment and actual values may differ materially from our estimate.

Restructuring and Impairment of Long-Lived Assets

Tangible Assets

We regularly review our property, plant and equipment for indicators of impairment, as specified in the Property, Plant, and Equipment topic of 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 assets use; or
- § 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.

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 statements of financial position. As of January 31, 2010, the fair value of our property, plant and equipment was substantially in excess of its carrying value.

When we conclude that any of these assets is 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 cost to sell; are no longer depreciated; and are reported separately as “assets held for sale” in the consolidated balance sheets.

The costs to dispose of these assets are recognized when we commit to a plan of disposal. Severance and related benefits to be paid to terminated employees affected by the facility closings are recorded in the period when management commits to a plan of termination. We recognize liabilities for these exit and disposal activities at fair value in the period in which the liability is incurred. Asset impairment charges related to the closure of facilities are based on our best estimate of expected sales prices, less related selling expenses for assets to be sold. The recognition of asset impairment and restructuring charges for exit and disposal activities requires significant judgment and estimates by management. We reassess our accrual of restructuring and asset impairment charges each reporting period. Any change in estimated restructuring and related asset impairment charges is recognized in the period during which the change occurs.

Intangible Assets

We own certain indefinite-lived intangible assets related to Bradington-Young, Sam Moore and Opus Designs by Hooker. We may acquire additional amortizable assets and/or indefinite lived intangible assets in future asset purchases or business combinations. The principal indefinite-lived intangible assets are trademarks and trade names which are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The fair value of the indefinite-lived intangible assets 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.

Trade names are tested for impairment annually as of the first day of our fiscal 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:

- 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; or
- the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed of.

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 which may have a material, adverse affect on our consolidated statements of operations and consolidated balance sheets.

Based on assumptions used in the valuation of our Opus Designs trade names, any further deterioration in the inputs used to value the trade name at January 31, 2010 would result in additional impairment. The fair value of our Bradington-Young and Sam Moore trade names were substantially in excess of their carrying values at January 31, 2010.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Hooker Furniture is exposed to market risk from changes in interest rates and foreign currency exchange rates, which could impact our results of operations or financial condition. We manage our exposure to these risks through our normal operating and financing activities and through the use of interest rate swap agreements with respect to interest rates.

From time to time we have entered into swap agreements to hedge against the potential impact of increases in interest rates on our floating-rate debt instruments. By using swap agreements to hedge exposures to changes in interest rates, we expose ourselves to credit risk and market risk. Credit risk is the potential failure of the counterparty to perform under the terms of the swap agreement. We attempt to minimize this credit risk by entering into transactions with high-quality counterparties. Market risk is the potential adverse effect on the value of the swap agreement that results from a decline in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Amounts outstanding under our revolving line of credit bear interest at variable rates. There was no outstanding balance under our revolver as of January 31, 2010. Therefore, a fluctuation in market interest rates of one percentage point (or 100 basis points) would not have a material impact on our results of operations or financial condition.

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. Most of our imports are purchased from China. The Chinese currency now floats within a limited range in relation to the U.S. Dollar, resulting in additional 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 financial statements listed in Item 15(a), and which begin on page F-1, of this report are incorporated herein by reference and are filed as a part of this report.

Certain Non-GAAP Financial Measures

In our Annual Report to Shareholders (of which this annual report on Form 10-K is a part), under the heading "Financial Highlights," we reported net income and earnings per share both including and excluding the impact of restructuring and asset impairment charges, the January 2007 ESOP termination charge and the December 2007 charge related to the donation of two former Bradington-Young showrooms. In this Form 10-K in Management's Discussion and Analysis of Financial Condition and Results of Operations, under the headings "Results of Operations Fiscal 2010 Compared to Fiscal 2009" and "Results of Operations Fiscal 2009 Compared to Fiscal 2008", we have reported operating income margin both including and excluding the impact of restructuring and asset impairment charges.

The net income, earnings per share and operating income margin figures excluding the impact of the items specified above are "non-GAAP" financial measures. We provide this information because we believe it is useful to investors in evaluating our ongoing operations. Non-GAAP financial measures provide insight into selected financial information and should be evaluated in the context in which they are presented. These measures are of limited usefulness in evaluating our overall financial results presented in accordance with GAAP and should be considered 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.

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

Based on their most recent review, which was made as of the end of our fourth quarter ended January 31, 2010, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective 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 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 Securities and Exchange Commission ("SEC") rules and forms.

Management's Annual Report on Internal Control over Financial Reporting

In accordance with Section 404 of the Sarbanes-Oxley Act and SEC rules thereunder, management has conducted an assessment of our internal control over financial reporting as of January 31, 2010. Our report regarding that assessment is included with the financial statements on page F-2 of this report 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 have issued an audit report on the effectiveness of our internal control over financial reporting. Their report is included with the financial statements on page F-4 of this report 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 for our fourth quarter ended January 31, 2010, 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, the information called for by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference to the Company's definitive Proxy Statement for its Annual Meeting of Shareholders scheduled to be held June 8, 2010 (the "2010 Proxy Statement"), as set forth below:

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information related to Hooker Furniture's directors will be set forth under the caption "Election of Directors" in the 2010 Proxy Statement and is incorporated herein by reference.

Information relating to compliance with Section 16(a) of the Exchange Act will be set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2010 Proxy Statement and is incorporated herein by reference.

Information regarding material changes, if any, in the procedures by which shareholders may recommend nominees to the Hooker Board of Directors will be set forth under the caption "Procedures for Shareholder Recommendations of Director Nominees" in the 2010 Proxy Statement and is incorporated herein by reference.

Information relating to the Audit Committee of the Company's 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 2010 Proxy Statement and is incorporated herein by reference.

Information concerning the executive officers of the Company is included in Part I of this report under the caption "Executive Officers of Hooker Furniture Corporation."

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 2010 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 2010 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 under the captions "Related Party Transactions", the last paragraph under the caption "Audit Committee" and the caption "Corporate Governance" in the 2010 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to this item will be set forth under the caption "Independent Registered Public Accounting Firm" in the 2010 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 financial statements are included in this report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of January 31, 2010 and February 1, 2009

Consolidated Statements of Operations for the fifty-two weeks ended January 31, 2010, the fifty-two weeks ended February 1, 2009, and the fifty-three weeks ended February 3, 2008

Consolidated Statements of Cash Flows for the fifty-two weeks ended January 31, 2010, the fifty-two weeks ended February 1, 2009, and the fifty-three weeks ended February 3, 2008

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the fifty-three weeks ended February 3, 2008, the fifty-two weeks ended February 1, 2009 and the fifty-two weeks ended January 31, 2010

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 (incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q ((SEC File No. 000-25349) for the quarter ended August 31, 2006)
- 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(a) [Credit Agreement, dated April 30, 2003, between Bank of America, N.A., and the Company \(filed herewith\)](#)
- 4.3(b) First Amendment to Credit Agreement, dated as of February 18, 2005, among the Company, the Lenders party thereto, and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ending February 28, 2005)
- 4.3(c) Second Amendment to Credit Agreement dated as of February 27, 2008, among the Company and Bank of America, N.A. as lender and agent (incorporated by reference to Exhibit 4.3(c) of the Company's Annual Report on Form 10-K (SEC File No. 000-25349) filed April 16, 2008)
- 4.3(d) Third Amendment to Credit Agreement dated as of February 19, 2009, between the Company and Bank of America, N.A. (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 20, 2009)
- 4.3(e) Fourth Amendment to Credit Agreement dated as of August 10, 2009 between the Company and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on August 13, 2009)

Pursuant to Regulation S-K, Item 601(b)(4)(iii), instruments evidencing long-term debt not exceeding 10% of the Company's total assets have been omitted and will be furnished to the Securities and Exchange Commission upon request.
- 10.1(a) Form of Executive Life Insurance Agreement dated December 31, 2003, between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 29, 2004)*
- 10.1(b)(i) Supplemental Retirement Income Plan effective as of December 1, 2003 (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 29, 2004)*
- 10.1(b)(ii) First Amendment to the Supplemental Retirement Income Plan, dated as of May 24, 2007 incorporated by reference to Exhibit 10.1(b)(ii) of Form 10-K (SEC File No. 000-25349) filed on April 16, 2008
- 10.1(b)(iii) 2008 Amendment and Restatement of the Hooker Furniture Corporation Supplemental Retirement Income Plan, effective as of December 31, 2008 incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed on November 19, 2008*
- 10.1(c) [Summary of Director Compensation \(filed herewith\)*](#)
- 10.1(d) Hooker Furniture Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix B of the Company's Definitive Proxy Statement dated March 1, 2005 (SEC File No. 000-25349))*
- 10.1(e) 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 January 17, 2006)*
- 10.1(f) Employment Agreement, dated June 15, 2007, between Alan D. Cole and the Company incorporated by reference to Exhibit 10.1(h) of the Company's Annual Report on Form 10-K (SEC File No. 000-25349) filed on April 16, 2008
- 10.1(g) Employment Agreement, dated June 3, 2008, between Alan D. Cole and the Company incorporated by reference to Exhibit 10.1(i) of the Company's Annual Report on Form 10-K (SEC File No. 000-25349) filed on June 5, 2008
- 10.1(h) [Employment Agreement, dated January 22, 2010, between Arthur G. Raymond, Jr. and the Company \(filed herewith\)*](#)
- 10.2(a) Credit Agreement, dated April 30, 2003, between Bank of America, N.A., and the Company (See Exhibit 4.3(a)) (filed herewith)
- 10.2(b) First Amendment to Credit Agreement, dated as of February 18, 2005, among the Company, the Lenders party thereto, and Bank of America, N.A., as agent (See Exhibit 4.3(b))
- 10.2(c) Second Amendment to Credit Agreement, dated as of February 27, 2008, among the Company and Bank of America, N.A., as lender and agent (See Exhibit 4.3(c))
- 10.2(d) Third Amendment to Credit Agreement dated as of February 19, 2009, between Company and Bank of America, N.A. (See Exhibit 4.3(d))
- 10.2(e) Fourth Amendment to Credit Agreement, dated as of August 10, 2009, between the Company and Bank of America N.A. (See Exhibit 4.3(e))
- 21 List of Subsidiaries:
Bradington-Young 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 \(filed herewith\)](#)

*Management contract or compensatory plan

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

Date: April 15, 2010

By:

/s/ Paul B. Toms, Jr.
Paul B. Toms, Jr.
Chairman, President and Chief

Executive Officer

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Paul B. Toms, Jr.</u> Paul B. Toms, Jr.	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	April 15, 2010
<u>/s/ E. Larry Ryder</u> E. Larry Ryder (Principal Financial Officer)	Executive Vice President - Finance and Administration and Chief Financial Officer	April 15, 2010
<u>/s/ Paul A. Huckfeldt</u> Paul A. Huckfeldt	Chief Accounting Officer (Principal Accounting Officer)	April 15, 2010
<u>/s/ W. Christopher Beeler, Jr.</u> W. Christopher Beeler, Jr.	Director	April 15, 2010
<u>/s/ John L. Gregory, III</u> John L. Gregory, III	Director	April 15, 2010
<u>/s/ Mark F. Schreiber</u> Mark F. Schreiber	Director	April 15, 2010
<u>/s/ David G. Sweet</u> David G. Sweet	Director	April 15, 2010
<u>/s/ Henry G. Williamson, Jr.</u> Henry G. Williamson, Jr.	Director	April 15, 2010

HOOKE FURNITURE CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Management's Report on Internal Control Over Financial Reporting	F-2
Reports of Independent Registered Public Accounting Firm	F-3
Consolidated Balance Sheets as of January 31, 2010 and February 1, 2009	F-5
Consolidated Statements of Operations for the fifty-two weeks ended January 31, 2010, the fifty-two weeks ended February 1, 2009, and the fifty-three weeks ended February 3, 2008	F-6
Consolidated Statements of Cash Flows for the fifty-two weeks ended January 31, 2010, the fifty-two weeks ended February 1, 2009, and the fifty-three weeks ended February 3, 2008	F-7
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the fifty-three weeks ended February 3, 2008, the fifty-two weeks ended February 1, 2009 and the fifty-two weeks ended January 31, 2010	F-8
Notes to Consolidated Financial Statements	F-9

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 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 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, 2010. The effectiveness of the Company's internal control over financial reporting as of January 31, 2010 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their report which is included herein.



Paul B. Toms, Jr.
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
April 15, 2010



E. Larry Ryder
Executive Vice President – Finance and Administration
and Chief Financial Officer
(Principal Financial Officer)
April 15, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Hooker Furniture Corporation:

We have audited the accompanying consolidated balance sheets of Hooker Furniture Corporation and subsidiaries as of January 31, 2010 and February 1, 2009, and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended January 31, 2010. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hooker Furniture Corporation and subsidiaries as of January 31, 2010 and February 1, 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended January 31, 2010, 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), Hooker Furniture Corporation's internal control over financial reporting as of January 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated April 13, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Charlotte, North Carolina
April 13, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Hooker Furniture Corporation:

We have audited Hooker Furniture Corporation's internal control over financial reporting as of January 31, 2010, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hooker Furniture Corporation'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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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.

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.

In our opinion, Hooker Furniture Corporation maintained, in all material respects, effective internal control over financial reporting as of January 31, 2010, based on criteria established in *Internal Control – Integrated Framework* 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), the consolidated balance sheets of Hooker Furniture Corporation and subsidiaries as of January 31, 2010 and February 1, 2009, and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended January 31, 2010, and our report dated April 13, 2010 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Charlotte, North Carolina
April 13, 2010

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

As of	January 31, 2010	February 01, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 37,995	\$ 11,804
Trade accounts receivable, less allowance for doubtful accounts of \$1,938 and \$2,207 on each date	25,894	30,261
Inventories	36,176	60,248
Prepaid expenses and other current assets	3,468	4,736
Total current assets	103,533	107,049
Property, plant and equipment, net	22,747	24,596
Intangible assets	3,468	4,805
Cash surrender value of life insurance policies	14,810	13,513
Other assets	4,541	3,504
Total assets	<u>\$ 149,099</u>	<u>\$ 153,467</u>
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	\$ 10,425	\$ 8,392
Accrued salaries, wages and benefits	2,184	2,218
Other accrued expenses	1,953	2,279
Accrued dividends	1,077	-
Current maturities of long-term debt	-	2,899
Total current liabilities	15,639	15,788
Long-term debt, excluding current maturities	-	2,319
Deferred compensation	5,868	5,606
Other long-term liabilities	-	44
Total liabilities	21,507	23,757
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, 10,775 and 10,772 shares issued and outstanding on each date	17,076	16,995
Retained earnings	110,073	112,450
Accumulated other comprehensive income	443	265
Total shareholders' equity	127,592	129,710
Total liabilities and shareholders' equity	<u>\$ 149,099</u>	<u>\$ 153,467</u>

See accompanying Notes to Consolidated Financial Statements.

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

For The

	Fifty-Two Weeks Ended January 31, 2010	Fifty-Two Weeks Ended February 1, 2009	Fifty-Three Weeks Ended February 3, 2008
Net sales	\$ 203,347	\$ 261,162	\$ 316,801
Cost of sales	<u>154,931</u>	<u>200,878</u>	<u>235,057</u>
Gross profit	48,416	60,284	81,744
Selling and administrative expenses	41,956	45,980	51,738
Restructuring (credits) charges	-	(951)	309
Goodwill and intangible asset impairment charges	<u>1,274</u>	<u>4,914</u>	<u>-</u>
Operating income	5,186	10,341	29,697
Other (expense) income, net	<u>(99)</u>	<u>323</u>	<u>1,472</u>
Income before income taxes	5,087	10,664	31,169
Income taxes	<u>2,079</u>	<u>3,754</u>	<u>11,514</u>
Net income	<u>\$ 3,008</u>	<u>\$ 6,910</u>	<u>\$ 19,655</u>
Earnings per share:			
Basic and diluted	<u>\$ 0.28</u>	<u>\$ 0.62</u>	<u>\$ 1.58</u>
Weighted average shares outstanding:			
Basic	<u>10,753</u>	<u>11,060</u>	<u>12,442</u>
Diluted	<u>10,760</u>	<u>11,066</u>	<u>12,446</u>
Cash dividends declared per share	<u>\$ 0.40</u>	<u>\$ 0.40</u>	<u>\$ 0.40</u>

See accompanying Notes to Consolidated Financial Statements.

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

For The

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Cash flows from operating activities			
Cash received from customers	\$ 207,819	\$ 269,483	\$ 321,189
Cash paid to suppliers and employees	(168,666)	(258,701)	(265,842)
Income taxes paid, net	(1,401)	(7,219)	(12,717)
Interest received (paid), net	(327)	167	1,195
Net cash provided by operating activities	<u>37,425</u>	<u>3,730</u>	<u>43,825</u>
Cash flows from investing activities			
Purchase of property, plant, and equipment	(1,678)	(2,271)	(1,942)
Acquisitions, net of cash required	-	(181)	(15,826)
Proceeds received on notes receivable	30	-	-
Proceeds from the sale of property and equipment	337	28	3,668
Premiums paid on life insurance policies	(1,383)	(1,328)	(1,411)
Proceeds received on life insurance policies	987	-	1,244
Net cash used in investing activities	<u>(1,707)</u>	<u>(3,752)</u>	<u>(14,267)</u>
Cash flows from financing activities			
Purchases and retirement of common stock	-	(14,097)	(36,028)
Proceeds from short-term borrowing	4,859	-	-
Payments on short-term debt	(4,859)	-	-
Cash dividends paid	(4,309)	(4,459)	(5,036)
Payments on long-term debt	(5,218)	(2,694)	(2,503)
Net cash used in financing activities	<u>(9,527)</u>	<u>(21,250)</u>	<u>(43,567)</u>
Net increase (decrease) in cash and cash equivalents	26,191	(21,272)	(14,009)
Cash and cash equivalents at the beginning of the year	11,804	33,076	47,085
Cash and cash equivalents at the end of the year	<u>\$ 37,995</u>	<u>\$ 11,804</u>	<u>\$ 33,076</u>
Reconciliation of net income to net cash provided by operating activities:			
Net income	\$ 3,008	\$ 6,910	\$ 19,655
Depreciation and amortization	3,125	2,912	3,352
Non-cash restricted stock awards	81	74	47
Asset impairment charges	1,274	4,914	-
Restructuring charge / (credit)	-	(951)	309
Loss (gain) on disposal of property	133	154	(100)
Donation of showroom facilities	-	-	1,082
Provision for doubtful accounts	1,361	2,245	1,313
Loss (gain) on life insurance policies	-	95	(788)
Deferred income taxes	239	(2,005)	2,624
Changes in assets and liabilities, net of effect from acquisitions:			
Trade accounts receivable	3,007	5,767	2,972
Inventories	24,072	(9,629)	18,757
Prepaid expenses and other current assets	(1,054)	(730)	(186)
Trade accounts payable	2,033	(4,633)	2,063
Accrued salaries, wages, and benefits	(34)	(669)	(3,256)
Accrued income taxes	253	(1,274)	(3,826)
Other accrued expenses	(579)	79	(1,198)
Deferred compensation	322	-	-
Other long-term liabilities	184	471	1,005
Net cash provided by operating activities	<u>\$ 37,425</u>	<u>\$ 3,730</u>	<u>\$ 43,825</u>

See accompanying Notes to Consolidated Financial Statements

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

For the Fifty-Three Week Period Ended February 3, 2008; The Fifty-Two Week Period Ended February 1, 2009; and The
Fifty-Two Week Period Ended January 31, 2010

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balance at January 28, 2007	13,269	20,840	141,539	(69)	162,310
Net income	-	-	19,655	-	19,655
Unrealized loss on interest rate swap	-	-	-	(122)	(122)
Total comprehensive income	-	-	-	(122)	(122)
Cash dividends (\$0.40 per share)	-	-	(5,036)	-	(5,036)
Restricted stock grants, net of forfeitures	4	-	-	-	-
Restricted stock compensation cost	-	47	-	-	47
Purchase and retirement of common stock	(1,712)	(2,705)	(33,323)	-	(36,028)
Balance at February 3, 2008	11,561	18,182	122,835	(191)	140,826
Net income	-	-	6,910	-	6,910
Unrealized gain on interest rate swap	-	-	-	49	49
Unrealized gain on deferred compensation	-	-	-	407	407
Total comprehensive income	-	-	-	456	456
Cash dividends (\$0.40 per share)	-	-	(4,459)	-	(4,459)
Restricted stock grants, net of forfeitures	10	-	-	-	-
Restricted stock compensation cost	-	74	-	-	74
Purchase and retirement of common stock	(799)	(1,261)	(12,836)	-	(14,097)
Balance at February 1, 2009	10,772	16,995	112,450	265	129,710
Net income	-	-	3,008	-	3,008
Reclassifications due to ineffective swap	-	-	-	142	142
Unrealized gain on deferred compensation	-	-	-	36	36
Total comprehensive income	-	-	-	178	178
Cash dividends paid and accrued (\$0.40 per share)	-	-	(5,385)	-	(5,385)
Restricted stock grants, net of forfeitures	3	-	-	-	-
Restricted stock compensation cost	-	81	-	-	81
Balance at January 31, 2010	10,775	\$ 17,076	\$ 110,073	\$ 443	\$ 127,592

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 – 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 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 its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

We temporarily invest unused cash balances in a high quality, diversified money market fund that provides for daily liquidity and pays dividends monthly. Cash equivalents are stated at cost plus accrued interest, which approximates the market value.

Trade Accounts Receivable

Substantially all of our trade accounts receivable are due from retailers and dealers that sell residential home furnishings, which consist of a large number of entities with a broad geographical dispersion. We continually perform credit evaluations of our customers and generally do not require collateral. Our upholstered furniture subsidiaries factor substantially all of their receivables on a non-recourse basis. Accounts receivable are reported net of allowance for doubtful accounts.

Fair Value of Financial Instruments

The carrying value for each of our financial instruments (consisting of 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 fair value of our term loan is estimated based on the quoted market rates for similar debt with a similar remaining maturity. The fair value of our interest rate swap agreement is based on market quotes from a major financial institution, taking into consideration the most recent market activity.

Inventories

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

Property, Plant and Equipment

Property, plant and equipment is stated at cost, less allowances for depreciation. Provision for depreciation has been computed (generally by the declining balance method) at annual rates that will amortize the cost of the depreciable assets over their estimated useful lives.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets 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 to be disposed of by sale are measured at the lower of their carrying amount or fair value less cost to sell, are no longer depreciated, and are reported separately as “assets held for sale” in the consolidated balance sheets.

Intangible Assets

We own certain indefinite-lived intangible assets related to Bradington-Young, Sam Moore and Opus Designs by Hooker. We may acquire additional amortizable assets and/or indefinite lived intangible assets in future asset purchases or business combinations. The principal indefinite-lived intangible assets are trademarks and trade names which are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The fair value of the indefinite-lived intangible assets 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.

Trade names are tested for impairment annually as of the first day of our fiscal 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:

- 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; or
- the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed of.

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 which may have a material, adverse affect on our consolidated statements of operations and consolidated balance sheets.

Cash Surrender Value of Life Insurance Policies

We own life insurance policies on certain executives and other key current and former employees. 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.

Derivative Instruments and Hedging Activities

We may use interest rate swap agreements to manage variable interest rate exposure on our long-term debt. Our objective for holding these derivatives is to decrease the volatility of future cash flows associated with interest payments on our variable rate debt. We do not issue derivative instruments for trading purposes. Typically, we account for our interest rate swap agreements as cash flow hedges. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in "accumulated other comprehensive income or loss" on the consolidated balance sheets and subsequently reclassified to interest expense when the hedged exposure affects income (i.e. as interest expense accrues on the related outstanding debt).⁽¹⁾ Differences between the amounts paid and amounts received under the swap agreements are recognized in interest expense.

In some cases, such as upon the early repayment of a debt instrument, we may continue to hold an interest rate swap for a period of time after the related principal has been paid rendering the hedge ineffective. In that case, changes in the ineffective portion of the fair value of an interest rate swap are accounted for through interest expense.

Revenue Recognition

Sales revenue is recognized when title and the risk of loss pass to the customer, which occurs at the time of shipment. Sales are recorded net of allowances for trade promotions, estimated product returns, rebate advertising programs and other discounts.

Advertising

We offer advertising programs to qualified dealers under which we may provide signage, catalogs and other marketing support to our customers and may reimburse advertising and other costs incurred by our customers 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 and catalogs) to selling and administrative expense as incurred. Advertising costs charged to selling and administrative expense for fiscal years 2010, 2009 and 2008 were \$2.9 million, \$3.1 million, and \$3.0 million, respectively. The costs for other advertising allowance programs is charged against net sales.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes reflect the expected future tax consequences of differences between the book and income tax bases of assets and liabilities using enacted tax rates in effect in the years in which those differences are expected to reverse.

We recognize positions taken or expected to be taken in our tax returns in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is more likely than not of being realized upon ultimate settlement. We classify interest and penalties related to uncertain tax positions as income tax expense.

Earnings Per Share

We use the two class method to compute basic earnings per share. Under this method we allocate earnings to common stock 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 to our non-employee directors 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 stock in this calculation.

Diluted earnings per share reflect the potential dilutive effect of securities that could share in our earnings. Restricted shares awarded to non-employee members of the board of directors 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 unvested restricted stock. Shares of unvested stock under a stock-based compensation arrangement are considered options for purposes of computing diluted EPS and are considered outstanding as of the grant date for purposes of computing diluted EPS even though their exercise may be contingent upon vesting. Those stock-based awards are included in the diluted EPS computation even if the non-employee director may be required to forfeit the stock at some future date. Unvested restricted shares are not included in outstanding common stock 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 assets and liabilities, as well as disclosures regarding contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the reported periods. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowance for doubtful accounts; the valuation of derivatives; deferred tax assets; fixed assets, our Supplemental Executive Retirement Plan 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. Illiquid credit markets and volatile equity markets have combined to increase the uncertainty inherent in such estimates and assumptions. Actual results could differ from our estimates.

NOTE 2 – 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 (for example, the fiscal year that ended February 3, 2008 was fifty-three weeks.) Our quarterly periods are based on thirteen-week “reporting periods,” which will end on a Sunday. As a result, each quarterly period generally will be thirteen weeks, or 91 days, long.

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

- § 2010 fiscal year and comparable terminology mean the fiscal year that began February 2, 2009 and ended January 31, 2010.
- § 2009 fiscal year and comparable terminology mean the fiscal year that began February 4, 2008 and ended February 1, 2009; and
- § 2008 fiscal year and comparable terminology mean the fiscal year that began January 29, 2007 and ended February 3, 2008.

NOTE 3 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

The activity in the allowance for doubtful accounts was:

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Balance at beginning of year	\$ 2,207	\$ 1,750	\$ 1,436
Non-cash charges to cost and expenses	1,361	2,070	1,313
Allowance for doubtful accounts acquired in acquisitions	-	-	257
Less uncollectible receivables written off, net of recoveries	(1,630)	(1,613)	(1,256)
Balance at end of year	<u>\$ 1,938</u>	<u>\$ 2,207</u>	<u>\$ 1,750</u>

NOTE 4 – ACCOUNTS RECEIVABLE AND SHORT TERM BORROWING

	January 31, 2010	February 1, 2009
Trade accounts receivable	\$ 19,400	\$ 24,408
Receivable from factor	8,432	8,060
Allowance for doubtful accounts	(1,938)	(2,207)
Accounts receivable	\$ 25,894	\$ 30,261

“Receivable from factor” represents amounts due with respect to factored accounts receivable. We factor substantially all of our upholstery division accounts receivable without recourse to us.

Under the prior factoring agreement in effect until July 15, 2009, the factor owned the accounts receivable assigned to it for collection. During the second quarter of fiscal 2010, we became aware that the factor was facing liquidity concerns. In response to the risk of delayed payment of collected accounts receivable from the factor, we borrowed \$4.5 million from the factor against uncollected receivables, the maximum amount available under the prior factoring arrangement. The underlying receivables were collected in the ordinary course of business, and the debt was retired with the proceeds from the collected accounts receivable. During the third quarter of 2010, we borrowed an additional \$327,000 from the factor. During our fiscal 2010 fourth quarter, all amounts related to this loan were repaid. Under our current factoring agreement, entered July 15, 2009, we retain ownership of the accounts receivable that are collected by the factor, thereby substantially reducing liquidity risks associated with the former factoring arrangement.

Under both factoring agreements, invoices for upholstery products are generated and transmitted to our customer with a copy to the factor on a daily basis, as products are shipped to our upholstery customers. The factor collects the amounts due and remits collected funds to us semi-weekly. Under the prior agreement, the factor took ownership of the accounts receivable when it received our invoices. Under the new agreement, we retain ownership of the accounts receivable until the invoices are 90 days past due. At that time, the factor pays us the net invoice amount, less factoring fees and takes ownership of the accounts receivable. The factor is then entitled to collect the invoices on its own behalf and retain any subsequent remittances. Under both agreements, the invoiced amounts are reported as accounts receivable on our consolidated balance sheets when the merchandise is delivered to our customer until payment is received from the factor.

A limited number of accounts receivable are factored with recourse to us. The amounts of these receivables at January 31, 2010 and February 1, 2009 were \$205,000 and \$234,000, respectively. If the factor is unable to collect the amounts due, invoices are returned to us for collection. We include an estimate for these receivables in our calculation of our reserves for bad debt.

NOTE 5 – INVENTORIES

	January 31, 2010	February 1, 2009
Finished Furniture	\$ 40,205	\$ 64,865
Furniture in process	798	900
Materials and Supplies	7,258	8,207
Inventories at FIFO	48,261	73,972
Reduction to LIFO basis	12,085	13,724
Inventories	\$ 36,176	\$ 60,248

If the first-in, first-out (FIFO) method had been used in valuing all inventories, net income would have been \$2.2 million in fiscal 2010, \$8.1 million in fiscal 2009, and \$19.5 million in fiscal 2008.

As of January 31, 2010, we held \$5.9 million in inventory (4.0% of total assets) outside of the United States, in China.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	Depreciable Lives <i>(In years)</i>	January 31, 2010	February 1, 2009
Buildings and land improvements	15 - 30	\$ 23,708	\$ 23,676
Machinery and equipment	10	3,507	3,665
Furniture and fixtures	3 - 8	27,494	26,656
Other	5	4,043	3,886
Total depreciable property at cost		58,752	57,883
Less accumulated depreciation		37,603	35,695
Total depreciable property, net		21,149	22,188
Land		1,357	1,357
Construction in progress		241	1,051
Property, plant and equipment, net		\$ 22,747	\$ 24,596

During fiscal 2010, we transitioned frame production from our Bradington-Young Woodleaf, North Carolina plant (a leased facility) to Bradington-Young's Cherryville, North Carolina facility. On July 17, 2009, we announced our plans to sell the frame production operation, including the associated machinery and equipment, as an on-going business. However, at November 1, 2009 we had not found and did not anticipate finding a buyer for this operation. Consequently, during the 2010 fiscal third quarter, we recorded \$132,000 for severance (the majority of which was paid during our fiscal 2010 fourth quarter) and \$48,000 in accelerated depreciation on fixed assets utilized at this location. We recorded an additional \$32,000 in accelerated depreciation during our fiscal 2010 fourth quarter and have exited this location.

Capitalized Software Costs

Certain costs incurred in connection with developing or obtaining computer software for internal use are capitalized. These costs are amortized over five years or less, and generally over five years. Capitalized software is reported as a component of furniture and fixtures on our balance sheet. The activity in capitalized software costs was:

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Balance beginning of year	\$ 2,863	\$ 3,293	\$ 1,847
Software acquired in the acquisition of Sam Moore	-	-	458
Purchases	868	635	2,176
Amortization expense	(1,230)	(1,065)	(1,142)
Disposals	(8)	-	(46)
Balance end of year	\$ 2,493	\$ 2,863	\$ 3,293

NOTE 7 – INTANGIBLE ASSETS

	Useful Lives <i>(In years)</i>	January 31, 2010	February 1, 2009
Non-amortizable Intangible Assets			
Trademarks and trade names - Bradington-Young		\$ 2,676	\$ 3,289
Trademarks and trade names - Sam Moore		396	396
Trademarks and trade names - Opus Designs		396	1,057
Total trademarks and trade names		<u>3,468</u>	<u>4,742</u>
Amortizable Intangible Assets			
Non-compete agreements	4	-	700
Furniture designs	3	-	100
Total amortizable intangible assets		-	800
Less accumulated amortization		-	737
Net carrying value		-	63
Intangible assets		<u>\$ 3,468</u>	<u>\$ 4,805</u>

We recorded goodwill and certain intangible assets related to the acquisitions of Bradington-Young, Sam Moore and Opus Designs. The goodwill, 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. See "Note 1 – Summary of Significant Accounting Policies: Intangible Assets." For tax reporting purposes the goodwill and intangible assets are being amortized over 15 years on a straight line basis.

Goodwill results from business acquisitions and represents the excess of acquisition costs over the fair value of the net assets acquired. Our goodwill was initially recorded in connection with the acquisitions of Bradington-Young and Opus Designs, which occurred when the US economy was much stronger, estimates of revenue, margin and cash flow growth were much greater, and our market capitalization was at higher levels. Our fiscal year 2009 goodwill impairment analysis led us to conclude that there would be no remaining implied fair value attributable to our goodwill and accordingly, we recorded a non-cash impairment charge of \$3.8 million for the year ended February 1, 2009. This impairment charge is included in the "goodwill and intangible asset impairment charges" line of our Consolidated Statements of Operations.

Trade names and trademarks are related to the acquisitions of Bradington-Young, Sam Moore and Opus Designs. The circumstances which impact the valuation of goodwill could also be an indicator of impairment of trade names or trademarks, as could changes in legal circumstances, marketing plans or customer demand. In conjunction with our evaluation of goodwill and the cash flows generated by the reporting units, we evaluated the carrying value of trade names and trademarks using the relief from royalty method, which values the trademark by estimating the savings achieved by ownership of the trade name when compared to licensing the name from an independent owner. Our trade name analyses led us to conclude that the Bradington-Young and Opus Designs trade names were impaired. Consequently, we recorded non-cash impairment charges of \$613,000 and \$661,000, respectively, for our Bradington-Young and Opus Designs trade names during fiscal 2010 and \$1.1 million for our Bradington-Young trade name during our fiscal 2009 year ended February 1, 2009.

These impairment charges are included in the "goodwill and intangible asset impairment charges" line of our Consolidated Statements of Operations.

NOTE 8 – SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

	Fifty-Two Weeks Ended		Fifty-Three
	January 31, 2010	February 1, 2009	Weeks Ended February 3, 2008
Restricted stock grants, net of forfeitures	\$ 81	\$ 74	\$ 47
Donation of showroom facilities	-	-	1,082
Liabilities assumed in connection with acquisition of Sam Moore Furniture	-	-	1,487

NOTE 9 – LONG-TERM DEBT AND INTEREST RATE SWAPS

	January 31, 2010	February 1, 2009
Term loan	\$ -	\$ 5,218
Less current maturities	-	2,899
Long term debt, less current maturities	\$ -	\$ 2,319

On August 11, 2009, we amended our credit agreement. The amendment included the following terms:

- upon execution of the amendment, we were required to repay in full the remaining balance of the term loans outstanding under the agreement (\$3.8 million, plus accrued interest);
- effective as of July 30, 2009, the funded debt to EBITDA ratio under the credit agreement was changed from 1.25:1.0 to 2.0:1.0; and
- effective as of July 30, 2009, the debt service coverage ratio under the credit agreement was been eliminated.

The other terms of the credit agreement, including our \$15.0 million revolving line of credit, were unchanged.

As of January 31, 2010, we had an aggregate \$13.1 million available under our revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.9 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under that facility as of January 31, 2010. There were no additional borrowings outstanding under the revolving credit line on January 31, 2010. Any principal outstanding under the credit line is due March 1, 2011.

We are party to an interest rate swap agreement that provided, in effect, for a fixed interest rate of interest through 2010 on our former term loans. Prior to our fiscal 2010 third quarter, we accounted for our interest rate swap agreement as a cash flow hedge and recognized the fair value of the agreement on the balance sheet in shareholders' equity under the caption "accumulated other comprehensive income." The related gains or losses on this instrument were recorded through comprehensive income and, accordingly, were included in accumulated other comprehensive income on the balance sheet until recognized in net income.

In 2003, we terminated a similar swap agreement, which, prior to its termination, provided, in effect, a fixed interest rate of approximately 7.4% on our former term loans. We made a \$3.0 million payment to terminate that former swap agreement, which through the periods ended August 2, 2009 was being amortized over the remaining repayment period of the loans. Upon the repayment of our terms loans, we wrote-off the remaining \$61,000 unamortized balance of this swap termination payment during the fiscal 2010 third quarter.

At January 31, 2010 we were party to one derivative financial instrument, as described in the following table:

<u>Agreement</u>	<u>Notional Amount</u>	<u>Interest Rate</u>	<u>Expiration Date</u>	<u>Fair Value</u>
Interest rate swap	\$ 2,318	3.09%	September 1, 2010	\$ (33)

Fair Value Disclosure of Derivative Instruments

The following table provides quantitative fair value disclosures regarding our interest rate swap at January 31, 2010.

	<u>Carrying Value and Balance Sheet Location as of January 31, 2010 Other Accrued Expenses</u>	<u>Fair Value as of January 31, 2010</u>		
		<u>Quoted Prices in Active Markets for Identical Instruments (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
		\$ 33	\$ 33	
Interest rate swap	\$ 33		\$ 33	

	<u>Carrying Value and Balance Sheet Location as of February 1, 2009</u>		<u>Fair Value as of February 1, 2009</u>		
	<u>Other Accrued Expenses</u>	<u>Other Long Term Liabilities</u>	<u>Quoted Prices in Active Markets for Identical Instruments (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
	\$ 80	\$ 29			\$ 109
Interest rate swap	\$ 80	\$ 29			\$ 109

	<u>Fifty-two Weeks Ended</u>			<u>Fifty-three Weeks</u>
	<u>January 31, 2010</u>	<u>February 1, 2009</u>	<u>February 1, 2009</u>	<u>February 3, 2008</u>
Interest rate swap:				
Loss recognized in other comprehensive income	\$ -	\$ (78)	\$ (159)	
Loss reclassified from accumulated other comprehensive income into interest expense, net	142	128	36	
Loss recognized in net income	-	-	-	
Loss recognized in net income on change in fair value of derivative financial instrument	5	-	-	

NOTE 10 – OTHER COMPREHENSIVE INCOME (LOSS)

	Fifty-Two Weeks Ended		Fifty-Three
	January 31, 2010	February 1, 2009	Weeks Ended February 3, 2008
Net income	\$ 3,008	\$ 6,910	\$ 19,655
(Loss) on interest rate swaps	(26)	(126)	(256)
Less amount of swaps' fair value reclassified to interest expense	118	205	58
Reclassification to income of cumulative balance related to ineffective swap	76		
Reclassification to income of unamortized balance of swap termination payment	61		
Unrealized gain (loss) on interest rate swaps	229	79	(198)
Unrealized accumulated actuarial gain on Supplemental Retirement Income Plan (deferred compensation)	58	653	-
Other comprehensive income (loss) before tax	287	732	(198)
Income tax (benefit)	109	276	(76)
Other comprehensive income (loss), net of tax	178	456	(122)
Comprehensive income	<u>\$ 3,186</u>	<u>\$ 7,366</u>	<u>\$ 19,533</u>

NOTE 11 – EMPLOYEE BENEFIT PLANS**Employee Savings Plans**

We sponsor a tax-qualified 401(k) plan covering substantially all employees. This plan assists employees in meeting their savings and retirement planning goals through employee salary deferrals and discretionary matching contributions made by the company. Company contributions to the plan amounted to \$593,000 in fiscal 2010, \$617,000 in fiscal 2009 and \$574,000 in fiscal 2008.

Executive Benefits

Through fiscal 2008 we provided salary continuation and supplemental executive retirement benefits to certain management employees, which consisted of individual contracts with participants to pay amounts as specified in each agreement upon retirement, disability or death. The supplemental executive retirement arrangements also provided for benefit payments to participants upon a change in control of the Company as defined in the agreements. These agreements were unfunded and all benefits were payable solely from the general assets of the Company. We accounted for our obligation to each participant individually on the accrual basis in accordance with the terms of the underlying agreements.

Effective for fiscal 2009, we replaced these agreements with a new supplemental retirement income plan (“SRIP”). The SRIP provides monthly payments to participants or their designated beneficiaries based on the 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 executive, 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 the general assets of the Company.

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

	Fifty-Two Weeks Ended	
	January 31, 2010	February 1, 2009
Change in benefit obligation:		
Beginning projected benefit obligation	\$ 5,780	5,601
Service cost	632	750
Interest cost	355	350
Benefits paid	(187)	(267)
Actuarial loss (gain)	(276)	(654)
Ending projected benefit obligation (funded status)	<u>\$ 6,304</u>	<u>\$ 5,780</u>
Accumulated benefit obligation	<u>\$ 5,773</u>	<u>\$ 5,421</u>
Amount recognized in the consolidated balance sheet:		
Current liabilities	\$ 436	\$ 393
Non-current liabilities	5,868	5,387
Total	<u>\$ 6,304</u>	<u>\$ 5,780</u>
Other changes recognized in accumulated other comprehensive income		
Net (gain) arising during period	(218)	(653)
Net periodic benefit cost	987	1,100
Total recognized in net periodic benefit cost and accumulated other comprehensive income	<u>\$ 769</u>	<u>\$ 447</u>
Net periodic benefit cost		
Service cost	\$ 632	\$ 750
Interest cost	355	350
Net periodic benefit cost	<u>\$ 987</u>	<u>\$ 1,100</u>
Assumptions used to determine net periodic benefit cost:		
Discount rate	5.5%	6.25%
Increase in future compensation levels	4.0%	4.0%
Estimated Future Benefit Payments:		
Fiscal 2011	\$ 436	
Fiscal 2012	460	
Fiscal 2013	539	
Fiscal 2014	741	
Fiscal 2015	716	
Fiscal 2016 through Fiscal 2020	3,786	

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

Performance Grants

On April 30, 2008, the Compensation Committee of our board of directors awarded two performance grants to certain senior executives under the 2005 Stock Incentive Plan. Payments under each fixed dollar grant will be based on our cumulative earnings per share ("EPS") and average annual return on equity ("ROE") for the grant's designated performance and service period. The respective performance periods for the two grants are the fiscal two-year period ended January 31, 2010 and the fiscal three-year period ending January 30, 2011. The payout targets for the fiscal two-year period ended January 31, 2010 were not met. Consequently, no payment will be made for this performance period. Payments, if any, for performance grants for the three-year period ending January 30, 2011, will be paid in cash, shares of our common stock or a combination of both, at the discretion of the Compensation Committee.

These performance grants are classified as liabilities since the (i) settlement amount for each grant is not known until after the applicable performance period is completed and (ii) settlement of the grants may be made in common stock, cash or a combination of both. The estimated cost of each grant is recorded as compensation expense over the respective performance periods when it becomes probable that the EPS and ROE performance targets will be achieved. The expected cost of the grants is revalued each reporting period. As assumptions change regarding the expected achievement of target performance levels, a cumulative adjustment is recorded and future compensation expense will increase or decrease based on the currently projected performance levels. If we determine that it is not probable that the minimum EPS and ROE performance thresholds for the grants will be met, no further compensation cost will be recognized and any previously recognized compensation cost will be reversed. A maximum of \$1.1 million could be paid under the remaining grant.

As of January 31, 2010, no compensation expense has been recorded for the remaining performance grant for the fiscal three-year period ending January 30, 2011.

NOTE 12 – SHARE-BASED COMPENSATION

The Hooker Furniture Corporation 2005 Stock Incentive Plan ("Stock Plan") permits incentive awards of restricted stock, restricted stock units, stock appreciation rights and performance grants to key employees and non-employee directors. A maximum of 750,000 shares of the Company's common stock was approved for issuance under the Stock Plan. We expect to issue restricted stock or other forms of stock-based compensation awards to eligible directors and employees under the plan. We have issued restricted stock awards to each non-employee member of the board of directors each January since 2006. These shares will vest if the director remains on the board through a 36-month service period or may vest earlier in accordance with terms specified in the Stock Plan. During fiscal 2009, the remaining 3,920 of these shares vested. The grant-date fair value of stock awards issued during the fiscal 2010 fourth quarter was \$12.51 per share, and \$8.12 per share issued during the fiscal 2009 fourth quarter, and \$19.61 per share for stock awards issued during the fiscal 2008 fourth quarter.

We account for these awards as "non-vested equity shares." The awards outstanding as of January 31, 2010 had an aggregate grant-date fair value of \$205,000, after taking vested and forfeited shares into account. As of January 31, 2010, we have recognized non-cash compensation expense of approximately \$92,000 related to these non-vested awards and \$136,000 for shares that have vested. The remaining \$113,000 of grant-date fair value will be recognized over the remaining months of the vesting periods for these awards.

For each restricted common stock issuance, the following table summarizes the actual number of shares that have been issued/vested/forfeited, the weighted average issue price of those shares on the grant date, the fair value of each grant on the grant date, compensation expense recognized for the non-vested shares of each grant and the remaining fair value of the non-vested shares of each grant as of January 31, 2010:

	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, 2010
Awards outstanding balance at January 31, 2007	-		-	136	
Shares Issued on January 15, 2008					
Issued	4,335	\$ 19.61	85	59	\$ 26
Shares Issued on January 15, 2009					
Issued	10,474	\$ 8.12	85	31	54
Shares Issued on January 15, 2010					
Issued	<u>2,831</u>	<u>\$ 12.51</u>	<u>35</u>	<u>2</u>	<u>33</u>
Awards outstanding at January 31, 2010:	<u>17,640</u>		<u>\$ 205</u>	<u>\$ 228</u>	<u>\$ 113</u>

The Stock Plan expired on March 30, 2010, and no further awards may be granted under that plan. Our Board of Directors has approved an amendment and restatement of the Stock Plan and directed that it be submitted to our shareholders for approval at our annual meeting to be held on June 8, 2010. If approved by our shareholders, the amendment and restatement of the Stock Plan would amend certain terms of the plan and would allow us to continue to grant equity incentive awards in accordance with our overall compensation philosophy and objectives.

NOTE 13 – EARNINGS PER SHARE

Since 2006, we have issued restricted stock awards to non-employee members of the board of directors under the Stock Plan each January, and expect to continue to grant these awards to non-employee board members in the future. As of January 31, 2010, February 1, 2009, and February 3, 2008 there were 17,640, 19,684, and 13,130, shares, respectively, of restricted stock outstanding, net of forfeitures and vested shares on each date. Restricted shares 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:

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Net income	\$ 3,008	\$ 6,910	\$ 19,655
Less: Dividends on unvested restricted shares			
Net earnings allocated to unvested restricted stock	6	-	-
Earnings available for common shareholders	<u>\$ 3,002</u>	<u>\$ 6,910</u>	<u>\$ 19,655</u>
Weighted average shares outstanding for basic earnings per share	10,753	11,060	12,442
Dilutive effect of restricted stock awards	7	6	4
Weighted average shares outstanding for diluted earnings per share	<u>10,760</u>	<u>11,066</u>	<u>12,446</u>
Basic earnings per share	<u>\$ 0.28</u>	<u>\$ 0.62</u>	<u>\$ 1.58</u>
Diluted earnings per share	<u>\$ 0.28</u>	<u>\$ 0.62</u>	<u>\$ 1.58</u>

NOTE 14 – INCOME TAXES

The provision for income taxes:

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Current expense			
Federal	\$ 1,746	\$ 5,660	\$ 7,937
State	224	99	953
Total current expense	<u>1,970</u>	<u>5,759</u>	<u>8,890</u>
Deferred taxes			
Federal	(110)	(2,237)	2,609
State	219	232	15
Total deferred taxes	<u>109</u>	<u>(2,005)</u>	<u>2,624</u>
Income tax expense	<u>\$ 2,079</u>	<u>\$ 3,754</u>	<u>\$ 11,514</u>

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

	Fifty-Two Weeks Ended		Fifty-Three Weeks Ended
	January 31, 2010	February 1, 2009	February 3, 2008
Income taxes at statutory rate	35.0%	35.0%	35.0%
Increase (decrease) in tax rate resulting from:			
State taxes, net of federal benefit	2.5	1.9	2.0
Non-cash charitable contribution of appreciated inventory	(2.2)	(1.1)	(0.3)
Employee stock ownership plan	-	-	(0.7)
Captive insurance assessments	-	-	0.3
Officer's life insurance	(3.8)	(0.9)	(0.9)
Subpart F Income	3.1	-	-
Valuation allowance against state income tax NOL's	2.7	-	-
Penalty (FIN 48)	2.0	-	-
Other	1.6	0.3	1.5
Effective income tax rate	<u>40.9%</u>	<u>35.2%</u>	<u>36.9%</u>

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

	January 31, 2010	February 3, 2009
Assets		
Deferred compensation	\$ 2,377	\$ 2,179
Interest rate swaps	21	79
Allowance for bad debts	649	832
State income taxes	290	510
Restructuring	14	17
Property, plant and equipment	90	298
Intangible assets	927	669
Charitable contribution carryforward	445	-
Other	171	172
Total deferred tax assets	4,984	4,756
Valuation allowance	(139)	-
	4,845	4,756
Liabilities		
Inventories	527	70
Employee benefits	360	379
Other	6	7
Total deferred tax liabilities	893	456
Net deferred tax asset	\$ 3,952	\$ 4,300

As of January 31, 2010, \$3.3 million of deferred income taxes was classified as “other long-term assets” and \$701,000 was classified as “other current assets” in the consolidated balance sheets. At February 1, 2009, \$3.5 million of deferred income taxes was classified as “other long-term assets” and \$835,000 was classified as “other current assets” in the consolidated balance sheets. A valuation allowance of \$139,000 was established during the fiscal year ending January 31, 2010 against certain state net operating losses being carried forward. We expect to fully utilize the remaining deferred tax assets in future periods when the amounts become deductible.

During the fiscal year ending January 31, 2010, we sold \$163,000 of state income tax credits that we were not able to use or carryforward. At January 31, 2010 and February 1, 2009, we had state income tax credit carry forwards of \$141,000 and \$340,000, respectively. The state loss and credit carryovers begin to expire in 2021 and 2012, respectively.

During fiscal 2010, the term loans associated with our current and former interest rate swaps was repaid, making the swaps ineffective as a cash flow hedge. Therefore the classification of the deferred tax impact of the swaps was removed from “accumulated other comprehensive income” in the fiscal 2010 consolidated balance sheet. The related income taxes amounted to deferred expense of \$87,000 in fiscal 2010, deferred expense of \$276,000 in fiscal 2009 and deferred benefit of \$76,000 in fiscal 2008.

On January 29, 2007, we adopted guidance that clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance also addresses de-recognition, classification, interest and penalties, accounting in interim periods and disclosures.

A reconciliation of beginning and ending unrecognized tax benefits is as follows:

Balance at January 29, 2007	\$	845,000
Increases due to positions taken during prior periods		45,000
Settlements		(890,000)
Balance at February 3, 2008	\$	-

We had no material unrecognized tax benefits at January 31, 2010 or February 1, 2009, and there were no material increases or decreases in unrecognized tax benefits during fiscal 2010 or fiscal 2009.

We have elected to classify interest and penalties recognized with respect to unrecognized tax benefits as income tax expense. During fiscal 2010 the Internal Revenue Service assessed a late payment penalty of \$100,000. Based on the facts, we feel that our appeal will be accepted, and the penalty will ultimately be waived; but since we have not yet received confirmation of abatement, we have included the penalty as a federal tax expense. Interest and penalties charged to tax expense during 2008 were \$24,000. No interest or penalties were accrued as of February 1, 2009 or February 3, 2008.

Tax years beginning December 1, 2005, through February 1, 2009 remain subject to examination by federal and state taxing authorities.

NOTE 15 –SUPPLIER COMMITMENTS

From May 2007 through September 2009, we advanced payments to, and provided financing guarantees for, one of our finished goods suppliers to facilitate the supplier’s purchase of raw materials and other related items in order to help ensure timely delivery of finished goods to us. The balance of the advances and other miscellaneous amounts to this supplier at January 31, 2010 was \$124,000. In order for the supplier to obtain additional bank financing, we issued a standby letter of credit on July 14, 2008 as security in the amount of \$600,000. In conjunction with the issuance of the letter of credit, we entered into a security agreement with the supplier and the supplier’s shareholders, which provides us with a security interest in certain assets of the supplier and its shareholders. During September 2009, prior to the expiration of the letter of credit, the supplier ceased operations, and defaulted on its bank notes, and its lender drew on our \$600,000 letter of credit. Subsequently, we reimbursed our letter of credit provider for the \$600,000. Due to the location and nature of the pledged collateral, we may incur substantial costs to obtain and foreclose on it. Consequently, we recorded:

- a charge of \$300,000 during the third quarter of fiscal 2010 to write down the value of the pledged collateral to our estimate of its net realizable value (\$300,000); and
- charges totaling \$124,000 during the our third and fourth quarters of fiscal 2010 to reserve against the potential uncollectability of the outstanding advances and other miscellaneous amounts due from the supplier.

The estimated net realizable amount for the pledged collateral of \$300,000 as of January 31, 2010 is recorded in our consolidated balance sheets in “other assets.” Based on a recent appraisal, we believe that the net realizable value of the \$300,000 is reasonable and approximates the collateral’s fair value. We are currently working with the supplier and its shareholders to have the pledged collateral conveyed to us.

NOTE 16 – RESTRUCTURING CHARGES AND ASSETS HELD FOR SALE

We have incurred significant restructuring and asset impairment charges since 2000 in connection with the closing of our domestic wood furniture manufacturing facilities. These charges included severance and related benefits for terminated employees, asset impairment charges to write down real and personal property to fair market value (as determined based on market prices for similar assets in similar condition) less selling costs, and factory disassembly and other related costs to prepare each facility for sale.

We did not record restructuring and asset impairment charges in fiscal 2010.

Pretax restructuring and asset impairment charges and credits increased operating income by 0.4% of net sales in fiscal 2009 and decreased operating income by 0.1% of net sales in fiscal 2008.

During fiscal 2009 we recorded aggregate restructuring credits of \$951,000 (\$592,000 after tax, or \$0.05 per share) principally for:

- § previously accrued health care benefits principally for the Martinsville and Roanoke, Va. facilities which are not expected to be paid (\$834,000), and
- § previously accrued environmental monitoring costs at the Kernersville, N.C. and Martinsville, Va. facilities, which are not expected to be paid (\$117,000).

During fiscal 2008 we recorded aggregate restructuring and asset impairment charges of \$309,000 (\$190,000 after tax, or \$0.02 per share) principally for:

- § additional asset impairment, disassembly and exit costs associated with the March 2007 closing of the Martinsville, Va. domestic wood manufacturing facility (\$553,000); net of
- § a restructuring credit of \$244,000, principally for previously accrued health care benefits for the Pleasant Garden, N.C., Martinsville, Va. and Roanoke, Va. facilities, which are not expected to be paid.

The following table sets forth the significant components of and activity related to the accrued restructuring and asset impairment charges for fiscal years 2008, 2009 and 2010:

	<u>Severance and Related Benefits</u>	<u>Asset Impairment</u>	<u>Other</u>	<u>Pretax Amount</u>	<u>After-tax Amount</u>
Accrued balance at January 28, 2007	2,983	-	200	3,183	
Restructuring charges accrued during fiscal 2008	(244)	25	528	309	\$ 190
Non-cash charges	-	(25)	-	(25)	
Cash payments	(1,910)	-	(535)	(2,445)	
Accrued balance at February 3, 2008	829	-	193	1,022	
Restructuring credits accrued during fiscal 2009	(834)	-	(117)	(951)	\$ (592)
Cash payments	5	-	(31)	(26)	
Accrued balance at February 1, 2009	-	-	45	45	
Restructuring charges accrued during fiscal 2010	-	-	-	-	
Non-cash charges	-	-	-	-	
Cash payments	-	-	(7)	(7)	
Accrued balance at January 31, 2010	\$ -	\$ -	\$ 38	\$ 38	

Accrued restructuring charges are included in “accrued salaries, wages and benefits,” “other accrued expenses” and “other long-term liabilities” in the consolidated balance sheets. The expenses are included in “restructuring (credits) charges” in the consolidated statements of operations.

NOTE 17 – SEGMENT INFORMATION

We are organized and report our results of operations in one operating segment that designs, imports, manufactures and markets residential furniture products, principally in North America. The nature of the products, production processes, distribution methods, types of customers and regulatory environment are similar for substantially all of our products.

NOTE 18 – COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ARRANGEMENTS

We lease warehousing facilities, showroom space, and office and computer equipment under leases expiring over the next five years. Rent expense was \$2.2 million in fiscal 2010, \$2.5 million in fiscal 2009, and \$2.2 million in fiscal 2008. Future minimum annual commitments under leases and operating agreements amount to \$2.2 million in fiscal 2011, \$1.4 million in fiscal 2012, \$869,000 in fiscal 2013, \$830,000 in fiscal 2014, and \$268,000 in fiscal 2015.

We had letters of credit outstanding totaling \$1.9 million on January 31, 2010. We utilize letters of credit to collateralize certain imported inventory purchases and certain insurance arrangements.

In the ordinary course of its 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.

NOTE 19 – CONCENTRATIONS OF SOURCING RISK

We source imported products through over 36 different vendors, from 39 separate factories, located in seven 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 China have become an important resource for Hooker Furniture. In fiscal year 2010, imported products sourced from China accounted for approximately 94% of import purchases, and the factory in China from which we directly source the most product accounted for approximately 42% of our worldwide purchases of imported product. A sudden disruption in our supply chain from this factory, or from China in general, could significantly impact our ability to fill customer orders for products manufactured at that factory or in that country. If such a disruption were to occur, we believe that we would have sufficient inventory to adequately meet demand for approximately four months. Also, with the broad spectrum of product we offer, we believe that, in some cases, buyers could be offered similar product available from alternative sources. We believe that we could, most likely at higher cost, source most of the products currently sourced in 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 approximately six months. If we were to be unsuccessful in obtaining those products from other sources, or at comparable cost, then a sudden disruption in the supply chain from our largest import furniture supplier, or from China in general, could have a short-term material adverse effect on our results of operations. Given the capacity available in China and other low-cost producing countries, we believe the risks from these potential supply disruptions are manageable.

NOTE 20 – QUARTERLY DATA (Unaudited)

	Fiscal Quarter			
	First	Second	Third	Fourth
2010				
Net sales	\$ 52,063	\$ 45,978	\$ 52,605	\$ 52,701
Cost of sales	40,836	36,283	39,928	37,884
Gross profit	11,227	9,695	12,677	14,817
Selling and administrative expenses	11,181	10,254	10,894	9,627
Intangible asset impairment charges (credits)	673	(60)		661
Net (loss) income	(456)	(463)	957	2,970
Basic and diluted earnings per share	\$ (0.04)	\$ (0.04)	\$ 0.09	\$ 0.28
2009				
Net sales	\$ 71,027	\$ 64,628	\$ 68,996	\$ 56,511
Cost of sales	54,291	50,501	53,319	42,767
Gross profit	16,736	14,127	15,677	13,744
Selling and administrative expenses	12,786	11,264	11,530	10,400
Intangible asset impairment charges (credits)	-	-	-	4,914
Restructuring (credits)	-	(258)	(561)	(132)
Net income (loss)	2,605	2,074	2,950	(719)
Basic and diluted earnings per share	\$ 0.23	\$ 0.18	\$ 0.27	\$ (0.07)

During the fourth quarter of fiscal 2010, we recorded an approximate \$700,000 favorable adjustment to our worker's compensation accrual due to the exit from our captive insurance arrangement. During fiscal 2009, we recorded \$4.9 million (\$3.1 million after tax, or \$0.28 per share) in goodwill and intangible asset impairment charges.

Earnings per share for each fiscal quarter is derived using the weighted average number of shares outstanding during that quarter. Earnings per share for the 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 may not equal earnings per share for the full fiscal year.

NOTE 21 – SUBSEQUENT EVENTS

We have evaluated events that occurred subsequent to January 31, 2010 through the financial statement issuance date.

Dividend

At its April 13, 2010 meeting, our board of directors declared a quarterly cash dividend of \$0.10 per share, payable on May 28, 2010 to shareholders of record at May 14, 2010.

Casualty Loss

On March 10, 2010, we experienced a small fire at one of our warehouse facilities in Martinsville, Va. The fire was contained to an area of approximately 2,000 square feet within a 580,000 square foot facility. Based on current estimates, we believe that the costs associated with the fire will exceed our insurance deductible of \$500,000. We expect that amounts in excess of our deductible will be fully covered by the insurance policy in force at the time of the fire.

CREDIT AGREEMENT

Dated as of April 30, 2003

among

HOOKE FURNITURE CORPORATION
as Borrower,

BANK OF AMERICA, N.A.,
as Administrative Agent,

WACHOVIA BANK, NATIONAL ASSOCIATION,

and

BRANCH BANKING & TRUST CO. OF VIRGINIA,

as Co-Agents,

and

The Lenders Party Hereto

TABLE OF CONTENTS

		Page
ARTICLE I DEFINITIONS AND ACCOUNTING TERMS		
	□ 0;	
Section 1.1	Defined Terms.	1
Section 1.02	Other Interpretive Provisions.	15
Section 1.03	Accounting Terms.	16
Section 1.04	Rounding.	16
Section 1.05	References to Agreements and Laws.	16
Section 1.06	Letter of Credit Amounts.	17
ARTICLE II THE COMMITMENTS AND CREDIT EXTENSIONS		
Section 2.01	Loans.	17
Section 2.02	Borrowings and Conversions of Loans.	17
Section 2.03	Letters of Credit.	18
Section 2.04	Prepayments.	23
Section 2.05	Reduction or Termination of Revolving Commitments.	24
Section 2.06	Repayment of Loans.	24
Section 2.07	Interest.	26
Section 2.08	Fees.	26
Section 2.09	Computation of Interest and Fees.	27
Section 2.10	Evidence of Debt.	27
Section 2.11	Payments Generally.	27
Section 2.12	Sharing of Payments.	29
ARTICLE III TAXES, YIELD PROTECTION AND ILLEGALITY		
Section 3.01	Taxes.	30
Section 3.02	Illegality.	30
Section 3.03	Inability to Determine Rates.	31
Section 3.04	Increased Cost and Reduced Return; Capital Adequacy; Reserves on LIBOR Rate Loans.	31
Section 3.05	Funding Losses.	32
Section 3.06	Matters Applicable to all Requests for Compensation.	32
Section 3.07	Survival.	32
ARTICLE IV CONDITIONS PRECEDENT TO CREDIT EXTENSIONS		
Section 4.01	Conditions of Initial Credit Extension.	32
Section 4.02	Conditions to all Credit Extensions and Conversions.	34

ARTICLE V REPRESENTATIONS AND WARRANTIES

Section 5.01	Existence, Qualification and Power; Compliance with Laws.	35
Section 5.02	Authorization; No Contravention.	35
Section 5.03	Governmental Authorization.	35
Section 5.04	Binding Effect.	35
Section 5.05	Financial Statements; No Material Adverse Effect.	35
Section 5.06	Litigation.	36
Section 5.07	No Default.	36
Section 5.08	Ownership of Property; Liens.	36
Section 5.09	Environmental Compliance.	36
Section 5.10	Insurance.	37
Section 5.11	Taxes.	37
Section 5.12	ERISA Compliance.	37
Section 5.13	Subsidiaries.	37
Section 5.14	Disclosure.	38
Section 5.15	Compliance with Laws.	38
Section 5.16	Margin Regulations; Investment Company Act; Public Utility Holding Company Act.	38
Section 5.17	Principal Place of Business.	38

ARTICLE VI AFFIRMATIVE COVENANTS

Section 6.01	Financial Statements.	39
Section 6.02	Certificates; Other Information.	39
Section 6.03	Notices.	40
Section 6.04	Payment of Obligations.	40
Section 6.05	Preservation of Existence, Etc.	41
Section 6.06	Maintenance of Properties.	41
Section 6.07	Maintenance of Insurance.	41
Section 6.08	Compliance with Laws.	41
Section 6.09	Books and Records.	41
Section 6.10	Inspection Rights.	42
Section 6.11	Use of Proceeds.	42
Section 6.12	Financial Covenants	42

ARTICLE VII NEGATIVE COVENANTS

Section 7.01	Liens.	43
Section 7.02	Investments.	44
Section 7.03	Indebtedness.	45
Section 7.04	Fundamental Changes.	45
Section 7.05	Dispositions.	46
Section 7.06	Restricted Payments.	46
Section 7.07	Change in Nature of Business.	47
Section 7.08	Transactions with Affiliates.	47
Section 7.09	Margin Regulations.	47

ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES

Section 8.01	Events of Default.	48
Section 8.02	Remedies Upon Event of Default.	49
Section 8.03	Application of Funds.	50

ARTICLE IX AGENT

Section 9.01	Appointment and Authorization of Agent.	51
Section 9.02	Delegation of Duties.	51
Section 9.03	Liability of Agent.	51
Section 9.04	Reliance by Agent.	52
Section 9.05	Notice of Default.	52
Section 9.06	Credit Decision; Disclosure of Information by Agent.	52
Section 9.07	Indemnification of Agent.	53
Section 9.08	Agent in its Individual Capacity.	53
Section 9.09	Successor Agent.	54
Section 9.10	Agent May File Proofs of Claim.	54
Section 9.10	Other Agents.	55

ARTICLE X MISCELLANEOUS

Section 10.01	Amendments, Etc.	55
Section 10.02	Notices and Other Communications; Facsimile Copies.	56
Section 10.03	No Waiver; Cumulative Remedies.	57
Section 10.04	Attorney Costs, Expenses and Taxes.	57
Section 10.05	Indemnification by Borrower.	57
Section 10.06	Payments Set Aside.	58
Section 10.07	Successors and Assigns.	58
Section 10.08	Confidentiality.	61
Section 10.09	Set-off.	61
Section 10.10	Interest Rate Limitation.	62
Section 10.11	Counterparts.	62
Section 10.12	Integration.	62
Section 10.13	Survival of Representations and Warranties.	62
Section 10.14	Severability.	62
Section 10.15	Governing Law; Submission to Jurisdiction.	63
Section 10.16	Waiver of Right to Trial by Jury.	63
Section 10.17	Time of the Essence.	63

SIGNATURES.....S-1

SCHEDULES

2.01	Commitments and Pro Rata Shares
5.06	Litigation
5.09	Environmental Matters
5.13	Subsidiaries
5.17	Principal Place of Business
7.01	Existing Liens
7.03	Existing Indebtedness
10.02	Addresses for Notices

EXHIBITS

Form of

A	Revolving Loan Notice
B-1	Revolving Note
B-2	Tranche A Term Note
B-3	Tranche B Term Note
C	Compliance Certificate
D	Assignment and Assumption Agreement

CREDIT AGREEMENT

This CREDIT AGREEMENT ("Agreement") is entered into as of April 30, 2003, among HOOKER FURNITURE CORPORATION, a Virginia corporation ("Borrower"), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BANK OF AMERICA, N.A., as Agent.

Borrower has requested that Lenders provide a revolving credit facility, and Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.1 Defined Terms.

As used in this Agreement, the following terms shall have the meanings set forth below:

"Administrative Agent" or "Agent" means Bank of America in its capacity as (a) Administrative Agent under any of the Loan Documents and/or, (b) issuer of Letters of Credit hereunder, as the context requires, or any successor Agent.

“**Affiliate**” means, with respect to any Person, another Person that directly or indirectly through one or more intermediaries, Controls, or is Controlled by or is under common Control with, the Person specified. “**Control**” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. Without limiting the generality of the foregoing, a Person shall be deemed to be Controlled by another Person if such other Person possesses, directly or indirectly, power to vote 5% or more of the securities having ordinary voting power for the election of directors, managing general partners or equivalent governing body of such Person.

“**Agent Fee Letter**” has the meaning specified in Section 2.08(b).

“**Agent’s Office**” means Agent’s address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as Agent may from time to time notify Borrower and Lenders.

“**Agent-Related Persons**” means Agent, together with its Affiliates, and the officers, directors, employees, agents and attorneys-in-fact of such Persons and Affiliates.

“**Aggregate Revolving Commitments**” means the Revolving Commitments of all Lenders. The initial amount of the Aggregate Revolving Commitments in effect on the Closing Date is FIFTEEN MILLION DOLLARS (\$15,000,000).

“**Agreement**” means this Credit Agreement.

“**Applicable Rate**” means, from time to time, the following percentages per annum, based upon the Funded Debt to EBITDA ratio (the “Financial Covenant”) as set forth in the most recent Compliance Certificate received by Agent pursuant to Section 6.02(b):

Pricing Level	Funded Debt to EBITDA Ratio	Commitment Fee	LIBOR Loans And Letters of Credit
1	<0.75:1	0.125%	0.625%
2	≥0.75:1 but <1.25:1	0.15%	0.75%
3	≥1.25:1 but <1.50:1	0.175%	1.00%
4	≥1.50:1	0.20%	1.25%

Any increase or decrease in the Applicable Rate resulting from a change in the Financial Covenant shall become effective as of the first Business Day of the month immediately following the date a Compliance Certificate is delivered pursuant to Section 6.02(b); provided, however, that if no Compliance Certificate is delivered when due in accordance with such Section, then Pricing Level 4 shall apply from the first Business Day of the month following the date such Compliance Certificate was required to have been delivered until the later of the first Business Day of the following month and the first Business Day of the month following the date a Compliance Certificate is delivered; provided further, however, with respect to the last quarter of any fiscal year, if the financial information delivered pursuant to Section 6.01(c) for such quarter differs from the financial information subsequently provided pursuant to Section 6.01(a) for such quarter and the calculation of the Financial Covenant pursuant to such subsequently delivered financial information would result in a different Pricing Level being applicable, then such new Pricing Level shall be immediately and retroactively effective and the Borrower shall promptly pay to the Agent, for the benefit of the Lenders, any additional amounts due as a result of such retroactive pricing. Notwithstanding the foregoing, the Applicable Rate in effect from the Closing Date through the first Business Day of the month immediately following the date a Compliance Certificate is delivered pursuant to Section 6.02(b) for the fiscal year ending November 30, 2003 shall be determined based upon Pricing Level 3.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

“Assignment and Assumption Agreement” means an Assignment and Assumption Agreement substantially in the form of Exhibit D.

“Attorney Costs” means and includes all reasonable fees, expenses and disbursements of any law firm or other external counsel and, without duplication, the allocated cost of internal legal services and all reasonable expenses and disbursements of internal counsel.

“Attributable Indebtedness” means, on any date, (a) in respect of any capital lease of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a capital lease.

“Audited Financial Statements” means the audited consolidated balance sheet of Borrower and its Subsidiaries for the fiscal year ended November 30, 2002, and the related consolidated statements of income or operations, shareholders’ equity and cash flows for such fiscal year of Borrower and its Subsidiaries, including the notes thereto.

“Availability Period” means the period from and including the Closing Date to the earliest of (a) the Revolving Loan Maturity Date, (b) the date of termination of the Aggregate Revolving Commitments pursuant to Section 2.05, and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of Agent to make L/C Credit Extensions pursuant to Section 8.02.

“Bank of America” means Bank of America, N.A. and its successors.

“Base Rate” means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate for such day plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate.” The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“BB&T L/C Facility” means that certain letter of credit facility dated as of April 30, 2003 between the Borrower and Branch Banking & Trust Co. of Virginia.

“Borrower” has the meaning specified in the introductory paragraph hereto.

“Borrowing” means a borrowing consisting of simultaneous Loans of the same Type made by each Lender pursuant to Section 2.01.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where Agent’s Office is located or the Commonwealth of Virginia and, if such day relates to any LIBOR Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

“Cash Collateralize” has the meaning specified in Section 2.03(g).

“Cash Flow” means, for any period (a) net income, after income tax, (b) less income or plus loss from discontinued operations and extraordinary items, (c) plus depreciation, depletion, and amortization, (d) plus interest expense on all obligations, and (e) minus dividends, withdrawals, and other distributions, in each case for such period.

“Change of Control” means, with respect to any Person, an event or series of events by which:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire (such right, an “option right”), whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of 25% or more of the equity securities of such Person entitled to vote for members of the board of directors or equivalent governing body of such Person on a fully diluted basis (and, taking into account all such securities that such person or group has the right to acquire pursuant to any option right); or

(b) during any period of 24 consecutive months, a majority of the members of the board of directors or other equivalent governing body of such Person ceases to be composed of individuals: (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by a board or equivalent governing body a majority of which was composed of individuals referred to in clause (i) above at the time of such election or nomination, or (iii) whose election or nomination to that board or other equivalent governing body was approved by a board or equivalent governing body a majority of which was composed of individuals referred to in clauses (i) and (ii) above at the time of such election or nomination.

“Closing Date” means the date hereof.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commitment” means, as to each Lender, the Revolving Commitment of such Lender, the Tranche A Term Loan Commitment of such Lender and/or the Tranche B Term Loan Commitment of such Lender.

“Compliance Certificate” means a certificate substantially in the form of Exhibit C.

“Contractual Obligation” means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” has the meaning specified in the definition of “Affiliate”.

“Credit Extension” means a Borrowing, or an L/C Credit Extension.

“Debtor Relief Laws” means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Debt Service Coverage Ratio” means, for any period, the ratio of Cash Flow to the sum of the current portion of long-term debt and the current portion of capitalized lease obligations, plus interest expense on all obligations, in each case for such period.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means an interest rate equal to (a) the Base Rate plus (b) the Applicable Rate, if any, applicable to Base Rate Loans plus (c) 2% per annum; provided, however, that with respect to a LIBOR Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum, in each case to the fullest extent permitted by applicable Laws.

“Defaulting Lender” means any Lender that (a) has failed to fund any portion of the Loans or participations in L/C Obligations required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

“Disposition” or “Dispose” means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction) of any property by any Person, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

“Dollar” and “\$” mean lawful money of the United States.

“EBIT” means, for any period, (a) net income, (b) less income or plus loss from discontinued operations and extraordinary items, (c) plus income taxes, and (d) plus interest expense, in each case for such period.

“EBITDA” means, for any period, (a) net income, (b) less income or plus loss from discontinued operations and extraordinary items, (c) plus income taxes, (d) plus interest expense, and (e) plus depreciation, depletion, and amortization, in each case for such period.

“Eligible Assignee” has the meaning specified in Section 10.07(h).

“Environmental Laws” means any and all federal, state, local, and foreign statutes, laws, regulations, ordinances and rules; judgments, orders, decrees, permits, concessions, grants, franchises and licenses issued by a Governmental Authority; and agreements or restrictions imposed by a Governmental Authority relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon Borrower or any ERISA Affiliate.

“Event of Default” has the meaning specified in Section 8.01.

“Existing Letter of Credit” means that certain \$783,587.00 Standby Letter of Credit #3041237 issued on October 1, 2001 by Bank of America, N.A. with an expiry date of September 30, 2003 for the benefit of UBS (Cayman Islands) Ltd.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by Agent.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“Funded Debt” means, as of any date, all outstanding liabilities for borrowed money and other interest-bearing liabilities, including current and long-term debt, as of such date, less the non-current portion of Subordinated Liabilities.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or, in the event that such principles collectively cease to exist, then such other successor principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, administrative tribunal, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person; provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term “Guarantee” as a verb has a corresponding meaning.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Indebtedness” means, as to any Person at a particular time, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

- (a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

- (b) all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;
- (c) the obligation, if any, of such Person to pay the Swap Termination Value;
- (d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business);
- (e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse, provided that the amount of such indebtedness for purposes of this Agreement shall not exceed the greater of the book value and the fair market value of the property subject to such Lien;
- (f) capital leases and Synthetic Lease Obligations;
- (g) all purchase money indebtedness;
- (h) the principal portion of all obligations under conditional sale or other title retention agreements relating to property purchased by the Borrower or any Subsidiary (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business);
- (i) all preferred stock or other equity interests providing for mandatory redemptions, sinking fund or like payments prior to the Tranche A Term Loan Maturity Date ("Redeemable Stock"); provided that Redeemable Stock shall not include any preferred stock or other equity interest subject to mandatory redemption if such mandatory redemption may be satisfied by delivering common stock or some other equity interest not subject to mandatory redemption; and
- (j) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any capital lease or Synthetic Lease Obligation as of any date shall be deemed to be the amount of Attributable Indebtedness in respect thereof as of such date.

"Indemnified Liabilities" has the meaning specified in Section 10.05.

"Indemnitees" has the meaning specified in Section 10.05.

"Information" has the meaning specified in Section 10.08.

"Interest Period" means each period from and including the first Business Day of a month but excluding the first Business Day of the following month; provided that:

(a) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless, such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a business unit. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“IRS” means the United States Internal Revenue Service.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Authority, in each case whether or not having the force of law.

“L/C Advance” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Pro Rata Share.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Borrowing of Revolving Loans.

“L/C Credit Extension” means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the renewal or increase of the amount thereof.

“L/C Obligations” means, as at any date of determination, the aggregate undrawn face amount of all outstanding Letters of Credit as of such date plus the aggregate of all Unreimbursed Amounts as of such date, including all L/C Borrowings.

“Lender” has the meaning specified in the introductory paragraph hereto and, as the context requires, includes Agent in its capacity as issuer of Letters of Credit hereunder.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such on Schedule 10.02, or such other office or offices as a Lender may from time to time notify Borrower and Agent.

“Letter of Credit” means any letter of credit issued hereunder and shall include the Existing Letter of Credit. A Letter of Credit may be a commercial letter of credit or a standby letter of credit.

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by Agent.

“Letter of Credit Expiration Date” means the day that is seven days prior to the Revolving Loan Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

“Letter of Credit Sublimit” means an amount equal to \$3,000,000. The Letter of Credit Sublimit is part of, and not in addition to, the Aggregate Revolving Commitments.

“LIBOR Base Rate” has the meaning set forth in the definition of LIBOR Rate.

“LIBOR Rate” means for any Interest Period with respect to any LIBOR Rate Loan, a rate per annum determined by Agent pursuant to the following formula:

$$\text{LIBOR Rate} = \frac{\text{LIBOR Base Rate}}{1.00 - \text{LIBOR Reserve Percentage}}$$

Where,

“LIBOR Base Rate” means, for such Interest Period:

(a) the rate per annum equal to the London interbank offered rate that appears on Page 3750 of the Telerate screen (or any successor thereto) for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(b) if the rate referenced in the preceding clause (a) does not appear on such page or service or such page or service shall not be available, the rate per annum equal to the rate determined by Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in Dollars (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, or

(c) if the rates referenced in the preceding clauses (a) and (b) are not available, the rate per annum determined by Agent as the rate of interest at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the LIBOR Rate Loan being made or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 4:00 p.m. (London time) two Business Days prior to the first day of such Interest Period.

“LIBOR Reserve Percentage” means, for any day during any Interest Period, the reserve percentage (expressed as a decimal, carried out to five decimal places) in effect on such day, whether or not applicable to any Lender, under regulations issued from time to time by the Board of Governors of the Federal Reserve System of the United States for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as “Eurocurrency liabilities”). The LIBOR Rate for each outstanding LIBOR Rate Loan shall be adjusted automatically as of the effective date of any change in the LIBOR Reserve Percentage.

“LIBOR Rate Loan” means a Loan that bears interest at a rate based on the LIBOR Rate.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement of any kind or nature whatsoever (including any conditional sale or other title retention agreement, and any financing lease having substantially the same economic effect as any of the foregoing).

“Loan” means an extension of credit by a Lender to Borrower under Article II in the form of a Revolving Loan, a Tranche A Term Loan, or a Tranche B Term Loan.

“Loan Documents” means this Agreement, each Note, and the Agent Fee Letter.

“Loan Notice” means a notice of (a) a Borrowing of Revolving Loans, or (b) a conversion of Loans from one Type to the other pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit A.

“Loan Parties” means, collectively, Borrower and each Person (other than Agent or any Lender) executing a Loan Document.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual and contingent), condition (financial or otherwise) or prospects of Borrower or Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Note” or “Notes” means the Revolving Notes, the Tranche A Term Notes and/or the Tranche B Term Notes, individually or collectively, as appropriate.

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

“Outstanding Amount” means (i) with respect to any Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of any Loans, as the case may be, occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements of outstanding unpaid drawings under any Letters of Credit or any reductions in the maximum amount available for drawing under Letters of Credit taking effect on such date.

“Participant” has the meaning specified in Section 10.07(d).

“PBGC” means the Pension Benefit Guaranty Corporation.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by Borrower or any ERISA Affiliate or to which Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Person” means any individual, trustee, corporation, general partnership, limited partnership, limited liability company, joint stock company, trust, unincorporated organization, bank, business association, firm, joint venture or Governmental Authority.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

“Pro Rata Share” means, with respect to each Lender, at any time, (a) with respect to such Lender’s Revolving Commitment, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the amount of the Revolving Commitment of such Lender at such time and the denominator of which is the amount of the Aggregate Revolving Commitments at such time; provided that if the commitment of each Lender to make Revolving Loans and the obligation of Agent to make L/C Credit Extensions have been terminated pursuant to Section 8.02, then the Pro Rata Share of each Lender shall be determined based on the Pro Rata Share of such Lender immediately prior to such termination and after giving effect to any subsequent assignments made pursuant to Section 10.07, (b) with respect to such Lender’s outstanding Tranche A Term Loan, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the principal amount of the Tranche A Term Loan held by such Lender at such time and the denominator of which is the aggregate principal amount of the Tranche A Term Loan at such time, and (c) with respect to such Lender’s outstanding Tranche B Term Loan, a fraction (expressed as a percentage, carried out to the ninth decimal place), the numerator of which is the principal amount of the Tranche B Term Loan held by such Lender at such time and the denominator of which is the aggregate principal amount of the Tranche B Term Loan at such time. The initial Pro Rata Share of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption Agreement pursuant to which such Lender becomes a party hereto, as applicable.

“Quick Assets” means cash, short-term cash investments, net trade receivables and marketable securities not classified as long-term investments.

“Register” has the meaning set forth in Section 10.07(c).

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“Request for Credit Extension” means (a) with respect to a Borrowing or conversion of Loans, a Loan Notice, and (b) with respect to an L/C Credit Extension, a Letter of Credit Application.

“Required Lenders” means, as of any date of determination, (a) Lenders having more than 66.6% of the Aggregate Revolving Commitments and the outstanding Tranche A Term Loans and outstanding Tranche B Term Loans or, (b) if the Revolving Commitments have been terminated pursuant to Section 8.02, Lenders holding in the aggregate more than 66.6% of the Total Revolving Outstandings (with the aggregate amount of each Lender’s risk participation and funded participation in L/C Obligations being deemed “held” by such Lender for purposes of this definition) and the outstanding Tranche A Term Loans and outstanding Tranche B Term Loans; provided that the Revolving Commitment of, and the portion of the Total Revolving Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

“Responsible Officer” means the chief executive officer, president, chief financial officer, chief accounting officer, treasurer or controller of a Loan Party. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other equity interest of Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such capital stock or other equity interest or of any option, warrant or other right to acquire any such capital stock or other equity interest.

“Revolving Commitment” means, as to each Lender, its obligation to (a) make Revolving Loans to Borrower pursuant to Section 2.01, and (b) purchase participations in L/C Obligations, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender’s name on Schedule 2.01, or in the Assignment and Assumption Agreement pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

“Revolving Loan” has the meaning specified in Section 2.01(a).

“Revolving Loan Maturity Date” means April 30, 2005.

“Revolving Note” has the meaning specified in Section 2.10(a).

“Subordinated Liabilities” means liabilities subordinated to the Obligations in a manner reasonably acceptable to Agent its sole discretion.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Borrower.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement with respect to transactions described in clause (a) above (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided in good faith and in a commercially reasonable manner by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate of a Lender).

“Synthetic Lease Obligation” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations that do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“Tangible Net Worth” means, as of any date, the value of Borrower’s total assets (including leaseholds and leasehold improvements and reserves against assets but excluding goodwill, patents, trademarks, trade names, organization expense, unamortized debt discount and expense, capitalized or deferred research and development costs, and other like intangibles, and monies due from Affiliates, officers, directors, employees, shareholders, members or managers of Borrower) less Total Liabilities, including but not limited to accrued and deferred income taxes, but excluding the non-current portion of Subordinated Liabilities, in each case as of such date.

“Taxes” has the meaning specified in Section 3.01(a).

“Threshold Amount” means \$2,000,000.

“Total Liabilities” means, as of any date, the sum of Borrower’s current liabilities plus long term liabilities as of such date.

“Total Revolving Outstandings” means the aggregate Outstanding Amount of all Revolving Loans and all L/C Obligations.

“Tranche A Term Loan” has the meaning specified in Section 2.01(b).

“Tranche A Term Loan Commitment” means, as to each Lender, its obligation to make its portion of the Tranche A Term Loan to the Borrower pursuant to Section 2.01(b), in the principal amount set forth opposite such Lender’s name on Schedule 2.01. The aggregate principal amount of the Tranche A Term Loan Commitments of all of the Lenders as in effect on the Closing Date is EIGHTEEN MILLION THREE HUNDRED NINETEEN THOUSAND ONE HUNDRED EIGHTY-FOUR AND 65/100THS DOLLARS (\$18,319,184.65).

“Tranche A Term Loan Maturity Date” means September 1, 2010.

“Tranche A Term Note” has the meaning specified in Section 2.10(a).

“Tranche B Term Loan” has the meaning specified in Section 2.01(b).

“Tranche B Term Loan Commitment” means, as to each Lender, its obligation to make its portion of the Tranche B Term Loan to the Borrower pursuant to Section 2.01(c), in the principal amount set forth opposite such Lender’s name on Schedule 2.01. The aggregate principal amount of the Tranche B Term Loan Commitments of all of the Lenders as in effect on the Closing Date is TWENTY-FOUR MILLION FIVE HUNDRED THOUSAND AND 00/100THS DOLLARS (\$24,500,000.00).

“Tranche B Term Loan Maturity Date” means March 1, 2008.

“Tranche B Term Note” has the meaning specified in Section 2.10(a).

“Type” means, with respect to a Loan, its character as a Base Rate Loan or a LIBOR Rate Loan.

“Unfunded Pension Liability” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“United States,” and “U.S.” mean the United States of America.

“Unreimbursed Amount” has the meaning set forth in Section 2.03(c)(i).

“Wachovia L/C Facility” means that certain agreement whereby Wachovia Bank, National Association may provide the Borrower with letters of credit up to an aggregate outstanding amount of \$12,000,000 at any one time.

Section 1.02 Other Interpretive Provisions.

With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms.

(b) (i) The words “herein”, “hereto”, “hereof” and “hereunder” and words of similar import when used in any Loan Document shall refer to such Loan Document as a whole and not to any particular provision thereof; (ii) Article, Section, Exhibit and Schedule references are to the Loan Document in which such reference appears; (iii) the term “including” is by way of example and not limitation; and (iv) the term “documents” includes any and all instruments, documents, agreements, certificates, notices, reports, financial statements and other writings, however evidenced, whether in physical or electronic form.

(c) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.” R 21;

(d) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

Section 1.03 Accounting Terms.

(a) All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either Borrower or the Required Lenders shall so request, Agent, Lenders and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) Borrower shall provide to Agent and Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

Section 1.04 Rounding.

Any financial ratios required to be maintained by any Loan Party pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

Section 1.05 References to Agreements and Laws.

Unless otherwise expressly provided herein, (a) references to Organization Documents, agreements (including the Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, extensions, supplements and other modifications thereto, but only to the extent that such amendments, restatements, extensions, supplements and other modifications are not prohibited by any Loan Document; and (b) references to any Law shall include all statutory and regulatory provisions consolidating, amending, replacing, supplementing or interpreting such Law.

Section 1.06 Letter of Credit Amounts.

Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to mean the maximum face amount of such Letter of Credit after giving effect to all increases thereof contemplated by such Letter of Credit or the Letter of Credit Application therefor, whether or not such maximum face amount is in effect at such time.

ARTICLE II

THE COMMITMENTS AND CREDIT EXTENSIONS

Section 2.01 Loans.

(a) **Revolving Loans.** Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a "Revolving Loan") to Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Revolving Commitment; provided, however, that after giving effect to any Borrowing of Revolving Loans, (i) the Total Revolver Outstandings shall not exceed the Aggregate Revolving Commitments, and (ii) the aggregate Outstanding Amount of the Revolving Loans of any Lender, plus such Lender's Pro Rata Share of the Outstanding Amount of all L/C Obligations shall not exceed such Lender's Revolving Commitment. Within the limits of each Revolving Lender's Commitment, and subject to the other terms and conditions hereof, Borrower may borrow under this **Section 2.01**, prepay under **Section 2.04**, and reborrow under this **Section 2.01**. Revolving Loans may be Base Rate Loans or LIBOR Rate Loans, as further provided herein.

(b) **Tranche A Term Loan.** Subject to the terms and conditions set forth herein, each Lender severally agrees to make its portion of a term loan (the "**Tranche A Term Loan**") to the Borrower in Dollars on the Closing Date in an amount not to exceed such Lender's Tranche A Term Loan Commitment. Amounts repaid on the Tranche A Term Loan may not be reborrowed. Each Tranche A Term Loan shall initially bear interest at a rate based on the LIBOR Rate.

(c) **Tranche B Term Loan.** Subject to the terms and conditions set forth herein, each Lender severally agrees to make its portion of a term loan (the "**Tranche B Term Loan**") to the Borrower in Dollars on the Closing Date in an amount not to exceed such Lender's Tranche B Term Loan Commitment. Amounts repaid on the Tranche B Term Loan may not be reborrowed. Each Tranche B Term Loan shall initially bear interest at a rate based on the LIBOR Rate.

Section 2.02 Borrowings and Conversions of Loans.

(a) Each Borrowing or conversion of Loans shall be made upon Borrower's irrevocable notice to Agent, which may be given by telephone; provided, however, the Borrower need not deliver to Agent notice of the Borrowing of the Tranche A Term Loan or the Tranche B Term Loan. Each such notice must be received by Agent not later than 11:00 a.m., New York time on the requested date of any Borrowing or conversion. Each telephonic notice by Borrower pursuant to this **Section 2.02(a)** must be confirmed promptly by delivery to Agent of a written Loan Notice, appropriately completed and signed by a Responsible Officer of Borrower. Except as provided in **Section 2.03(c)**, each Borrowing or conversion of Revolving Loans shall be in a principal amount of \$500,000 or a whole multiple of \$500,000 in excess thereof. Each Loan Notice (whether telephonic or written) shall specify (i) the requested date of the Borrowing or conversion (which shall be a Business Day), (ii) the principal amount of Loans to be borrowed and (iii) the initial Type of the Loans to be borrowed or converted.

(b) Following receipt of a Loan Notice, Agent shall promptly notify each Lender of the amount of its Pro Rata Share of the applicable Loans. In the case of a Borrowing, each Lender shall make the amount of its Loan available to Agent in immediately available funds at Agent's Office not later than 1:00 p.m., New York time, on the Business Day specified in the applicable Loan Notice. In the case of a Borrowing, upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Borrowing is the initial Credit Extension, Section 4.01), Agent shall make all funds so received available to Borrower in like funds as received by Agent either by (i) crediting the account of Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) Agent by Borrower; provided, however, that if, on the date of the Loan Notice with respect to such Borrowing is given by Borrower there are L/C Borrowings outstanding, then the proceeds of such Borrowing shall be applied, first, to the payment in full of any such L/C Borrowings, and second, to Borrower as provided above.

(c) Agent shall promptly notify Borrower and Lenders of the interest rate applicable to any Interest Period for LIBOR Rate Loans upon determination of such interest rate. The determination of the LIBOR Rate by Agent shall be conclusive in the absence of manifest error.

Section 2.03 Letters of Credit.

(a) The Letter of Credit Commitment.

(i) Subject to the terms and conditions set forth herein, (A) Agent agrees, in reliance upon the agreements of the other Lenders set forth in this Section 2.03; (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of Borrower or any Subsidiary, and to amend or renew Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drafts under the Letters of Credit; and (B) Lenders severally agree to participate in Letters of Credit issued for the account of Borrower or any Subsidiary; provided that Agent shall not be obligated to make any L/C Credit Extension with respect to any Letter of Credit, and no Lender shall be obligated to participate in, any Letter of Credit if as of the date of such L/C Credit Extension, (x) the Total Revolving Outstandings would exceed the Aggregate Revolving Commitments, (y) the aggregate Outstanding Amount of the Revolving Loans of any Lender, plus such Lender's Pro Rata Share of the Outstanding Amount of all L/C Revolving Obligations would exceed such Lender's Revolving Commitment, or (z) the Outstanding Amount of the L/C Obligations would exceed the Letter of Credit Sublimit. Within the foregoing limits, and subject to the terms and conditions hereof, Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. Each Existing Letter of Credit shall be deemed to have been issued pursuant hereto, and from and after the Closing Date shall be subject to and governed by the terms and conditions hereof.

(ii) Agent shall be under no obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain Agent from issuing such Letter of Credit, or any Law applicable to Agent or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over Agent shall prohibit, or request that Agent refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon Agent with respect to such Letter of Credit any material restriction, reserve or capital requirement (for which Agent is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon Agent any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which Agent in good faith deems material to it;

- (B) the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance, unless the Required Lenders have approved such expiry date;
- (C) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all Lenders have approved such expiry date;
- (D) the issuance of such Letter of Credit would violate one or more policies of Agent; or
- (E) such Letter of Credit is in an initial amount less than \$100,000, in the case of a commercial Letter of Credit, or \$500,000, in the case of a standby Letter of Credit, or is to be denominated in a currency other than Dollars.

(iii) Agent shall be under no obligation to amend any Letter of Credit if (A) Agent would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of Borrower delivered to Agent in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of Borrower. Such Letter of Credit Application must be received by Agent not later than 11:00 a.m., New York time, at least five Business Days (or such later date and time as Agent may agree in a particular instance in its sole discretion) prior to the proposed issuance date or date of amendment, as the case may be.

(ii) Promptly after receipt of any Letter of Credit Application by Agent at the address set forth in Schedule 10.02 for receiving Letter of Credit Applications and related correspondence, if the requested issuance or amendment is permitted in accordance with the terms hereof, then, subject to the terms and conditions hereof, Agent shall, on the requested date, issue a Letter of Credit for the account of Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with Agent's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from Agent a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Pro Rata Share times the amount of such Letter of Credit.

(iii) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, Agent will also deliver to Borrower a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of drawing under such Letter of Credit, Agent shall notify Borrower thereof. Not later than 11:00 a.m., New York time, on the date of any payment by Agent under a Letter of Credit (each such date, an "Honor Date"), Borrower shall reimburse Agent in an amount equal to the amount of such drawing. If Borrower fails to so reimburse Agent by such time, Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such Lender's Pro Rata Share thereof. In such event, Borrower shall be deemed to have requested a Borrowing of Loans to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.02 for the principal amount of Loans, but subject to the amount of the unutilized portion of the Aggregate Revolving Commitments and the conditions set forth in Section 4.02 (other than the delivery of a Loan Notice). Any notice given by Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender (including Agent in its capacity as a Lender) shall upon any notice pursuant to Section 2.03(c)(i) make funds available to Agent at Agent's Office in an amount equal to its Pro Rata Share of the Unreimbursed Amount not later than 1:00 p.m., New York time, on the Business Day specified in such notice by Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each Lender that so makes funds available shall be deemed to have made a Loan to Borrower in such amount.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Borrowing of Loans because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, Borrower shall be deemed to have incurred from Agent an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each Lender's payment to Agent pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each Lender funds its Revolving Loan or L/C Advance pursuant to this Section 2.03(c) to reimburse Agent for any amount drawn under any Letter of Credit, interest in respect of such Lender's Pro Rata Share of such amount shall be solely for the account of Agent.

(v) Each Lender's obligation to make Revolving Loans or L/C Advances to reimburse Agent for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against Agent, Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default; or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing. No such making of an L/C Advance shall relieve or otherwise impair the obligation of Borrower to reimburse Agent for the amount of any payment made by Agent under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to Agent any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), Agent shall be entitled to recover from such Lender, on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to Agent at a rate per annum equal to the Federal Funds Rate from time to time in effect. A certificate of Agent submitted to any Lender with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after Agent has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if Agent receives any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from Borrower or otherwise, including proceeds of Cash Collateral applied thereto by Agent), Agent will distribute to such Lender its Pro Rata Share thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by Agent.

(ii) If any payment received by Agent pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 10.06 (including pursuant to any settlement entered into by Agent in its discretion, each Lender shall pay to Agent its Pro Rata Share thereof on demand of Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect.

(e) Obligations Absolute. The obligation of Borrower to reimburse Agent for each drawing under each Letter of Credit, and to repay each L/C Borrowing, shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other agreement or instrument relating thereto;

(ii) the existence of any claim, counterclaim, set-off, defense or other right that Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), Agent or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by Agent under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by Agent under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, Borrower.

Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with Borrower's instructions or other irregularity, Borrower will immediately notify Agent. Borrower shall be conclusively deemed to have waived any such claim against Agent and its correspondents unless such notice is given as aforesaid.

(f) Role of Agent. Each Lender and Borrower agree that, in paying any drawing under a Letter of Credit, Agent shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of Agent, any Agent-Related Person nor any of the respective correspondents, participants or assignees of Agent shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Letter of Credit Application. Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. None of Agent, any Agent-Related Person, nor any of the respective correspondents, participants or assignees of Agent, shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(e); provided, however, that anything in such clauses to the contrary notwithstanding, Borrower may have a claim against Agent, and Agent may be liable to Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by Borrower which Borrower proves were caused by Agent's willful misconduct or gross negligence or Agent's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing, Agent may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and Agent shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(g) Cash Collateral. Upon the request of Agent, if, as of the Letter of Credit Expiration Date, any Letter of Credit may for any reason remain outstanding and partially or wholly undrawn, Borrower shall immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations (in an amount equal to such Outstanding Amount determined as of the date of such L/C Borrowing or the Letter of Credit Expiration Date, as the case may be). For purposes hereof, "Cash Collateralize" means to pledge and deposit with or deliver to Agent, for the benefit of Agent, as issuer of Letters of Credit and Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to Agent (which documents are hereby consented to by Lenders). Derivatives of such term have corresponding meanings. Borrower hereby grants to Agent, for the benefit of Agent, as issuer of Letters of Credit and Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at Bank of America.

(h) Applicability of ISP98 and UCP. Unless otherwise expressly agreed by Agent and Borrower when a Letter of Credit is issued, (i) the rules of the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance) shall apply to each standby Letter of Credit, and (ii) the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce (the "ICC") at the time of issuance shall apply to each commercial Letter of Credit.

(i) **Letter of Credit Fees.** Borrower shall pay to Agent for the account of each Lender in accordance with its Pro Rata Share a letter of credit fee for each Letter of Credit equal to the Applicable Rate **times** the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). Such letter of credit fees shall be computed on a quarterly basis in arrears. Such letter of credit fees shall be due and payable on the first Business Day of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. If there is any change in the Applicable Rate during any quarter, the daily maximum amount available to be drawn under each Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(j) **Fronting Fee and Documentary and Processing Charges Payable to Agent.** Borrower shall pay directly to Agent for its own account a fronting fee in an amount with respect to each Letter of Credit, equal to 1/4 of 1% per annum of the daily maximum amount available to be drawn under such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit), due and payable quarterly in arrears on the first Business Day of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, and on the Letter of Credit Expiration Date. In addition, Borrower shall pay directly to Agent for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of Agent relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) **Conflict with Letter of Credit Application.** In the event of any conflict between the terms hereof and the terms of any Letter of Credit Application, the terms hereof shall control.

(l) **Designation of Subsidiaries as Account Parties.** Notwithstanding anything to the contrary set forth in this Agreement, including without limitation Section 2.03(a), a Letter of Credit issued hereunder may contain a statement to the effect that such Letter of Credit is issued for the account of a Subsidiary of the Borrower, provided that notwithstanding such statement, the Borrower shall be the actual account party for all purposes of this Credit Agreement for such Letter of Credit and such statement shall not affect the Borrower's reimbursement obligations hereunder with respect to such Letter of Credit.

Section 2.04 Prepayments.

(a) Borrower may, upon notice to Agent, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty; **provided** that (i) such notice must be received by Agent not later than 11:00 a.m., New York time, on the date of the prepayment; (ii) any such prepayment shall be in a principal amount of \$2,000,000 or a whole multiple of \$500,000 in excess thereof; or, if less, the entire principal amount thereof then outstanding and (iii) any prepayment of the Tranche A Term Loan or the Tranche B Term Loan shall be applied to the remaining principal amortization payments in inverse order of maturity. Each such notice shall specify the date and amount of such prepayment. Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Pro Rata Share of such prepayment. If such notice is given by Borrower, Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a Loan shall be accompanied by all accrued interest thereon, together with any additional amounts required pursuant to **Section 3.05**. Each such prepayment shall be applied to the Loans of Lenders in accordance with their respective Pro Rata Shares.

(b) If for any reason the Total Revolving Outstandings at any time exceed the Aggregate Revolving Commitments then in effect, Borrower shall immediately prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.04(b) unless after the prepayment in full of the Revolving Loans the Total Revolving Outstandings exceed the Aggregate Revolving Commitments then in effect.

Section 2.05 Reduction or Termination of Revolving Commitments.

Borrower may, upon notice to Agent, terminate the Aggregate Revolving Commitments, or from time to time permanently reduce the Aggregate Revolving Commitments; provided that (i) any such notice shall be received by Agent not later than 11:00 a.m., five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$5,000,000 or any whole multiple of \$1,000,000 in excess thereof, (iii) Borrower shall not terminate or reduce the Aggregate Revolving Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Revolving Outstandings would exceed the Aggregate Revolving Commitments and (iv) if, after giving effect to any reduction of the Aggregate Revolving Commitments, the Letter of Credit Sublimit exceeds the amount of the Aggregate Revolving Commitments, such Sublimit shall be automatically reduced by the amount of such excess. Agent will promptly notify Lenders of any such notice of termination or reduction of the Aggregate Revolving Commitments. Once reduced in accordance with this Section, the Aggregate Revolving Commitments may not be increased. Any reduction of the Aggregate Revolving Commitments shall be applied to the Revolving Commitment of each Lender according to its Pro Rata Share. All facility utilization fees accrued until the effective date of any termination of the Aggregate Revolving Commitments shall be paid on the effective date of such termination.

Section 2.06 Repayment of Loans.

(a) Revolving Loans. Borrower shall repay to Lenders on the Revolving Loan Maturity Date the aggregate principal amount of Revolving Loans outstanding on such date.

(b) Tranche A Term Loan. The Borrower shall repay the outstanding principal amount of the Tranche A Term Loan in installments on the dates and in the amounts set forth in the table below (as such installments may hereafter be adjusted as a result of prepayments made pursuant to Section 2.04), unless accelerated sooner pursuant to Section 9.02:

<u>Payment Dates</u>	<u>Principal Amortization Payment</u>
June 1, 2003	\$461,911.66
September 1, 2003	\$470,480.09
December 1, 2003	\$478,934.50
March 1, 2004	\$488,369.80
June 1, 2004	\$497,151.00
September 1, 2004	\$506,373.14
December 1, 2004	\$515,766.37
March 1, 2005	\$525,333.83
June 1, 2005	\$535,078.78
September 1, 2005	\$545,004.48
December 1, 2005	\$555,114.32
March 1, 2006	\$565,411.70
June 1, 2006	\$575,900.07
September 1, 2006	\$586,583.03
December 1, 2006	\$597,464.14
March 1, 2007	\$608,547.10
June 1, 2007	\$619,835.64
September 1, 2007	\$631,333.60
December 1, 2007	\$643,044.84
March 1, 2008	\$654,973.32
June 1, 2008	\$667,123.08
September 1, 2008	\$679,498.20
December 1, 2008	\$692,102.90
March 1, 2009	\$704,941.41
June 1, 2009	\$718,018.07
September 1, 2009	\$731,337.31
December 1, 2009	\$744,903.61
March 1, 2010	\$758,721.58
June 1, 2010	\$772,795.86
September 1, 2010	\$787,131.22

(c) **Tranche B Term Loan.** The Borrower shall repay the outstanding principal amount of the Tranche B Term Loan in installments on the dates and in the amounts set forth in the table below (as such installments may hereafter be adjusted as a result of prepayments made pursuant to [Section 2.04](#)), unless accelerated sooner pursuant to [Section 9.02](#):

<u>Payment Dates</u>	<u>Principal Amortization Payment</u>
June 1, 2003	\$1,225,000
September 1, 2003	\$1,225,000
December 1, 2003	\$1,225,000
March 1, 2004	\$1,225,000
June 1, 2004	\$1,225,000
September 1, 2004	\$1,225,000
December 1, 2004	\$1,225,000
March 1, 2005	\$1,225,000
June 1, 2005	\$1,225,000
September 1, 2005	\$1,225,000
December 1, 2005	\$1,225,000
March 1, 2006	\$1,225,000
June 1, 2006	\$1,225,000
September 1, 2006	\$1,225,000
December 1, 2006	\$1,225,000
March 1, 2007	\$1,225,000
June 1, 2007	\$1,225,000
September 1, 2007	\$1,225,000
December 1, 2007	\$1,225,000
March 1, 2008	\$1,225,000

Section 2.07**Interest.**

(a) Subject to the provisions of subsection (b) below, (i) each LIBOR Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the LIBOR Rate for such Interest Period plus the Applicable Rate; and (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof at a rate per annum equal to the Base Rate.

(b) If any amount payable by Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Furthermore, while any Event of Default exists (or after acceleration), Borrower shall pay interest on the principal amount of all outstanding Obligations at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws. Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Revolving Loan shall be due and payable in arrears on the first Business Day of each month and the Revolving Loan Maturity Date and at such other times as may be herein specified. Interest on the Tranche A Term Loan and the Tranche B Term Loan shall be due and payable in arrears on the first Business Day of each March, June, September and December and the Tranche A Term Loan Maturity Date or the Tranche B Term Loan Maturity Date, as applicable, and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

Section 2.08**Fees.**

In addition to certain fees described in subsections (i) and (j) of Section 2.03:

(a) Commitment Fee. Borrower shall pay to Agent for the account of each Lender in accordance with its Pro Rata Share, a commitment fee equal to the Applicable Rate times the actual daily amount by which the Aggregate Revolving Commitments exceed the sum of (i) the Outstanding Amount of Revolving Loans and (ii) the Outstanding Amount of L/C Obligations. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the first Business Day of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the Revolving Loan Maturity Date. The commitment fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Rate during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(b) Agency Fees. Borrower shall pay an agency fee to Agent for Agent's own account, in the amounts and at the times specified in the letter agreement, dated January 2, 2003 (the "Agent Fee Letter"), between Borrower and Agent. Such fees shall be fully earned when paid and shall be nonrefundable for any reason whatsoever.

Section 2.09 Computation of Interest and Fees.

All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's prime rate shall be made on the basis of a year of 365 or 366 days, as the case may be. All other computations of interest and all fees shall be made on the basis of a year of 360 days and the actual number of days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365 day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.11(a), bear interest for one day.

Section 2.10 Evidence of Debt.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by Agent in the ordinary course of business. The accounts or records maintained by Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by Lenders to Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of Agent in respect of such matters, the accounts and records of Agent shall control in the absence of manifest error. Upon the request of any Lender made through Agent, Borrower shall execute and deliver to such Lender (through Agent) a promissory note, which shall evidence such Lender's Loans, in addition to such accounts or records. Each such promissory note shall (i) in the case of Revolving Loans, be in the form of Exhibit B-1 (a "Revolving Note"), (ii) in the case of a Tranche A Term Loan, be in the form of Exhibit B-2 (a "Tranche A Term Note") and (iii) in the case of a Tranche B Term Loan, be in the form of Exhibit B-3 (a "Tranche B Term Note"). Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of the applicable Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit. In the event of any conflict between the accounts and records maintained by Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of Agent shall control in the absence of manifest error.

Section 2.11 Payments Generally.

(a) (i) All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall be made to Agent, for the account of the respective Lenders to which such payment is owed, at Agent's Office in Dollars and in immediately available funds not later than 12:00 noon, New York time, on the date specified herein. Agent will promptly distribute to each Lender its Pro Rata Share (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by Agent after 12:00 noon, New York time, shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue.

(ii) On each date when the payment of any principal, interest or fees are due hereunder or under any Note, Borrower agrees to maintain on deposit in an ordinary checking account maintained by Borrower with Agent (as such account shall be designated by Borrower in a written notice to Agent from time to time, the "Borrower Account") an amount sufficient to pay such principal, interest or fees in full on such date. Borrower hereby authorizes Agent (A) to deduct automatically all principal, interest or fees when due hereunder or under any Note from Borrower Account, and (B) if and to the extent any payment of principal, interest or fees under this Agreement or any Note is not made when due to deduct any such amount from any or all of the accounts of Borrower maintained at Agent. Agent agrees to provide written notice to Borrower of any automatic deduction made pursuant to this Section 2.11(a)(ii) showing in reasonable detail the amounts of such deduction. Lenders agree to reimburse Borrower based on their Pro Rata Share for any amounts deducted from such accounts in excess of amount due hereunder and under any other Loan Documents.

(b) If any payment to be made by Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(c) Unless Borrower or any Lender has notified Agent, prior to the date any payment is required to be made by it to Agent hereunder, that Borrower or such Lender, as the case may be, will not make such payment, Agent may assume that Borrower or such Lender, as the case may be, has timely made such payment and may (but shall not be so required to), in reliance thereon, make available a corresponding amount to the Person entitled thereto. If and to the extent that such payment was not in fact made to Agent in immediately available funds, then:

(i) if Borrower failed to make such payment, each Lender shall forthwith on demand repay to Agent the portion of such assumed payment that was made available to such Lender in immediately available funds, together with interest thereon in respect of each day from and including the date such amount was made available by Agent to such Lender to the date such amount is repaid to Agent in immediately available funds, at the Federal Funds Rate from time to time in effect; and

(ii) if any Lender failed to make such payment, such Lender shall forthwith on demand pay to Agent the amount thereof in immediately available funds, together with interest thereon for the period from the date such amount was made available by Agent to Borrower to the date such amount is recovered by Agent (the "Compensation Period") at a rate per annum equal to the Federal Funds Rate from time to time in effect. If such Lender pays such amount to Agent, then such amount shall constitute such Lender's Loan included in the applicable Borrowing. If such Lender does not pay such amount forthwith upon Agent's demand therefor, Agent may make a demand therefor upon Borrower, and Borrower shall pay such amount to Agent, together with interest thereon for the Compensation Period at a rate per annum equal to the rate of interest applicable to the applicable Borrowing. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its Commitment or to prejudice any rights which Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

A notice of Agent to any Lender or Borrower with respect to any amount owing under this subsection (c) shall be conclusive, absent manifest error.

(d) If any Lender makes available to Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to Borrower by Agent because the conditions to the applicable Credit Extension set forth in Article IV are not satisfied or waived in accordance with the terms hereof, Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(e) The obligations of Lenders hereunder to make Loans and to fund participations in Letters of Credit are several and not joint. The failure of any Lender to make any Loan or to fund any such participation on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan or purchase its participation.

(f) Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

Section 2.12 Sharing of Payments.

If, other than as expressly provided elsewhere herein, any Lender shall obtain on account of Loans made by it, or the participations in L/C Obligations held by it, any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its ratable share (or other share contemplated hereunder) thereof, such Lender shall immediately (a) notify Agent of such fact, and (b) purchase from the other Lenders such participations in the Loans made by them and/or such subparticipations in the participations in L/C Obligations held by them, as the case may be, as shall be necessary to cause such purchasing Lender to share the excess payment in respect of such Loans or such participations, as the case may be, pro rata with each of them; pro vided, however, that if all or any portion of such excess payment is thereafter recovered from the purchasing Lender under any of the circumstances described in Section 10.06 (including pursuant to any settlement entered into by the purchasing Lender in its discretion), such purchase shall to that extent be rescinded and each other Lender shall repay to the purchasing Lender the purchase price paid therefor, together with an amount equal to such paying Lender's ratable share (according to the proportion of (i) the amount of such paying Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered, without further interest thereon. Borrower agrees that any Lender so purchasing a participation from another Lender may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off, but subject to Section 10.09) with respect to such participation as fully as if such Lender were the direct creditor of Borrower in the amount of such participation. Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify Lenders following any such purchases or repayments. Each Lender that purchases a participation pursuant to this Section shall from and after such purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Obligations purchased.

ARTICLE III

TAXES, YIELD PROTECTION AND ILLEGALITY

Section 3.01 Taxes.

(a) Any and all payments by Borrower to or for the account of Agent or any Lender under any Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and all liabilities with respect thereto, excluding, in the case of Agent and each Lender, taxes imposed on or measured by its overall net income, and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the Laws of which Agent or such Lender, as the case may be, is organized or maintains a lending office (all such non-excluded taxes, duties, levies, imposts, deductions, assessments, fees, withholdings or similar charges, and liabilities being hereinafter referred to as "Taxes"). If Borrower shall be required by any Laws to deduct any Taxes from or in respect of any sum payable under any Loan Document to Agent or any Lender, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section), each of Agent and such Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions, (iii) Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable Laws, and (iv) within 30 days after the date of such payment, Borrower shall furnish to Agent (which shall forward the same to such Lender) the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, Borrower agrees to pay any and all present or future stamp, court or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under any Loan Document or from the execution, delivery, performance, enforcement or registration of, or otherwise with respect to, any Loan Document (hereinafter referred to as "Other Taxes").

(c) If Borrower shall be required to deduct or pay any Taxes or Other Taxes from or in respect of any sum payable under any Loan Document to Agent or any Lender, Borrower shall also pay to Agent or to such Lender, at the time interest is paid, such additional amount that Agent or such Lender specifies is necessary to preserve the after-tax yield (after factoring in all taxes, including taxes imposed on or measured by net income) that Agent or such Lender would have received if such Taxes or Other Taxes had not been imposed.

(d) Borrower agrees to indemnify Agent and each Lender for (i) the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section) paid by Agent and such Lender, (ii) amounts payable under Section 3.01(c) and (iii) any liability (including additions to tax, penalties, interest and expenses) arising therefrom or with respect thereto, in each case whether or not such Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Payment under this subsection (d) shall be made within 30 days after the date Lender or Agent makes a demand therefor.

Section 3.02 Illegality.

If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund LIBOR Rate Loans, or to determine or charge interest rates based upon the LIBOR Rate, then, on notice thereof by such Lender to Borrower through Agent, any obligation of such Lender to make LIBOR Rate Loans shall be suspended until such Lender notifies Agent and Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, Borrower shall, upon demand from such Lender (with a copy to Agent), prepay or, if applicable, convert all LIBOR Rate Loans of such Lender to Base Rate Loans, either on the following Interest Payment Date, if such Lender may lawfully continue to maintain such LIBOR Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such LIBOR Rate Loans. Upon any such prepayment or conversion, Borrower shall also pay accrued interest on the amount so prepaid or converted and all amounts due under Section 3.05 in accordance with the terms thereof due to such prepayment or conversion. Each Lender agrees to designate a different Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. Borrower and Agent shall promptly negotiate in good faith to determine a new interest rate for all Loans.

Section 3.03 Inability to Determine Rates.

If Agent determines in connection with any request for or conversion to a LIBOR Rate Loan for any reason that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such LIBOR Rate Loan, (b) adequate and reasonable means do not exist for determining the LIBOR Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan, or (c) the LIBOR Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan does not adequately and fairly reflect the cost to Lenders of funding such LIBOR Rate Loan, Agent will promptly so notify Borrower and all Lenders. Thereafter, the obligation of Lenders to make or maintain LIBOR Rate Loans shall be suspended until Agent revokes such notice. Upon receipt of such notice, Borrower may revoke any pending request for a Borrowing of or conversion to LIBOR Rate Loans or, failing that, will be deemed to have converted such request into a request for a Borrowing of Base Rate Loans in the amount specified therein. Borrower and Agent shall promptly negotiate in good faith to determine a new interest rate for all Loans.

Section 3.04 Increased Cost and Reduced Return; Capital Adequacy; Reserves on LIBOR Rate Loans.

(a) If any Lender determines that as a result of the introduction of or any change in or in the interpretation of any Law, in each case after the Closing Date, or such Lender's compliance therewith, there shall be any increase in the cost to such Lender of agreeing to make or making, funding or maintaining LIBOR Rate Loans or (as the case may be) issuing or participating in Letters of Credit, or a reduction in the amount received or receivable by such Lender in connection with any of the foregoing (excluding for purposes of this subsection (a) any such increased costs or reduction in amount resulting from (i) Taxes or Other Taxes (as to which [Section 3.01](#) shall govern), (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or any foreign jurisdiction or any political subdivision of either thereof under the Laws of which such Lender is organized or has its Lending Office, and (iii) reserve requirements utilized, as to LIBOR Rate Loans, in the determination of the LIBOR Rate), then from time to time upon demand of such Lender (with a copy of such demand to Agent), Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such increased cost or reduction.

(b) If any Lender determines that the introduction of any Law regarding capital adequacy or any change therein or in the interpretation thereof, in each case after the Closing Date, or compliance by such Lender (or its Lending Office) therewith, has the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder (taking into consideration its policies with respect to capital adequacy and such Lender's desired return on capital), then from time to time upon demand of such Lender (with a copy of such demand to Agent), Borrower shall pay to such Lender such additional amounts as will compensate such Lender for such reduction.

Section 3.05 Funding Losses.

Upon demand of any Lender (with a copy to Agent) from time to time, Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

- (a) any conversion, payment or prepayment of any Tranche A Term Loan or Tranche B Term Loan other than a Base Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise); or
- (b) any failure by Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, or convert any Loan other than a Base Rate Loan on the date or in the amount notified by Borrower;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. Borrower shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by Borrower to Lenders under this Section 3.05, each Lender shall be deemed to have funded each LIBOR Rate Loan made by it at the LIBOR Base Rate used in determining the LIBOR Rate for such Loan by a matching deposit or other borrowing in the London interbank eurodollar market for a comparable amount and for a comparable period, whether or not such LIBOR Rate Loan was in fact so funded.

Section 3.06 Matters Applicable to all Requests for Compensation.

Each Lender shall promptly notify Borrower and Agent of any event of which it has knowledge that will entitle it to compensation under Section 3.01 or 3.04. In such event, such Lender agrees to designate a different Lending Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. A certificate of Agent or any Lender claiming compensation under this Article III and setting forth in reasonable detail the calculation of the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, Agent or such Lender may use any reasonable averaging and attribution methods.

Section 3.07 Survival.

All of Borrower's obligations under this Article III shall survive termination of the Aggregate Revolving Commitments and repayment of all other Obligations hereunder.

ARTICLE IV

CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

Section 4.01 Conditions of Initial Credit Extension.

The obligation of each Lender to make its initial Credit Extension hereunder is subject to satisfaction of the following conditions precedent:

(a) Agent's receipt of the following, each of which shall be originals or facsimiles (followed promptly by originals) unless otherwise specified, each properly executed by a Responsible Officer of the signing Loan Party, each dated the Closing Date (or, in the case of certificates of governmental officials, a recent date before the Closing Date) and each in form and substance satisfactory to Agent and its legal counsel:

(i) executed counterparts of this Agreement, sufficient in number for distribution to Agent, each Lender and Borrower;

(ii) a Revolving Note, a Tranche A Term Loan Note and a Tranche B Term Loan Note each executed by Borrower in favor of each Lender requesting such Notes;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certificates as Agent may reasonably require to evidence that each Loan Party is duly organized or formed and that Borrower is, validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

(v) a favorable opinion of counsel to the Loan Parties acceptable to Agent, addressed to Agent and each Lender, as to such matters concerning the Loan Parties and the Loan Documents in form and substance satisfactory to Agent;

(vi) a certificate of a Responsible Officer of each Loan Party either (A) attaching copies of all consents, licenses and approvals required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, and such consents, licenses and approvals shall be in full force and effect, or (B) stating that no such consents, licenses or approvals are so required;

(vii) a certificate signed by a Responsible Officer of Borrower certifying (A) that the conditions specified in Sections 4.02(a) and (b) have been satisfied, (B) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could reasonably be expected to have a Material Adverse Effect, and (C) a calculation of the financial covenants set forth in Section 6.12 as of the last day of the fiscal quarter of Borrower most recently ended prior to the Closing Date with said calculation showing each component of each calculation;

(viii) evidence that all insurance required to be maintained pursuant to the Loan Documents has been obtained and is in effect;

(ix) evidence that (A) the Term Loan Agreement dated as of September 18, 2000, as amended, between Borrower and SunTrust Bank, (the "Existing Credit Agreement") has been or concurrently with the Closing Date is being terminated and all Liens securing obligations under the Existing Credit Agreement have been or concurrently with the Closing Date are being released, (B) the Amended, Restated and Substituted Promissory Note dated as of April 2, 2003 executed by the Borrower in favor of Bank of America, N.A. (the "Existing Promissory Note") has been or concurrently with the Closing Date is being terminated and all Liens securing obligations under the Existing Promissory Note have been or concurrently with the Closing Date are being released, and (C) the \$10,000,000 Line of Credit between the Borrower and Bank of America, N.A. (the "Existing Line of Credit") has been or concurrently with the Closing Date is being terminated and all Liens securing obligations under the Existing Line of Credit have been or concurrently with the Closing Date are being released; and

(x) such other assurances, certificates, documents, consents or opinions as Agent or the Required Lenders reasonably may require.

(b) Any fees required to be paid on or before the Closing Date shall have been paid.

(c) Unless waived by Agent, Borrower shall have paid all Attorney Costs of Agent to the extent invoiced prior to or on the Closing Date, plus such additional amounts of Attorney Costs as shall constitute its reasonable estimate of Attorney Costs incurred or to be incurred by it through the closing proceedings (provided that such estimate shall not thereafter preclude a final settling of accounts between Borrower and Agent).

(d) The Closing Date shall have occurred on or before April 30, 2003.

Section 4.02 Conditions to all Credit Extensions and Conversions.

The obligation of each Lender to honor any Request for Credit Extension is subject to the following conditions precedent:

(a) The representations and warranties of Borrower and each other Loan Party contained in Article V or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith, shall be true and correct in all material respects on and as of the date of such Credit Extension or conversion, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date, and except that for purposes of this Section 4.02, the representations and warranties contained in subsections (a) and (b) of Section 5.05 shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01.

(b) No Default shall exist, or would result from such proposed Credit Extension or conversion.

(c) Agent shall have received a Request for Credit Extension in accordance with the requirements hereof.

(d) Agent shall have received, in form and substance satisfactory to it, such other assurances, certificates, documents or consents related to the foregoing as Agent or the Required Lenders reasonably may require.

Each Request for Credit Extension submitted by Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 4.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Agent and Lenders that:

Section 5.01 Existence, Qualification and Power; Compliance with Laws.

Each Loan Party (a) is duly organized or formed, validly existing and in good standing under the Laws of the jurisdiction of its incorporation or organization, (b) has all requisite power and authority and all requisite governmental licenses, authorizations, consents and approvals to (i) own its assets and carry on its business and (ii) execute, deliver, and perform its obligations under the Loan Documents to which it is a party, and (c) is duly qualified and is licensed and in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or licenses, except in each case referred to in clause (b)(i) or (c), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 5.02 Authorization; No Contravention.

The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is party, have been duly authorized by all necessary corporate or other organizational action, and do not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach or contravention of, or the creation of any Lien under, (i) any Contractual Obligation to which such Person is a party or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; or (c) violate any Law, except in each case referred to in clause (b) or (c), to the extent such conflict, breach, contravention, Lien or violation could not reasonably be expected to have a Material Adverse Effect.

Section 5.03 Governmental Authorization.

No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document, except such as have been obtained, taken, given or made and are in full force and effect and except where the failure to obtain such approval, consent, exemption or authorization, to take such other action, to give such notice or to make such filing could not reasonably be expected to have a Material Adverse Effect.

Section 5.04 Binding Effect.

This Agreement has been, and each other Loan Document, when delivered hereunder, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, except in each case as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally and by equitable principles of general applicability (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Section 5.05 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present in all material respects the financial condition of Borrower and its consolidated Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all material indebtedness and other liabilities, direct or contingent, of Borrower and its consolidated Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness to the extent required under GAAP.

(b) The unaudited consolidated balance sheet of Borrower and its Subsidiaries dated February 28, 2003, and the related consolidated statements of income or operations and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and; (ii) fairly present in all material respects the financial condition of Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

Section 5.06 Litigation.

Except as specifically disclosed in Schedule 5.06 hereto, there are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of Borrower, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against Borrower or any of its Subsidiaries or against any of their properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

Section 5.07 No Default.

Neither Borrower nor any Subsidiary is in default under or with respect to any Contractual Obligation that could, either individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. No Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

Section 5.08 Ownership of Property; Liens.

Each of Borrower and each Subsidiary has good record and marketable title in fee simple to, or valid leasehold interests in, all real property necessary in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. The property of Borrower and its Subsidiaries is subject to no Liens, other than Liens permitted by Section 7.01.

Section 5.09 Environmental Compliance.

Borrower and its Subsidiaries conduct in the ordinary course of business a review of the effect of existing Environmental Laws and claims alleging potential liability or responsibility for violation of any Environmental Law on their respective businesses, operations and properties, and as a result thereof Borrower has reasonably concluded that, except as specifically disclosed in Schedule 5.09 hereto, such Environmental Laws and claims could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 5.10 Insurance.

The properties of Borrower and its Subsidiaries are insured with financially sound and reputable insurance companies not Affiliates of Borrower, in such amounts, after giving effect to any self-insurance compatible with the following standards, with such deductibles and covering such risks as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where Borrower or the applicable Subsidiary operates.

Section 5.11 Taxes.

Borrower and its Subsidiaries have filed all federal, state and other material tax returns and reports required to be filed, and have paid all federal, state and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings diligently conducted and for which adequate reserves have been provided in accordance with GAAP. There is no proposed tax assessment against Borrower or any Subsidiary that would, if made, have a Material Adverse Effect.

Section 5.12 ERISA Compliance.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the knowledge of Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. Borrower and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the knowledge of Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to have a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability; (iii) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither Borrower nor any ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither Borrower nor any ERISA Affiliate has engaged in a transaction that could be subject to Sections 4069 or 4212(c) of ERISA.

Section 5.13 Subsidiaries.

As of the Closing Date, Borrower has no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.13 and has no equity investments in any other corporation or entity other than those specifically disclosed in Part (b) of Schedule 5.13.

Section 5.14 Disclosure.

As of the Closing Date, there is no fact known to a Responsible Officer of the Borrower that could reasonably be expected to result in a Material Adverse Effect that has not been set forth herein or otherwise delivered to the Agent. No report, financial statement, certificate or other written information furnished by or on behalf of any Loan Party in connection with any Loan Document to Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.</div>

Section 5.15 Compliance with Laws.

Borrower, each Subsidiary and each other Loan Party is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

Section 5.16 Margin Regulations; Investment Company Act; Public Utility Holding Company Act.

(a) Borrower is not engaged and will not engage, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock.

(b) Neither Borrower nor any Subsidiary (i) is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," within the meaning of the Public Utility Holding Company Act of 1935, or (ii) is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

Section 5.17 Principal Place of Business.

Set forth on Schedule 5.17 is the chief executive office of each Loan Party as of the Closing Date. The exact legal name and state of organization of each Loan Party is as set forth on the signature pages hereto.

ARTICLE VI

AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, Borrower shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02, 6.03, 6.11 and 6.12) cause each Subsidiary to:

Section 6.01 Financial Statements.

Deliver to Agent a sufficient number of copies for delivery by Agent to each Lender, of the following, in form and detail satisfactory to Agent and the Required Lenders:

- (a) as soon as available, but in any event no later than 120 days after the end of each fiscal year of Borrower, a consolidated balance sheet of Borrower and its Subsidiaries as at the end of such fiscal year, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail and prepared in accordance with GAAP, audited and accompanied by a report and opinion of BDO Seidman, LLP, KPMG, LLP or other independent certified public accountant of nationally recognized standing reasonably acceptable to the Agent, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit;
- (b) as soon as available, but in any event within 45 days after the end of each of the first three quarters of each fiscal year of Borrower, a consolidated balance sheet of Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income or operations for such fiscal quarter and for the portion of Borrower's fiscal year then ended, setting forth in each case in comparative form the figures for the corresponding fiscal quarter of the previous fiscal year and the corresponding portion of the previous fiscal year, all in reasonable detail and certified by a Responsible Officer of Borrower as fairly presenting the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes; and
- (c) as soon as available, but in any event no later than 45 days after the end of the last quarter of each fiscal year of Borrower, a press release reporting on the financial performance of Borrower during such fiscal quarter and attaching a consolidated balance sheet of Borrower and its Subsidiaries as at the end of such fiscal quarter and the related consolidated statements of income for such fiscal quarter and for such fiscal year, setting forth in each case in comparative form the figures for the last fiscal quarter of the previous fiscal year and the previous fiscal year.

Section 6.02 Certificates; Other Information.

Deliver to Agent a sufficient number of copies for delivery to each Lender, of the following, in form and detail satisfactory to Agent and the Required Lenders:

- (a) concurrently with the delivery of the financial statements referred to in Section 6.01(a), a certificate of its independent certified public accountants certifying such financial statements and stating that in making the examination necessary therefor no knowledge was obtained of any Default or, if any such Default shall exist, stating the nature and status of such event;
- (b) concurrently with the delivery of the financial statements referred to in Sections 6.01(b) and (c), a duly completed Compliance Certificate signed by a Responsible Officer of Borrower, such Compliance Certificate to include a calculation of the financial covenants set forth in Section 6.12 as of the last day of the fiscal quarter of Borrower most recently ended with said calculation showing each component of each calculation;

(c) promptly after any request by Agent or any Lender, copies of any audit reports, management letters or recommendations submitted to the board of directors (or the audit committee of the board of directors) of Borrower by independent accountants in connection with the accounts or books of Borrower or any Subsidiary, or any audit of any of them;

(d) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the shareholders of Borrower, and copies of all annual, regular, periodic and special reports and registration statements which Borrower may file or be required to file with the Securities and Exchange Commission under Section 13 or 15(d) of the Securities Exchange Act of 1934, and not otherwise required to be delivered to Agent pursuant hereto, provided however, that such documents shall be deemed to be delivered to Agent hereunder upon the filing of the same by the Borrower with the Securities and Exchange Commission via the EDGAR system; and

(e) promptly, such additional information regarding the business, financial condition or corporate affairs of Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as Agent or any Lender may from time to time reasonably request.

Section 6.03 Notices.

Promptly upon any Responsible Officer obtaining knowledge thereof notify Agent and each Lender:

(a) of the occurrence of any Default or Event of Default;

(b) of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect, including (i) breach or non-performance of, or any default under, a Contractual Obligation of Borrower or any Subsidiary; (ii) any dispute, litigation, investigation, proceeding or suspension between Borrower or any Subsidiary and any Governmental Authority; or (iii) the commencement of, or any material development in, any litigation or proceeding affecting Borrower or any Subsidiary, including pursuant to any applicable Environmental Laws;

(c) of the occurrence of any ERISA Event; and

(d) of any material change in accounting policies or financial reporting practices by Borrower or any Subsidiary.

Each notice pursuant to this Section (other than a notice pursuant to Section 6.03(d)) shall be accompanied by a statement of a Responsible Officer of Borrower setting forth details of the occurrence referred to therein and stating what action Borrower has taken and proposes to take with respect thereto. Each notice pursuant to Section 6.03(a) shall describe with particularity any and all provisions of this Agreement and any other Loan Document that have been breached. Each notice pursuant to Section 6.03(d) may be delivered via telephone or e-mail as more fully set out in Section 10.02.

Section 6.04 Payment of Obligations.

Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, unless the same are being contested in good faith by appropriate proceedings diligently conducted and adequate reserves in accordance with GAAP are being maintained by Borrower or such Subsidiary; (b) all lawful claims which, if unpaid, would by law become a Lien upon its property; and (c) all Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness, unless, in each case, (i) the failure to pay or discharge such obligations or liabilities could not reasonably be expected to have a Material Adverse Effect or (ii) such obligations or liabilities are being contested in good faith by appropriate proceedings diligently conducted, adequate reserves in accordance with GAAP are being maintained by Borrower or such Subsidiary and the failure to pay or discharge such obligations or liabilities pending resolution of such contest could not reasonably be expected to have a Material Adverse Effect..

Section 6.05 Preservation of Existence, Etc.

(a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization, except in a transaction permitted by Section 7.04 or 7.05; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its registered patents, trademarks, trade names and service marks, the non-preservation of which could reasonably be expected to have a Material Adverse Effect.

Section 6.06 Maintenance of Properties.

(a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; (b) make all necessary repairs thereto and renewals and replacements thereof; and (c) use the standard of care typical in the industry in the operation and maintenance of its facilities except in each case referred to in clause (a), (b) or (c) above, to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

Section 6.07 Maintenance of Insurance.

Maintain with financially sound and reputable insurance companies not Affiliates of Borrower, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business, of such types and in such amounts (after giving effect to any self-insurance compatible with the following standards) as are customarily carried under similar circumstances by such other Persons and providing for not less than 30 days' prior notice to Agent of termination, lapse or cancellation of such insurance.

Section 6.08 Compliance with Laws.

Comply in all material respects with the requirements of all Laws, and all orders, writs, injunctions and decrees issued by a Governmental Authority applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted; or (b) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

Section 6.09 Books and Records.

(a) Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of Borrower or such Subsidiary, as the case may be; and (b) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over Borrower or such Subsidiary, as the case may be.

Section 6.10 Inspection Rights.

Permit representatives and independent contractors of Agent and each Lender to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and independent public accountants, all at the expense of Borrower and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to Borrower; provided however, that, so long as there has been no material change in the economic profile of the Borrower, the Borrower shall be responsible for the expense of only the first two such examinations in each 12 month period; provided further however, that when a Default exists Agent or any Lender (or any of their respective representatives or independent contractors) may do any of the foregoing at the expense of Borrower at any time during normal business hours and without advance notice.

Section 6.11 Use of Proceeds.

Use the proceeds of the Credit Extensions for the refinancing of existing Indebtedness and for general corporate purposes not in contravention of any Law or of any Loan Document.

Section 6.12 Financial Covenants

(a) Tangible Net Worth. Maintain on a consolidated basis at all times Tangible Net Worth at least equal to the amounts indicated during each period specified below:

<u>Period</u>	<u>Amounts</u>
From the Closing Date through November 30, 2003	\$84,000,000
From December 1, 2003 through November 30, 2004	\$92,000,000
From December 1, 2004 through November 30, 2005	\$100,000,000
From December 1, 2005 and thereafter	\$108,000,000

(b) Debt Service Coverage Ratio. Maintain on a consolidated basis a Debt Service Coverage Ratio of at least the ratio indicated for each period specified below:

<u>Period</u>	<u>Ratios</u>
From the Closing Date through November 30, 2003	1.50:1.0
From December 1, 2003 and thereafter	1.75:1.0

This ratio will be calculated at the end of each reporting period for which Section 6.01(b) of this Agreement requires Borrower to deliver financial statements, using the results of the twelve-month period ending with that reporting period. The current portion of long-term liabilities will be measured as of the date twelve (12) months prior to the current financial statement.

(c) Funded Debt to EBITDA Ratio. Maintain on a consolidated basis a ratio of Funded Debt to EBITDA not exceeding the ratio indicated for each period specified below:

<u>Period</u>	<u>Ratios</u>
From the Closing Date through August 31, 2003	2.25:1.0
From September 1, 2003 through November 30, 2003	1.60:1.0
From December 1, 2003 through November 30, 2004	1.35:1.0
From December 1, 2004 and thereafter	1.25:1.0

This ratio will be calculated at the end of each reporting period for which Section 6.01(b) of this Agreement requires Borrower to deliver financial statements, using the results of the twelve-month period ending with that reporting period.

(d) Capital Expenditures. Not to spend or incur obligations to spend, on a consolidated basis, during any fiscal year ending during any period specified below, more than the amounts specified below for such fiscal year to acquire fixed assets (including the total amount of any capital leases):

<u>Period</u>	<u>Amounts</u>
From the Closing Date through November 30, 2006	\$12,000,000
From December 1, 2006 and thereafter	\$15,000,000

ARTICLE VII

NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly:

Section 7.01 Liens.

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 the following:

- (a) Liens pursuant to any Loan Document;

- (b) Liens existing on the date hereof and listed on Schedule 7.01 hereto and any renewals or extensions thereof, provided that the property covered thereby is not increased and any renewal or extension of the obligations secured or benefited thereby is permitted by Section 7.03(b);
- (c) Liens for taxes not yet due or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;
- (d) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 30 days or which are being contested in good faith and by appropriate proceedings diligently conducted, if adequate reserves with respect thereto are maintained on the books of the applicable Person in accordance with GAAP;
- (e) pledges or deposits in the ordinary course of business in connection with workers' compensation, unemployment insurance and other social security legislation, other than any Lien imposed by ERISA;
- (f) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety bonds (other than bonds related to judgments or litigation), performance bonds and other obligations of a like nature incurred in the ordinary course of business;
- (g) easements, rights-of-way, restrictions and other similar encumbrances affecting real property which do not materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the applicable Person;
- (h) Liens securing judgments for the payment of money not constituting an Event of Default under Section 8.01(b) or securing appeal or other surety bonds relating to such judgments;
- (i) liens securing Indebtedness permitted under Section 7.03(e); provided that (i) such Liens do not at any time encumber any property other than the property financed by such Indebtedness and (ii) the Indebtedness secured thereby does not exceed the cost or fair market value, whichever is lower, of the property being acquired on the date of acquisition;
- (j) Liens pursuant to the BB&T L/C Facility or the Wachovia L/C Facility that exist from time to time and secure the letters of credit issued thereunder; and
- (k) Liens in addition to the Liens described above, provided that the aggregate amount of Indebtedness secured by such Liens at any one time outstanding does not exceed \$500,000.

Section 7.02 Investments.

Make any Investments, except:

- (a) Investments held by Borrower or such Subsidiary in the form of cash equivalents or short-term marketable debt securities;
- (b) Investments of Borrower in any wholly-owned Subsidiary and Investments of any wholly-owned Subsidiary in Borrower or in another wholly-owned Subsidiary;

(c) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(d) Guarantees permitted by Section 7.03;

(e) bank deposits in the ordinary course of business;

(f) Investments in securities of any account debtor received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy of insolvency of such account debtor; and

(g) Investments in addition to the Investments described above, provided that the aggregate amount of such additional Investments at any one time outstanding does not exceed \$2,500,000.

Section 7.03 Indebtedness.

Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness outstanding on the date hereof and listed on Schedule 7.03 hereto and any refinancings, refundings, renewals or extensions thereof; provided that the amount of such Indebtedness is not increased at the time of such refinancing, refunding, renewal or extension except by an amount equal to a reasonable premium or other reasonable amount paid, and fees and expenses reasonably incurred, in connection with such refinancing and by an amount equal to any existing commitments unutilized thereunder;

(c) Guarantees of Borrower or any Subsidiary in respect of Indebtedness otherwise permitted hereunder of Borrower or any Subsidiary;

(d) obligations (contingent or otherwise and including any Swap Termination Value) of Borrower or any Subsidiary existing or arising under any Swap Contract, provided that (i) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly managing risks associated with liabilities, commitments, investments, assets, or property held or reasonably anticipated by such Person, or changes in the value of securities issued by such Person and not for purposes of speculation or taking a "market view;" and (ii) such Swap Contract does not contain any provision exonerating the non-defaulting party from its obligation to make the Swap Termination Value payment, if any, on outstanding transactions to the defaulting party; and

(e) Indebtedness in addition to the Indebtedness described above, provided that the aggregate amount of such additional Indebtedness at any one time outstanding does not exceed \$5,000,000.

Section 7.04 Fundamental Changes.

Merge, dissolve, liquidate or consolidate with or into, another Person, or Dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to or in favor of any Person, except that, so long as no Default exists or would result therefrom:

(a) any Person (other than the Borrower) may merge with (i) Borrower, provided that Borrower shall be the continuing or surviving Person, or (ii) any one or more Subsidiaries, provided that a wholly-owned Subsidiary shall be the continuing or surviving Person;

(b) any Subsidiary may dispose of all or substantially all of its assets (upon voluntary liquidation or otherwise), to Borrower or to another Subsidiary; provided that if the transferor in such a transaction is a wholly-owned Subsidiary, then the transferee must also be a wholly-owned Subsidiary; and

(c) any Subsidiary may merge into or consolidate with another Person, or may dissolve or liquidate, if Borrower determines in good faith that such merger, consolidation, dissolution or liquidation is in the best interests of Borrower and could not reasonably be expected to have a Material Adverse Effect.

Section 7.05 Dispositions.

Make any Disposition or enter into any agreement to make any Disposition, except:

(a) Dispositions of obsolete or worn out property, whether now owned or hereafter acquired, in the ordinary course of business;

(b) Dispositions of inventory in the ordinary course of business;

(c) Dispositions of equipment or real property to the extent that (i) such property is exchanged for credit against the purchase price of similar replacement property, (ii) the proceeds of such Disposition are reasonably promptly applied to the purchase price of such replacement property or (iii) such equipment or property is in the judgment of Borrower no longer required for the conduct of Borrower's or any Subsidiary's business;

(d) Dispositions of property by any Subsidiary to Borrower or to a wholly-owned Subsidiary; and

(e) Dispositions permitted by Section 7.04.

provided, however, that any Disposition pursuant to this Section 7.05 shall be for fair market value (as determined in good faith by the chief financial officer of the Borrower).

Section 7.06 Restricted Payments.

Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that:

(a) each Subsidiary may make Restricted Payments to Borrower and to wholly-owned Subsidiaries (and, in the case of a Restricted Payment by a non-wholly-owned Subsidiary, to Borrower and any Subsidiary and to each other owner of capital stock or other equity interests of such Subsidiary on a pro rata basis based on their relative ownership interests);

(b) Borrower and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common equity interests of such Person;

(c) Borrower and each Subsidiary may purchase, redeem or otherwise acquire shares of its common stock or other common equity interests or warrants or options to acquire any such shares with the proceeds received from the substantially concurrent issue of new shares of its common stock or other common equity interests;

(d) Borrower may, unless a Default or Event of Default has occurred and is continuing, declare and make dividend payments or other distributions to its shareholders, provided that Borrower is in pro forma compliance with the financial covenants set forth in Section 6.12 after giving effect to such dividend payment or other distribution;

(e) Borrower or any Subsidiary may, unless a Default or Event of Default has occurred and is continuing, purchase or redeem any of its common stock or any warrants, options or other rights in respect thereof from (i) employees, officers and directors of Borrower or such Subsidiary (or their estates) upon the death, permanent disability, retirement or termination of employment of any such Person or otherwise in accordance with any stock incentive plan, employee stock purchase plan or other similar employee benefit plan maintained by Borrower or such Subsidiary or (ii) in the case of Borrower, other shareholders of Borrower so long as the purpose of such purchase or redemption is to acquire common stock in accordance with any such stock incentive plan, employee stock purchase plan or other similar employee benefit plan or for reissuance to new employees, officers or directors (or their estates) of Borrower or any Subsidiary and such common stock is reissued within 12 months of such purchase or redemption, provided, in each case, that Borrower is in pro forma compliance with the financial covenants set forth in Section 6.12 after giving effect to such purchase or redemption; and

(f) Borrower may, unless a Default or Event of Default has occurred and is continuing, purchase shares of its common stock pursuant to a share repurchase program approved by Borrower's board of directors, provided that Borrower is in pro forma compliance with the financial covenants set forth in Section 6.12 after giving effect to such purchase.

Section 7.07 Change in Nature of Business.

Engage to any material extent in any material line of business substantially different from those lines of business conducted by Borrower and its Subsidiaries on the date hereof and businesses reasonably related thereto.

Section 7.08 Transactions with Affiliates.

Enter into any transaction of any kind with any Affiliate of Borrower, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to Borrower or such Subsidiary as would be obtainable by Borrower or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate, provided that the foregoing restriction shall not apply to transactions between or among Borrower and any of its wholly-owned Subsidiaries or between and among any wholly-owned Subsidiaries.

Section 7.09 Margin Regulations.

Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, to purchase or carry margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System of the United States) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.01 Events of Default.

Any of the following shall constitute an Event of Default:

- (a) Non-Payment. Borrower or any other Loan Party fails to pay (i) when and as required to be paid herein, any amount of principal of any Loan, or any L/C Obligation, or (ii) within five Business Days after the same becomes due, any interest on any Loan or on any L/C Obligation, or any commitment or other fee due hereunder or any other amount payable hereunder or under any other Loan Document; or
- (b) Specific Covenants. (i) Borrower fails to perform or observe any term, covenant or agreement contained in any of Section 6.03, 6.05(a), 6.10, 6.12 or Article VII; or (ii) Borrower fails to perform or observe any term, covenant or agreement contained in either of Section 6.01 or 6.02 and such failure continues for 5 days after the earlier of a Loan Party receiving notice of such failure or a Responsible Officer of the Borrower obtaining knowledge of such failure;
- (c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in subsection (a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 30 days after the earlier of a Loan Party receiving notice of such failure or a Responsible Officer of the Borrower obtaining knowledge of such failure; or
- (d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of Borrower or any other Loan Party herein, in any other Loan Document, or in any document delivered in connection herewith or therewith shall be incorrect or misleading in any material respect when made or deemed; or
- (e) Cross-Default. (i) Borrower or any Subsidiary (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of (i) the Wachovia L/C Facility or the BB&T L/C Facility, or (ii) any Indebtedness or Guarantee (other than Indebtedness hereunder and Indebtedness under Swap Contracts) having an aggregate principal amount (including undrawn committed or available amounts and including amounts owing to all creditors under any combined or syndicated credit arrangement) of more than the Threshold Amount, or (B) fails to observe or perform any other agreement or condition relating to any such Indebtedness or Guarantee (including, for the avoidance of doubt, the Wachovia L/C Facility and the BB&T L/C Facility) or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, in each case the effect of which failure or other event is to cause, or to permit the holder or holders of such Indebtedness or the beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made prior to its stated maturity, or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which Borrower or any Subsidiary is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which Borrower or any Subsidiary is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by Borrower or such Subsidiary as a result thereof is greater than the Threshold Amount; or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Subsidiaries institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of such Person and the appointment continues undischarged or unstayed for 60 calendar days; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 60 calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) Borrower or any Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within 30 days after its issue or levy; or

(h) Judgments. There is entered against Borrower or any Subsidiary (i) a final judgment or order for the payment of money in an aggregate amount exceeding the Threshold Amount (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage), or (ii) any one or more non-monetary final judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 10 consecutive days during which a stay of enforcement of such judgment, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA. (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of the Threshold Amount, or (ii) Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of the Threshold Amount; or

(j) Invalidity of Loan Documents. Any Loan Document, at any time after its execution and delivery and for any reason other than as expressly permitted hereunder or satisfaction in full of all the Obligations, ceases to be in full force and effect; or any Loan Party or any Governmental Authority contests in any manner the validity or enforceability of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind any Loan Document; or

(k) Change of Control. There occurs any Change of Control with respect to Borrower.

Section 8.02 Remedies Upon Event of Default.

If any Event of Default occurs, Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

- (a) declare the commitment of each Lender to make Loans and any obligation of Agent to make L/C Credit Extensions to be terminated, whereupon such commitments and obligation shall be terminated;
- (b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by Borrower;
- (c) require that Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and
- (d) exercise on behalf of itself and Lenders all rights and remedies available to it and Lenders under the Loan Documents or applicable law;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to Borrower under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans and any obligation of Agent to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of Agent or any Lender.

Section 8.03 Application of Funds.

After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received on account of the Obligations shall be applied by Agent in the following order:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including Attorney Costs and amounts payable under Article III) payable to Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal and interest) payable to Lenders (including Attorney Costs and amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Second payable to them;

Third, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Loans and L/C Borrowings, ratably among Lenders in proportion to the respective amounts described in this clause Third payable to them;

Fourth, to payment of that portion of the Obligations constituting unpaid principal of the Loans and L/C Borrowings, ratably among Lenders in proportion to the respective amounts described in this clause Fourth held by them;

Fifth, to Agent, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to Borrower or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause Fifth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

ARTICLE IX

AGENT

Section 9.01 Appointment and Authorization of Agent.

Each Lender hereby irrevocably appoints, designates and authorizes Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement or any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere herein or in any other Loan Document, Agent shall not have any duties or responsibilities, except those expressly set forth herein, nor shall Agent have or be deemed to have any fiduciary relationship with any Lender or participant, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document or otherwise exist against Agent. Without limiting the generality of the foregoing sentence, the use of the term "agent" herein and in the other Loan Documents with reference to Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable Law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties. All benefits and immunities provided to Agent in this Article IX shall apply to Agent as issuer of Letters of Credit with respect to any acts taken or omissions suffered by Agent in connection with Letters of Credit issued by it or proposed to be issued by it and the applications and agreements for letters of credit pertaining to such Letters of Credit, and as additionally provided herein with respect to Agent as issuer of Letters of Credit.

Section 9.02 Delegation of Duties.

Agent may execute any of its duties under this Agreement or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultants or experts concerning all matters pertaining to such duties. Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects in the absence of gross negligence or willful misconduct.

Section 9.03 Liability of Agent.

No Agent-Related Person shall (a) be liable for any action taken or omitted to be taken by any of them under or in connection with this Agreement or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct in connection with its duties expressly set forth herein), or (b) be responsible in any manner to any Lender or Participant for any recital, statement, representation or warranty made by any Loan Party or any officer thereof, contained herein or in any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Agent under or in connection with, this Agreement or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document, or for any failure of any Loan Party or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender or Participant to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of any Loan Party or any Affiliate thereof.

Section 9.04 Reliance by Agent.

(a) Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, communication, signature, resolution, representation, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, electronic mail message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons, and upon advice and statements of legal counsel (including counsel to any Loan Party), independent accountants and other experts selected by Agent. Agent shall be fully justified in failing or refusing to take any action under any Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by all Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement or any other Loan Document in accordance with a request or consent of the Required Lenders (or such greater number of Lenders as may be expressly required by any instance), and such request and any action taken or failure to act pursuant thereto shall be binding upon all Lenders.

(b) For purposes of determining compliance with the conditions specified in Section 4.01, each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to a Lender unless Agent shall have received notice from such Lender prior to the proposed Closing Date specifying its objection thereto.

Section 9.05 Notice of Default.

Agent shall not be deemed to have knowledge or notice of the occurrence of any Default, except with respect to defaults in the payment of principal, interest and fees required to be paid to Agent for the account of Lenders, unless Agent shall have received written notice from a Lender or Borrower referring to this Agreement, describing such Default and stating that such notice is a "notice of default." Agent will notify Lenders of its receipt of any such notice. Agent shall take such action with respect to such Default as may be directed by the Required Lenders in accordance with Article VIII; provided, however, that unless and until Agent has received any such direction, Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable or in the best interest of Lenders.

Section 9.06 Credit Decision; Disclosure of Information by Agent.

Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of any Loan Party or any Affiliate thereof, shall be deemed to constitute any representation or warranty by any Agent-Related Person to any Lender as to any matter, including whether Agent-Related Persons have disclosed material information in their possession. Each Lender represents to Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of the Loan Parties and their respective Subsidiaries, and all applicable bank or other regulatory Laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrower and the other Loan Parties hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigations as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower and the other Loan Parties. Except for notices, reports and other documents expressly required to be furnished to Lenders by Agent herein, Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of any of the Loan Parties or any of their respective Affiliates which may come into the possession of any Agent-Related Person.

Section 9.07 Indemnification of Agent.

Whether or not the transactions contemplated hereby are consummated, Lenders shall indemnify upon demand each Agent-Related Person (to the extent not reimbursed by or on behalf of any Loan Party and without limiting the obligation of any Loan Party to do so), pro rata, and hold harmless each Agent-Related Person from and against any and all Indemnified Liabilities incurred by it; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such Indemnified Liabilities to the extent determined in a final, nonappealable judgment by a court of competent jurisdiction to have been caused primarily by such Agent-Related Person's own gross negligence or willful misconduct; it being agreed by all Lenders that no action taken in accordance with the directions of the Required Lenders shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section. Without limitation of the foregoing, each Lender shall reimburse Agent upon demand for its ratable share of any costs or out-of-pocket expenses (including Attorney Costs and costs and expenses in connection with the use of IntraLinks, Inc. or other similar information transmission systems in connection with this Agreement) incurred by Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, any other Loan Document, or any document contemplated by or referred to herein, to the extent that Agent is not reimbursed for such expenses by or on behalf of Borrower. The undertaking in this Section shall survive termination of the Aggregate Revolving Commitments, the payment of all other Obligations and the resignation of Agent.

Section 9.08 Agent in its Individual Capacity.

Bank of America and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with each of the Loan Parties and their respective Affiliates as though Bank of America were not Agent hereunder and without notice to or consent of Lenders. Lenders acknowledge that, pursuant to such activities, Bank of America or its Affiliates may receive information regarding any Loan Party or its Affiliates (including information that may be subject to confidentiality obligations in favor of such Loan Party or such Affiliate) and acknowledge that Agent shall be under no obligation to provide such information to them. With respect to its Loans, Bank of America shall have the same rights and powers under this Agreement as any other Lender and may exercise such rights and powers as though it were not Agent, and the terms "Lender" and "Lenders" include Bank of America in its individual capacity.

Section 9.09**Successor Agent.**

Agent may resign as Agent upon 30 days' written notice to Lenders and Borrower; provided that any such resignation by Bank of America shall also constitute its resignation as Agent in its capacity of issuer of Letters of Credit. If Agent resigns under this Agreement, the Required Lenders shall appoint from among Lenders a successor Agent for Lenders, which successor Agent shall be consented to by Borrower at all times other than during the existence of a Default (which consent of Borrower shall not be unreasonably withheld or delayed). If no successor Agent is appointed prior to the effective date of the resignation of Agent, Agent may appoint, after consulting with Lenders and Borrower, a successor Agent from among Lenders. Up on the acceptance of its appointment as successor Agent hereunder, the Person acting as such successor Agent shall succeed to all the rights, powers and duties of the retiring Agent (including those in its capacity as issuer of Letters of Credit) and the term "Agent" shall mean such successor Agent in all such capacities and the retiring Agent's appointment, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such retiring Agent or any other Lender, other than the obligation of the successor Agent to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or to make other arrangements satisfactory to the retiring Agent to effectively assume the obligations of the retiring Agent with respect to such Letters of Credit. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article IX and Sections 10.04 and 10.05 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement. If no successor Agent has accepted appointment as Agent by the date which is 30 days following a retiring Agent's notice of resignation, the retiring Agent's resignation shall nevertheless thereupon become effective and Lenders shall perform all of the duties of Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above.

Section 9.10**Agent May File Proofs of Claim.**

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether Agent shall have made any demand on Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of Lenders and Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of Lenders and Agent and their respective agents and counsel and all other amounts due Lenders and Agent under Sections 2.03(i) and (j), 2.08 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to Agent and, in the event that Agent shall consent to the making of such payments directly to Lenders, to pay to Agent any amount due for the reasonable compensation, expenses, disbursements and advances of Agent and its agents and counsel, and any other amounts due Agent under Sections 2.08 and 10.04.

Nothing contained herein shall be deemed to authorize Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize Agent to vote in respect of the claim of any Lender in any such proceeding.

Section 9.11 Other Agents.

None of the Lenders or other Persons identified on the facing page or signature pages of this Agreement as a “co-agent” shall have any right, power, obligation, liability, responsibility or duty under this Agreement other than, in the case of such Lenders, those applicable to all Lenders as such. Without limiting the foregoing, none of the Lenders or other Persons so identified shall have or be deemed to have any fiduciary relationship with any Lender. Each Lender acknowledges that it has not relied, and will not rely, on any of the Lenders or other Persons so identified in deciding to enter into this Agreement or in taking or not taking action hereunder.

ARTICLE X

MISCELLANEOUS

Section 10.01 Amendments, Etc.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and Borrower or the applicable Loan Party, as the case may be, and acknowledged by Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(a) waive any condition set forth in Section 4.01(a) without the written consent of each Lender; provided, however, in the sole discretion of Agent, only a waiver by Agent shall be required with respect to immaterial matters or items specified in Section 4.01(a)(iii) or (iv) with respect to which Borrower has given assurances satisfactory to Agent that such items shall be delivered promptly following the Closing Date;

(b) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02) without the written consent of such Lender;

(c) postpone any date fixed by this Agreement or any other Loan Document for any payment of principal, interest, fees or other amounts due to Lenders (or any of them) hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby;

(d) reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing, or (subject to clause (ii) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Required Lenders shall be necessary (i) to amend the definition of “Default Rate” or to waive any obligation of Borrower to pay interest at the Default Rate or (ii) to amend any financial covenant hereunder (or any defined term used therein) even if the effect of such amendment would be to reduce the rate of interest on any Loan or L/C Borrowing or to reduce any fee payable hereunder;

(e) change Section 2.12 or Section 8.03 in a manner that would alter the pro rata sharing of payments required thereby without the written consent of each Lender; or

(f) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender.

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by Agent in addition to Lenders required above, affect the rights or duties of Agent under this Agreement or any other Loan Document, (A) as Administrative Agent, or (B) as Letter of Credit issuer or under any Letter of Credit Application relating to any Letter of Credit issued or to be issued by it (including, without limitation, any reduction in any fee, charge, expense, cost or other amount payable to Agent for its own account under this Agreement in any such capacity); and (ii) the Agent Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the respective parties thereto. Notwithstanding anything to the contrary herein, No Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended without the consent of such Lender.

Section 10.02 Notices and Other Communications; Facsimile Copies.

(a) General. Unless otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered, to the applicable address, facsimile number or (subject to subsection (c) below) electronic mail address, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, specified for such Person on Schedule 10.02 or to such other address, facsimile number, electronic mail address or telephone number as shall be designated by such party in a notice to the other parties. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (i) actual receipt by the relevant party hereto and (ii) (A) if delivered by hand or by courier, upon delivery; (B) if delivered by mail, four Business Days after deposit in the mails, postage prepaid; (C) if delivered by facsimile, when sent and the sender has received electronic confirmation of error free receipt; and (D) if delivered by electronic mail (which form of delivery is subject to the provisions of subsection (c) below), when delivered; provided, however, that notices and other communications to Agent pursuant to Article II shall not be effective until actually received by Agent. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

(b) Effectiveness of Facsimile Documents and Signatures. Loan Documents may be transmitted and/or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable Law, have the same force and effect as manually-signed originals and shall be binding on all Loan Parties, Agent and Lenders. Agent may also require that any such documents and signatures be confirmed by a manually-signed original thereof; provided, however, that the failure to request or deliver the same shall not limit the effectiveness of a ny facsimile document or signature.

(c) Limited Use of Electronic Mail. Except as specifically set forth in Section 6.03, electronic mail and internet and intranet websites may be used only to distribute routine communications, such as financial statements, and to distribute Loan Documents for execution by the parties thereto, and may not be used for any other purpose.

(d) **Reliance by Agent and Lenders.** Agent and Lenders shall, in the absence of gross negligence or willful misconduct, be entitled to rely and act upon any notices (including telephonic Loan Notices) purportedly given by or on behalf of Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. Borrower shall indemnify each Agent-Related Person and each Lender from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of Borrower (except for losses, costs, expenses or liabilities resulting from the gross negligence or willful misconduct of such Agent-Related Person or Lender). All telephonic notices to and other communications with Agent may be recorded by Agent, and each of the parties hereto hereby consents to such recording.

Section 10.03 No Waiver; Cumulative Remedies.

No failure by any Lender or Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

Section 10.04 Attorney Costs, Expenses and Taxes.

Borrower agrees (a) to pay or reimburse Agent for all reasonable costs and expenses incurred in connection with the development, preparation, negotiation and execution of this Agreement and the other Loan Documents and any amendment, waiver, consent or other modification of the provisions hereof and thereof (whether or not the transactions contemplated hereby or thereby are consummated), and the consummation and administration of the transactions contemplated hereby and thereby, including all Attorney Costs and costs and expenses in connection with the use of IntraLinks, Inc. or other similar information transmission systems in connection with this Agreement, and (b) to pay or reimburse Agent and each Lender for all reasonable costs and expenses incurred in connection with the enforcement, attempted enforcement, or preservation of any rights or remedies under this Agreement or the other Loan Documents (including all such costs and expenses incurred during any "workout" or restructuring in respect of the Obligations and during any legal proceeding, including any proceeding under any Debtor Relief Law), including all Attorney Costs. The foregoing costs and expenses shall include all search, filing, recording, title insurance and appraisal charges and fees and taxes related thereto, and other out-of-pocket expenses incurred by Agent and the cost of independent public accountants and other outside experts retained by Agent or any Lender. The agreements in this Section shall survive the termination of the Aggregate Revolving Commitments and repayment of all other Obligations.

Section 10.05 Indemnification by Borrower.

Whether or not the transactions contemplated hereby are consummated, Borrower shall indemnify and hold harmless each Agent-Related Person, each Lender and their respective Affiliates, directors, officers, employees, counsel, agents and attorneys-in-fact (collectively the "Indemnitees") from and against any and all liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses and disbursements (including Attorney Costs) of any kind or nature whatsoever which may at any time be imposed on, incurred by or asserted against any such Indemnitee in any way relating to or arising out of or in connection with (a) the execution, delivery, enforcement, performance or administration of any Loan Document or any other agreement, letter or instrument delivered in connection with the transactions contemplated hereby or the consummation of the transactions contemplated thereby, (b) any Commitment, Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by Agent to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (c) any actual or alleged presence or release of Hazardous Materials on or from any property currently or formerly owned or operated by Borrower, any Subsidiary or any other Loan Party, or any Environmental Liability related in any way to Borrower, any Subsidiary or any other Loan Party, or (d) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory (including any investigation of, preparation for, or defense of any pending or threatened claim, investigation, litigation or proceeding) and regardless of whether Indemnitee is a party thereto (all the foregoing, collectively, the "Indemnified Liabilities"); provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such liabilities, obligations, losses, damages, penalties, claims, demands, actions, judgments, suits, costs, expenses or disbursements are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee. No Indemnitee shall be liable for any damages arising from the use by others of any information or other materials obtained through IntraLinks or other similar information transmission systems in connection with this Agreement, nor shall any Indemnitee have any liability for any indirect or consequential damages relating to this Agreement or any other Loan Document or arising out of its activities in connection herewith or therewith (whether before or after the Closing Date). The agreements in this Section shall survive the resignation of Agent, the replacement of any Lender, the termination of the Aggregate Revolving Commitments and the repayment, satisfaction or discharge of all the other Obligations. All amounts due under this Section 10.05 shall be payable within ten Business Days after demand therefor.

Section 10.06**Payments Set Aside.**

To the extent that any payment by or on behalf of Borrower is made to Agent or any Lender, or Agent or any Lender exercises its right of set-off, and such payment or the proceeds of such set-off or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by Agent or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such set-off had not occurred, and (b) each Lender severally agrees to pay to Agent upon demand its applicable share of any amount so recovered from or repaid by Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect.

Section 10.07**Successors and Assigns.**

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby and, to the extent expressly contemplated hereby, the Indemnitees) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans (including for purposes of this subsection (b), participations in L/C Obligations) at the time owing to it); provided that (i) except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) subject to each such assignment, determined as of the date the Assignment and Assumption Agreement with respect to such assignment is delivered to Agent, shall not be less than \$5,000,000 unless each of Agent and, so long as no Event of Default has occurred and is continuing, Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); (ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, (iii) any assignment of a Commitment or any Loan (or portion thereof) must be approved by Agent (which approval the Agent may withhold in its sole discretion), unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee), and (iv) the parties to each assignment shall execute and deliver to Agent an Assignment and Assumption Agreement, together with a processing and recordation fee of \$5,000. Subject to acceptance and recording thereof by Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption Agreement, the Eligible Assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption Agreement, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption Agreement, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption Agreement covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, 10.04 and 10.05 with respect to facts and circumstances occurring prior to the date of such assignment). Upon request, Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Agent, acting solely for this purpose as an agent of Borrower, shall maintain at Agent's Office a copy of each Assignment and Assumption Agreement delivered to it and a register for the recordation of the names and addresses of Lenders, and the Commitments of, and principal amount of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and Borrower, Agent and Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. &# 160;The Register shall be available for inspection by Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Any Lender may, without the consent of, or notice to, Borrower or Agent, sell participations to any Person (other than a natural person or Borrower or any of Borrower's Affiliates or Subsidiaries (each a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) Borrower, Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first provision to Section 10.01 that directly affects such Participant. Subject to subsection (e) of this Section, Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.09 as though it were a Lender, provided such Participant agrees to be subject to Section 2.12 as though it were a Lender.

(e) A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with Borrower's prior written consent.

(f) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) If the consent of Borrower to an assignment to an Eligible Assignee is required hereunder (including a consent to an assignment which does not meet the minimum assignment threshold specified in clause (i) of the proviso to the first sentence of Section 10.07(b)), Borrower shall be deemed to have given its consent five Business Days after the date notice thereof has been delivered to Borrower by the assigning Lender (through Agent) unless such consent is expressly refused by Borrower prior to such fifth Business Day.

(h) As used herein, "Eligible Assignee" means (a) a Lender; (b) an Affiliate of a Lender; (c) an Approved Fund; and (d) any other Person (other than a natural Person) approved by (i) the Agent and (ii) unless an Event of Default has occurred and is continuing, Borrower (such approval referred to in (i) and (ii) not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, "Eligible Assignee" shall not include Borrower or any of Borrower's Affiliates or Subsidiaries.

(i) Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Commitment and Loans pursuant to subsection (b) above, Bank of America may, upon 30 days' notice to Borrower and Lenders, resign in its capacity as issuer of Letters of Credit hereunder (the "L/C Issuer"). In the event of any such resignation as L/C Issuer, Borrower shall be entitled to appoint from among Lenders a successor L/C Issuer hereunder; provided, however, that no failure by Borrower to appoint any such successor shall affect the resignation of Bank of America as L/C Issuer. If Bank of America resigns as L/C Issuer, it shall retain all the rights and obligations of Agent as the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all L/C Obligations with respect thereto (including the right to require Lenders to make Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)). Borrower, Lenders and Bank of America agree that they shall amend this Agreement as necessary to reflect that Bank of America remains Agent for purposes of administering this Agreement, but has resigned in its capacity as L/C Issuer and another Lender(s) shall provide such service, including the obligation of the successor to Bank of America as L/C Issuer to issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or to make other arrangements satisfactory to Bank of America to effectively assume the obligations of Bank of America with respect to such Letters of Credit.

Section 10.08**Confidentiality.**

Each of Agent and Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential); (b) to the extent requested by any regulatory authority; (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process; (d) to any other party to this Agreement; (e) in connection with the exercise of any remedies hereunder or any other Loan Document or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or under any other Loan Document; (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any Eligible Assignee of or Participant in, or any prospective Eligible Assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any direct or indirect contractual counterparty or prospective counterparty (or such contractual counterparty's or prospective counterparty's professional advisor) to any credit derivative transaction relating to obligations of a Loan Party; (g) with the consent of Borrower; (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to Agent or any Lender on a nonconfidential basis from a source other than Borrower; or (i) to the National Association of Insurance Commissioners or any successor organization. In addition, Agent and Lenders may disclose the existence of this Agreement and information about this Agreement to market data collectors, similar service providers to the lending industry, and service providers to Agent and Lenders in connection with the administration and management of this Agreement, the other Loan Documents, the Commitments, and the Credit Extensions. For the purposes of this Section, "Information" means all information received from any Loan Party relating to any Loan Party or its business, other than any such information that is available to Agent or any Lender on a nonconfidential basis prior to disclosure by any Loan Party. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 10.09**Set-off.**

In addition to any rights and remedies of Lenders provided by law, upon the occurrence and during the continuance of any Event of Default, each Lender is authorized at any time and from time to time, without prior notice to Borrower or any other Loan Party, any such notice being waived by Borrower (on its own behalf and on behalf of each Loan Party) to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held by, and other indebtedness at any time owing by, such Lender to or for the credit or the account of the respective Loan Parties against any and all Obligations owing to such Lender hereunder or under any other Loan Document, now or hereafter existing, irrespective of whether or not Agent or such Lender shall have made demand under r this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured or denominated in a currency different from that of the applicable deposit or Indebtedness. Each Lender agrees promptly to notify Borrower and Agent after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

Section 10.10 Interest Rate Limitation.

Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the "Maximum Rate"). If Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to Borrower. In determining whether the interest contracted for, charged, or received by Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

Section 10.11 Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 10.12 Integration.

This Agreement, together with the other Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and thereof and supersedes all prior agreements, written or oral, on such subject matter. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control; provided that the inclusion of supplemental rights or remedies in favor of Agent or Lenders in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

Section 10.13 Survival of Representations and Warranties.

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by Agent and each Lender, regardless of any investigation made by Agent or any Lender or on their behalf and notwithstanding that Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

Section 10.14 Severability.

If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 10.15 **Governing Law; Submission to Jurisdiction.**

(a) THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE COMMONWEALTH OF VIRGINIA APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH COMMONWEALTH; PROVIDED THAT AGENT AND EACH LENDER SHALL RETAIN ALL RIGHTS ARISING UNDER FEDERAL LAW.

(b) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF VIRGINIA SITTING IN THE CITY OF ROANOKE OR OF THE UNITED STATES FOR THE WESTERN DISTRICT OF VIRGINIA, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, BORROWER, AGENT AND EACH LENDER CONSENTS, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, TO THE NON-EXCLUSIVE JURISDICTION OF THOSE COURTS. BORROWER, AGENT AND EACH LENDER IRREVOCABLY WAIVES ANY OBJECTION, INCLUDING ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF *FORUM NON CONVENIENS*, WHICH IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY ACTION OR PROCEEDING IN SUCH JURISDICTION IN RESPECT OF ANY LOAN DOCUMENT OR OTHER DOCUMENT RELATED THERETO. BORROWER, AGENT AND EACH LENDER WAIVES PERSONAL SERVICE OF ANY SUMMONS, COMPLAINT OR OTHER PROCESS, WHICH MAY BE MADE BY ANY OTHER MEANS PERMITTED BY THE LAW OF THE COMMONWEALTH OF VIRGINIA.

Section 10.16 **Waiver of Right to Trial by Jury.**

EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER FOUNDED IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

Section 10.17 **Time of the Essence.**

Time is of the essence of the Loan Documents.

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HOOKER FURNITURE CORPORATION,
a Virginia corporation

By: /s/ Paul B. Toms, Jr.
Name: Paul B. Toms, Jr
Title: Chairman and CEO

By: /s/ Edwin L. Ryder
Name: Edwin L. Ryder
Title: EVP Finance and Administration

BANK OF AMERICA, N.A., as Agent

By: /s/ Greg L. Richards
Name: Greg L. Richards
Title: Vice President

BANK OF AMERICA, N.A., as a Lender

By: /s/ Greg L. Richards
Name: Greg L. Richards
Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Susan K. Still
Name: Susan K. Still
Title: Senior Vice President

BRANCH BANKING & TRUST CO. OF VIRGINIA

By: /s/ Benjamin T. Phelps
Name: Benjamin T. Phelps
Title: Senior Vice-President

COMMITMENTS
AND PRO RATA SHARES

Lender	Revolving Commitment	Tranche A Term Loan Commitment	Tranche B Term Loan Commitment	Pro Rata Share
Bank of America, N.A.	\$7,500,000.00	\$9,159,592.32	\$12,250,000.00	50%
Wachovia Bank, National Association	\$4,500,000.00	\$5,495,755.40	\$7,350,000.00	30%
Branch Banking & Trust Co. of Virginia	\$3,000,000.00	\$3,663,836.93	\$4,900,000.00	20%
Total	\$15,000,000.00	\$18,319,184.65	\$24,500,000.00	100%

LITIGATION

None.

ENVIRONMENTAL MATTERS

None.

SUBSIDIARIES AND OTHER EQUITY INVESTMENTS

Part (a).

Subsidiaries.

Bradington-Young, LLC, a Virginia limited liability company
Triwood, Inc., a Virginia corporation

Part (b).

Other Equity Investments.

None.

PRINCIPAL PLACE OF BUSINESS

440 East Commonwealth Boulevard
Martinsville, VA 24112

EXISTING LIENS

Any lien arising under the factoring arrangement between Bradington-Young, LLC (formerly known as B-Y Acquisition LLC) and The CIT Group/Commercial Services, Inc., with respect to the trade accounts receivable of Bradington-Young, LLC (formerly known as B-Y Acquisition LLC).

EXISTING INDEBTEDNESS

1. The Wachovia L/C Facility
 2. The BB&T L/C Facility
 3. \$6,400,000* industrial development revenue bonds issued by the Catawba County Industrial Facilities and Pollution Control Financing Authority (Hooker Furniture Corporation Project) Series 1996 and the related loan repayment and reimbursement obligations of Borrower**
- * As of April 30, 2003
** The industrial development revenue bonds are secured by a letter of credit. Interest is payable monthly at a variable rate (1.2% at November 30, 2002). Principal repayments are due from 2004 through 2006.

NOTE:

The Existing Credit Agreement and the Existing Promissory Note will be paid off on the Closing Date with funds advanced under the Agreement. In addition, the Existing Line of Credit will be eliminated and replaced on the Closing Date by the \$15,000,000 line of credit established under the Agreement.

ADDRESSES FOR NOTICES

HOOKER FURNITURE CORPORATION

440 East Commonwealth Blvd.
Martinsville, Virginia 24112
Attn: E. Larry Ryder
Telephone: 276-656-3314
Facsimile: 276-632-0026
Electronic Mail: lryder@hookerfurniture.com

BANK OF AMERICAAddress for Payments and Requests for Loans

Bank of America, N.A.
One Independence Center, 101 N. Tryon Street
Charlotte, North Carolina 28255-0001
Attention: Cynthia Grembecki
Telephone: 704-387-1184
Facsimile: 704-409-0034
Electronic Mail: cynthia.grembecki@bankofamerica.com
Account No.: 136-621-225-0600
Ref: Hooker Furniture
ABA# 053-000-196

Address for Receiving Letter of Credit Applications and related correspondenceStandby Letters of Credit:

Bank of America, N.A.
Trade Operations-Los Angeles
333 S. Beaudry Avenue, 23rd Floor
Mail Code: CA9-703-19-23
Los Angeles, CA 90017-1466
Attention: Tai Anh Lu
Telephone: 213.345.0145
Facsimile: 213.345.6710
Electronic Mail: Tai_Anh.Lu@bankofamerica.com

Commercial Letters of Credit

Bank of America, N.A.
Trade Operations-Charlotte
Interstate Tower Suite
121 W Trade Street
Mail Code: NC1-005-21-01
Charlotte, NC 28255-0001
Attention: Ryan Evans
Telephone: 704.386.8018
Facsimile: 704.386.0706
Electronic Mail: Ryan.Evans@bankofamerica.com

Other Notices as Agent:

Bank of America, N.A.
Agency Management
231 South LaSalle Street
Mail Code: IL1-231-08-30
Chicago, Illinois 60604
Attention: Remberto Marquez
Telephone: 312.828.7299
Facsimile: 877.207.0481
Electronic Mail: Remberto.Marquez@bankofamerica.com

Other Notices as a Lender:

Bank of America, N.A.
302 S. Jefferson Street,
2nd Floor
VA8-840-02-02
Roanoke, Virginia 24011
Attention: Greg L. Richards
Vice President
Telephone: 540.265.3214
Facsimile: 540.265.3187
Electronic Mail: greg.l.richards@bankofamerica.com

WACHOVIA BANK, NATIONAL ASSOCIATION

Requests for Credit Extensions:

First Union Tower, 19th Floor
Mail Code: VA 7629
10 S. Jefferson Street
Roanoke, VA. 24011
Attn: Renita Joyce, Specialized Loan Services
Telephone: 540-857-4627
Facsimile: 540-857-4635
Electronic Mail: Renita.joyce@wachovia.com
Account No.
Ref:
ABA#

Notices (other than Requests for Credit Extensions):

Mail Code: VA 7440
201 South Jefferson Street
Roanoke, VA. 24011
Attn: Susan K. Still, Senior Vice President
Telephone: 540-563-6615
Facsimile: 540-563-6018
Electronic Mail: Susan.still@wachovia.com

and

First Union Tower, 21st Floor
Mail Code: VA 7234
10 S. Jefferson Street
Roanoke, VA. 24011
Attn: Linda Saunders, Servicing Specialist
Telephone: 540-857-4926
Facsimile: 540-857-4932
Electronic Mail: Linda.saunders@wachovia.com

BRANCH BANKING & TRUST CO. OF VIRGINIA

Requests for Credit Extensions:

37 W. Church Ave.
Roanoke, VA 24011
Attn: Lisa Hodgdon
Telephone: 540-344-7891
Facsimile: 540-857-0172
Electronic Mail: lhodgdon@bbandt.com
Account No. 9530265983
Ref: Hooker Furniture Syndication
ABA# 051404260

Notices (other than Requests for Credit Extensions):

37 W. Church Ave.
Roanoke, VA 24011
Attn: Ben T. Phelps
Telephone: 540-344-3673
Facsimile: 540-857-0172
Electronic Mail: bphelps@bbandt.com

FORM OF LOAN NOTICE

Date: _____, 20__

To: Bank of America, N.A., as Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of April 30, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined), among Hooker Furniture Corporation ("Borrower"), Lenders from time to time party thereto, and Bank of America, N.A., as Agent.

The undersigned hereby requests (select one):

- A Borrowing of Loans
- A conversion or continuation of Loans

1. On _____ (a Business Day).

2. In the amount of \$ _____ .

3. Comprised of _____ .

[Type of Loan requested]

4. For LIBOR Rate Loans: with an Interest Period of ____ months.

The Borrowing requested herein complies with the proviso to the first sentence of Section 2.01 of the Credit Agreement.

HOOKER FURNITURE CORPORATION

By: _____
 Name: _____
 Title: _____

FORM OF REVOLVING NOTE

\$ _____

April 30, 2003

FOR VALUE RECEIVED, the undersigned ("**Borrower**"), hereby promises to pay to the order of _____ or registered assigns ("**Lender**"), in accordance with the provisions of the Agreement (as hereinafter defined) the principal amount of each Revolving Loan from time to time made by Lender to Borrower under that certain Credit Agreement, dated as of April 30, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "**Agreement**," the terms defined therein being used herein as therein defined), among Borrower, Lenders from time to time party thereto, and Bank of America, N.A., as Agent.

Borrower promises to pay interest on the unpaid principal amount of each Revolving Loan from the date of such Revolving Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All payments of principal and interest shall be made to Agent for the account of Lender in Dollars in immediately available funds at Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Revolving Note is one of the Revolving Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Revolving Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Loans made by Lender shall be evidenced by one or more loan accounts or records maintained by Lender in the ordinary course of business. Lender may also attach schedules to this Revolving Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Revolving Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

HOOKE FURNITURE CORPORATION

By: _____
Name: _____
Title: _____

LOANS AND PAYMENTS WITH RESPECT THERETO

Date	Type of Loan Made	Amount of Loan Made	End of Interest Period	Amount of Principal or Interest Paid This Date	Outstanding Principal Balance This Date	Notation Made By
------	-------------------	---------------------	------------------------	---	--	------------------

B-1-2
Form of Revolving Note

FORM OF TRANCHE A TERM NOTE

\$ _____

April 30, 2003

FOR VALUE RECEIVED, the undersigned ("Borrower"), hereby promises to pay to the order of _____ or registered assigns ("Lender"), in accordance with the provisions of the Agreement (as hereinafter defined) the principal amount of each Tranche A Term Loan from time to time made by Lender to Borrower under that certain Credit Agreement, dated as of April 30, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Borrower, Lenders from time to time party thereto, and Bank of America, N.A., as Agent.

Borrower promises to pay interest on the unpaid principal amount of each Tranche A Term Loan from the date of such Tranche A Term Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All payments of principal and interest shall be made to Agent for the account of Lender in Dollars in immediately available funds at Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Note is one of the Tranche A Term Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Tranche A Term Loans made by Lender shall be evidenced by one or more loan accounts or records maintained by Lender in the ordinary course of business. Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

HOOKE FURNITURE CORPORATION

By: _____
Name: _____
Title: _____

LOANS AND PAYMENTS WITH RESPECT THERETO

Date	Type of Loan Made	Amount of Loan Made	End of Interest Period	Amount of Principal or Interest Paid This Date	Outstanding Principal Balance This Date	Notation Made By
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B-2-2
Form of Tranche A Term Note

FORM OF TRANCHE B TERM NOTE

\$ _____

April 30, 2003

FOR VALUE RECEIVED, the undersigned ("Borrower"), hereby promises to pay to the order of _____ or registered assigns ("Lender"), in accordance with the provisions of the Agreement (as hereinafter defined) the principal amount of each Loan from time to time made by Lender to Borrower under that certain Credit Agreement, dated as of April 30, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Borrower, Lenders from time to time party thereto, and Bank of America, N.A., as Agent.

Borrower promises to pay interest on the unpaid principal amount of each Tranche B Term Loan from the date of such Tranche B Term Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Agreement. All payments of principal and interest shall be made to Agent for the account of Lender in Dollars in immediately available funds at Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Agreement.

This Note is one of the Tranche B Term Notes referred to in the Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Agreement. Tranche B Term Loans made by Lender shall be evidenced by one or more loan accounts or records maintained by Lender in the ordinary course of business. Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE COMMONWEALTH OF VIRGINIA.

HOOKE FURNITURE CORPORATION

By: _____
Name: _____
Title: _____

LOANS AND PAYMENTS WITH RESPECT THERETO

Date	Type of Loan Made	Amount of Loan Made	End of Interest Period	Amount of Principal or Interest Paid This Date	Outstanding Principal Balance This Date	Notation Made By
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B-3-2
Form of Tranche B Term Note

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, ____

To: Bank of America, N.A., as Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of April 30, 2003 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Agreement;" the terms defined therein being used herein as therein defined), among Hooker Furniture Corporation ("Borrower"), Lenders from time to time party thereto, and Bank of America, N.A., as Agent.

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to Agent on behalf of Borrower, and that:

[Use following for fiscal year-end financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial statements required by Section 6.01(a) of the Agreement for the fiscal year of Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following for fiscal quarter-end financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 6.01(b) of the Agreement for the fiscal quarter of Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Agreement and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower performed and observed all its Obligations under the Loan Documents, and

[select one:]

[to the best knowledge of the undersigned during such fiscal period, Borrower performed and observed each covenant and condition of the Loan Documents applicable to it.]

--or--

[the following covenants or conditions have not been performed or observed and the following is a list of each such Default or Event of Default and its nature and status:]

4. The representations and warranties of the Borrower contained in Article V of the Agreement, or which are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Compliance Certificate, the representations and warranties contained in subsections (a) and (b) of Section 5.05 of the Agreement shall be deemed to refer to the most recent statements furnished pursuant to clauses (a) and (b), respectively, of Section 6.01 of the Agreement, including the statements in connection with which this Compliance Certificate is delivered.

5. The financial covenant analyses and information set forth on Schedule 2 attached hereto are true and accurate on and as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, 20____.

HOOKE FURNITURE CORPORATION

By: _____
Name: _____
Title: _____

SCHEDULE 2
to the Compliance Certificate
(\$ in 000's)

I. Section 6.12(a) – Tangible Net Worth.

A.	Tangible Net Worth at Statement Date:	
1.	Total Assets:	\$ _____
2.	Total Liabilities:	\$ _____
3.	Tangible Net Worth (Line I.A.1 less Line I.A.2):	\$ _____
B.	Minimum Required Tangible Net Worth :	\$ _____
C.	Excess (deficient) for covenant compliance (Line I.A.3 less Line I.B):	\$ _____

II. Section 6.12(b) – Debt Service Coverage Ratio.

A.	Cash Flow:	
1.	net income, after income tax	\$ _____
2.	less income or plus loss from discontinued operations and extraordinary items, plus	\$ _____
3.	depreciation, depletion and amortization, plus	\$ _____
4.	interest expense on all obligations, minus	\$ _____
5.	dividend, withdrawals and other distributions	(\$ _____)
6.	Total Cash Flow	\$ _____
B.	Liabilities:	\$ _____
1.	Current portion of long term liabilities and current portion of capitalized lease obligations, plus	\$ _____
2.	interest expense on all obligations	\$ _____
3.	Total (Line II.B.1 + Line II.B.2)	\$ _____
C.	Debt Service Coverage Ratio (Line II.A.6 , Line II.B.3):	_____ to 1.0
	Minimum Required: _____ to 1.0	

III. Section 6.12(c) – Funded Debt to EBITDA Ratio.

A.	Funded Debt	
1.	all outstanding liabilities for borrowed money plus other interest-bearing liabilities, including current and long-term liabilities, less	\$ _____
2.	The non-current portion of Subordinated Liabilities	(\$ _____)
3.	Total Funded Debt	\$ _____
B.	EBITDA	
1.	net income	\$ _____
2.	less income or plus loss from discontinued operations and extraordinary items, plus	\$ _____
3.	income taxes, plus	\$ _____

4. interest expense, plus \$ _____
5. depreciation, depletion and amortization \$ _____
6. Total EBITDA \$ _____
C. Ratio (Line III.A.3 , Line III.B.6): _____ to 1.0
Minimum Required: _____ to 1.0

IV. Section 6.12(d) - Capital Expenditures.

A. Obligations incurred (including capital leases) for fixed assets during fiscal year to date: \$ _____
B. Maximum permitted capital expenditures: \$ _____
C. Excess (deficient) for covenant compliance (Line IV.A – IV.B): \$ _____

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (this "Assignment") is dated as of the Effective Date set forth below and is entered into by and between **[Insert name of Assignor]** (the "Assignor") and **[Insert name of Assignee]** (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by Agent as contemplated below, (i) all of the Assignor's rights and obligations as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including, to the extent included in any such facilities, Letters of Credit) included in such facilities and, (ii) to the extent permitted to be assigned under applicable law, all claims, including, without limitation, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, (the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment, without representation or warranty by the Assignor.

1. Assignor: _____
2. Assignee: _____ **[and is an Affiliate of Assignor]**
3. Borrower(s): Hooker Furniture Corporation
4. Agent: Bank of America, N.A., as Agent under the Credit Agreement
5. Credit Agreement: The Credit Agreement, dated as of April 30, 2003, among Hooker Furniture Corporation, Lenders parties thereto, and Agent
6. Assigned Interest:

Facility Assigned	Aggregate Amount of Commitment/Loans for all Lenders	Amount of Commitment/Loans Assigned	Percentage Assigned of Commitment/Loans
_____	\$ _____	\$ _____	_____ %
_____	\$ _____	\$ _____	_____ %
_____	\$ _____	\$ _____	_____ %

Effective Date: _____, 20__ [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE
[NAME OF ASSIGNEE]

By: _____
Title:

Consented to and Accepted:

Bank of America, N.A., as
Agent

By: _____
Title:

[Consented to:]

Hooker Furniture Corporation

By: _____
Title:

STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT

AND ASSUMPTION AGREEMENT

1. Representations and Warranties.

1.1. Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents, or any collateral thereunder, (iii) the financial condition of Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement, (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, and (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 6.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on Agent or any other Lender; and (b) agrees that (i) it will, independently and without reliance on Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

1.3. Assignee's Address for Notices, etc. Attached hereto as Schedule 1 is all contact information, address, account and other administrative information relating to the Assignee.

2. Payments. From and after the Effective Date, Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignee whether such amounts have accrued prior to or on or after the Effective Date. The Assignor and the Assignee shall make all appropriate adjustments in payments by Agent for periods prior to the Effective Date or with respect to the making of this assignment directly between themselves.

3. General Provisions. This Assignment shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment. This Assignment shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia.

ADMINISTRATIVE DETAILS

(ASSIGNEE TO LIST NAMES OF CREDIT CONTACTS, ADDRESSES, PHONE AND FACSIMILE NUMBERS, ELECTRONIC MAIL ADDRESSES AND ACCOUNT AND PAYMENT INFORMATION)

D-5

Form of Assignment and Assumption Agreement

Form 10-K for the Fiscal Year Ended January 31, 2010

SUMMARY OF DIRECTOR COMPENSATION
Hooker Furniture Corporation

Through December 31, 2009, our non-employee directors were compensated on a calendar-year basis. For 2010, the Board of Directors adopted a recommendation from the Company's Nominating and Corporate Governance Committee to align non-employee director compensation with each director's terms of service, which typically begins with the election of directors at the Company's annual meeting. The Board has approved compensation for non-employee directors for the five-month transition period from January 1, 2010 to the annual shareholders meeting to be held June 8, 2010. Compensation for the annual period following the June 8, 2010 annual meeting will be approved promptly after the annual meeting. Our non-employee directors will be paid the following cash compensation for the five-month transition period:

- \$8,333 retainer for service on the Board; plus
- \$3,542 for serving on the Audit Committee and \$1,667 for serving on each of the Compensation and Nominating and Corporate Governance Committees; and
- an additional \$2,083 for the Chair of the Audit Committee,
- \$1,667 for the Chair of the Compensation Committee and \$1,250 for the Chair of the Nominating and Corporate Governance Committee.

In addition, directors are reimbursed for reasonable expenses incurred in connection with attending board and committee meetings or performing their duties as directors.

Non-employee directors also receive an annual grant of restricted stock under the Company's stock incentive plan. The number of shares of restricted stock awarded to each non-employee director is determined by dividing fifty percent of the total annual fees payable to that director by the fair market value of the Company's common stock on the award date (the average of the high and low market price of the stock on the day prior to the grant date), and rounding to the nearest whole share. The restricted stock becomes fully vested, and the restrictions applicable to the restricted stock lapse, on the third anniversary of the grant date, or if earlier, when the director dies or is disabled, the annual shareholders meeting following the director's attainment of age 75, or a change in control of the Company.

On January 15, 2010, each non-employee director of the Company received an award of restricted shares of Company common stock for the five-month transition period as set forth in the table below:

Outside Director	Restricted Stock Grant (# of shares)
W. Christopher Beeler, Jr.	591
John L. Gregory, III	533
Mark F. Schreiber	541
David G. Sweet	541
Henry G. Williamson, Jr.	625

EMPLOYMENT AGREEMENT

This agreement is made and entered into this 22nd day of January, 2010, by and between Hooker Furniture Corporation (“Employer”) and Arthur G. Raymond, Jr. (“Executive”) (each a “Party” and collectively, the “Parties”).

WHEREAS, Executive has substantial expertise in the management of the forecasting, manufacture, warehousing and distribution of case goods furniture; and

WHEREAS, Employer desires to secure Executive’s service and expertise in connection with Employer’s case goods business beginning February 1, 2010 (the “Effective Date”); and

WHEREAS, the Parties agree that a covenant not to compete is essential to the growth and stability of the case goods business of Employer during the first years after its employment of the Executive and to the continuing viability of such business whenever the employment to which this Agreement relates is terminated;

1. **Employment.** Upon the Effective Date, Employer shall employ and Executive agrees to become employed as Senior Vice President – Case Goods Operations of Employer to oversee the operations of Employer’s case goods business and to perform such different or other duties as may be assigned to him by Employer from time to time by Employer’s Chief Executive Officer consistent with the position of a senior vice president or higher. Executive will devote his full working time and best efforts to the diligent and faithful performance of such duties as may be entrusted to him from time to time by Employer, and shall observe and abide by the corporate policies and decisions of Employer in all business matters.

2. **Term.** Executive’s employment shall continue under this Agreement for a period beginning on the Effective Date and ending three (3) years thereafter.

3. **Compensation.** Employer shall pay and Executive shall accept as full consideration for the services to be rendered hereunder compensation consisting of the items listed below. Employer shall have no obligation to pay any such compensation for any period after the termination of Executive’s employment, except as otherwise expressly provided.

(a) Salary, paid pursuant to Employer’s normal payroll practices, at an annual rate of \$250,000 per year or such other rate as may be established prospectively by the Compensation Committee of Employer’s Board of Directors (the “Compensation Committee”) from time to time, but in no event less than \$250,000 annually (the “Salary”). All such Salary payments shall be subject to deduction and withholding authorized or required by applicable law.

(b) An Annual Bonus with respect to each fiscal year of the Employer (the “Performance Year”) during the Term of this Agreement (beginning with the Performance Year that begins on February 1, 2010), provided that Executive has been continuously employed to the last day of the Performance Year, except as otherwise provided in Sections 4(b), 5(b) and 5(c). The other terms and conditions of the Annual Bonus, including the applicable performance criteria for a Performance Year, and the determination of the amount of the Annual Bonus payable to the Executive for a Performance Year (if any) shall be determined by Employer’s Chief Executive Officer subject to prior approval by the Compensation Committee. The Annual Bonus earned by Executive with respect to a Performance Year will be paid during the period that begins on the first day immediately following the last day of the Performance Year and which ends on April 15 of the calendar year in which the Performance Year ends.

(c) Grants of incentive awards under the Employer's stock incentive plan as may be recommended by the Chief Executive Officer, in his sole discretion, to the Compensation Committee and as may be approved by the Compensation Committee, in its sole discretion.

(d) Such other benefits, payments, or items of compensation as are provided under the employee benefit plans of the Employer, or as are made available from time to time under compensation policies set by Employer for management employees of Employer having similar salary and level of responsibility; provided, however, that Executive shall not be eligible to participate in the Employer's Supplemental Retirement Income Plan but shall be entitled to four weeks of paid time off each fiscal year, which shall be pro-rated for the portion of any fiscal year Executive is employed by the Employer during the Term of this Agreement.

(e) Employer shall reimburse Executive, in accordance with the general policies and practices of Employer as in effect from time to time, for normal out-of-pocket expenses incurred by Executive in the ordinary course of business, including without limitation, Employer's standard mileage allowance for business use of any personal vehicle (but not including driving to and from Raleigh to Martinsville for purposes of commuting), business related travel, cellular telephone/PDA expense and professional organizations agreed to by Chief Executive Officer.

4. Disability or Death.

(a) *Disability.* If at any time during the Term of this Agreement, Executive becomes disabled and he has not breached any of the provisions of this Agreement, compensation shall continue to be paid to him according to the Employer's normal payroll schedule while he is still living, but only for the first ~~six (6)~~ nine (9) month period during which he shall be so disabled. Such payments shall be in lieu of any other disability benefit payable for such period under any other employee benefit plan, policy or practice of the Employer. In such event, Employer may, at its sole option, retain Executive in its employment and continue payment of Executive's compensation for an additional period of up to 23 months (for a maximum of 29 months total) until he is able to return to work, or Employer may terminate this Agreement. If the Employer exercises its discretion to terminate the Agreement on account of the Executive's disability, the Executive shall not be entitled to any further compensation or benefits under this Agreement (except for such compensation or benefits to which the Executive may be entitled under the terms of any employee benefit plan of the Employer). For purposes of this Section 4(a), Executive shall be considered "disabled" if he has suffered any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where such impairment causes the Executive to be unable to perform the duties of his position of employment or any substantially similar position of employment with the Employer.

(b) *Death.* If Executive should die during the Term of this Agreement, Executive's employment and Employer's obligations hereunder (other than pro rata payment of Salary) shall terminate as of his death. In such event, the Employer shall pay the Executive an Annual Bonus for the Performance Year in which the Executive died, which shall be prorated for the period ending on the date of the Executive's death. Such Annual Bonus, if any, shall be paid by no later than April 15 of the calendar year in which such Performance Year ends.

5. Termination by Employer; Termination by Executive for Good Reason.

(a) *Termination by Employer for Cause.* Employer may terminate the employment of Executive under this Agreement during its Term for Cause. "Cause" shall include Executive's fraud, dishonesty, theft, embezzlement, misconduct by Executive injurious to the Employer or any of its affiliates, conviction of, or entry of a plea of guilty or *nolo contendere* to, a crime that constitutes a felony or other crime involving moral turpitude, competition with Employer or any of its affiliates, unauthorized use of any trade secrets of Employer or any of its affiliates or Confidential Information (as defined below), a violation of any policy, code or standard of ethics generally applicable to employees of the Employer, Executive's material breach of fiduciary duties owed to Employer, Executive's excessive and unexcused absenteeism unrelated to a disability, or, following written notice and a reasonable opportunity to cure, gross neglect by Executive of the duties assigned to him. In such event, Executive shall continue to be paid Salary to the date of termination of his employment. No Annual Bonus shall be paid to Executive after the date of termination, including any earned but unpaid Annual Bonus with respect to any Performance Year or the portion thereof preceding the date of termination. Executive shall retain only such rights to participate in other benefits as are required by the terms of those plans, Employer's policies, or applicable law.

(b) *Termination by Employer without Cause.* Employer may terminate the employment of Executive under this Agreement during its Term without Cause. If Executive is terminated without Cause during the Term of this Agreement, Executive, while living and subject to the requirement of Section 5(d), shall be entitled to receive:

- (1) his then current Salary for a period equal to the lesser of (a) twelve (12) months following such termination of employment or (b) the balance of the three (3) year Term of this Agreement (the "Severance Period"); provided, however, that the total amount payable under this subsection (b)(1) shall not exceed the applicable dollar limit imposed under Treasury Regulation Section 1.409A-1(b)(9)(iii), or any successor or replacement section thereto, and
- (2) a prorated Annual Bonus for the Performance Year in which Executive's employment terminates (the "Final Performance Year") covering the portion of the Final Performance Year for which Executive actually worked.

Annual Bonus payment(s), if otherwise payable under the terms of this Agreement, shall be made during the period(s) described in Section 3(b) above for any Performance Year that ended before such Severance Period began (to the extent such Annual Bonus had not previously been paid) and for the Final Performance Year, as applicable.

(c) *Termination by Employee for Good Reason.* If Executive terminates employment for Good Reason, Executive shall be entitled to receive the amounts described in Section 5(b) above while living and subject to the requirement of Section 5(d). For purposes of this Agreement, "Good Reason" shall mean Executive's voluntary termination of employment with Employer within 120 days following the initial existence of one or more of the following conditions which arise without the written consent of Executive:

- (1) a material diminution in Executive's base compensation after the occurrence of a Change in Control (as defined in appendix A to this Agreement);
- (2) a material diminution in Executive's authority, duties or responsibilities after the occurrence of a Change in Control (as defined in appendix A to this Agreement);
- (3) a change in the location at which Executive must perform services for Employer to a location that is more than 50 miles from Martinsville, Virginia; and
- (4) any other action or inaction that constitutes a material breach by Employer of its obligations under this Agreement after the occurrence of a Change in Control (as defined in appendix A to this Agreement).

Executive must provide notice to Employer of the existence of a condition or conditions described above within ninety (90) days of the initial existence of such condition or conditions. Employer shall then have a period of thirty (30) days during which it may remedy the condition or conditions. If Employer does not remedy the condition or conditions by the end of such 30-day period, Executive may voluntarily terminate employment and such termination of employment shall be deemed to constitute Good Reason. In applying this subsection, the term "Employer" shall include any successor to Employer.

(d) *Release.* In order to receive payments under Sections 5(b) or 5(c) above, Executive must sign a release fully releasing Employer from any claim or cause of action that Executive may have against Employer relating to Executive's employment with Employer or any aspect of Executive's relationship with Employer, through the date of such release.

6. Employment Upon Expiration of Agreement. If Executive is still employed by Employer when this Agreement expires by the conclusion of its Term, Executive's employment with Employer may or may not continue thereafter, but any such employment shall be "at will," and may be terminated by either Employer or Executive at any time, with or without Cause, except as otherwise agreed in writing by Employer and Executive.

7. **Confidential Information and Return of Property.** "Confidential Information" means any written, oral, or other information obtained by Executive in confidence from Employer, or any of its affiliates, including without limitation information about their respective operations, financial condition, business commitments or business strategy, as a result of his employment with Employer, unless such information is already publicly known through no fault of any person bound by a duty of confidentiality to Employer or any of its affiliates. Executive will not at any time, during or after his employment with Employer, directly or indirectly disclose Confidential Information to any person or entity other than authorized officers, directors and employees of Employer. Executive will not at any time, during or after his employment with Employer, in any manner use Confidential Information on behalf of himself or any other person or entity other than Employer, or accept any position in which he would have a duty to any person to use Confidential Information against the interests of Employer or any of its affiliates. Upon termination of his employment for any reason, Executive will promptly return to Employer all property of Employer, including documents and computer files, especially where such property contains or reflects Confidential Information. Nothing in this Agreement shall be interpreted or shall operate to diminish such duties or obligations of Executive to Employer that arise or continue in effect after the termination of Executive's employment hereunder, including without limitation any such duties or obligations to maintain confidentiality or refrain from adverse use of any of Employer's trade secrets or other Confidential Information that Executive may have acquired in the course of Executive's employment.

8. **Disclosure and Ownership of Work Related Intellectual Property.** Executive shall disclose fully to Employer any and all intellectual property (including, without limitation, inventions, processes, improvements to inventions and processes, and enhancements to inventions and processes, whether or not patentable, formulae, data and computer programs, related documentation and all other forms of copyrightable subject matter) that Executive conceives, develops or makes during the term of his employment, whether or not within the original Term of this Agreement, and that in whole or in part result from or relate to Executive's work for Employer (collectively, "Work Related Intellectual Property"). Any such disclosure shall be made promptly after each item of Work Related Intellectual Property is conceived, developed or made by Executive, whichever is sooner. Executive acknowledges that all Work Related Intellectual Property that is copyrightable subject matter and which qualifies as "work made for hire" shall be automatically owned by Employer. Further, Executive hereby assigns to Employer any and all rights which Executive has or may have in Work Related Intellectual Property that is copyrightable subject matter and that, for any reason, does not qualify as "work made for hire." If any Work Related Intellectual Property embodies or reflects any preexisting rights of Executive, Executive hereby grants to Employer the irrevocable, perpetual, nonexclusive, worldwide, and royalty-free license to use, reproduce, display, perform, distribute copies of and prepare derivative works based upon such preexisting rights and to authorize others to do any or all of the foregoing. Notwithstanding anything herein to the contrary, articles written by the Executive for publication in periodicals and trade association literature not directly pertaining to the Employer's business shall not be deemed to be "work for hire" or "Work Related Intellectual Property."

9. **Covenant Not to Compete.** Executive and Employer agree that after the Effective Date, Employer's case goods furniture business will depend to a considerable extent on the individual efforts of Executive. Moreover, Executive recognizes that, by virtue of his employment with Employer, he will have access to confidential and/or proprietary information relating to the Employer's business. Accordingly, and in consideration of Employer's agreement to employ Executive, Executive covenants and agrees that he will not, for the period of his employment hereunder and for one (1) year thereafter, or in the event of a termination without Cause as defined in Section 5(b) or a termination for Good Reason as defined in Section 5(c), for the Severance Period, whether or not within the original Term of this Agreement, engage directly or indirectly (as principal, agent, or consultant or through any corporation, firm or organization in which he may be an officer, director, employee, shareholder, partner, member or be otherwise affiliated) in the forecasting, manufacture, warehousing, import or wholesale sale of case goods furniture, in any position in which he has responsibility for conducting, control over, influence over, or input into the management, policies, or strategies of any case goods furniture business competing with that being conducted by Employer or any of its affiliates in any U.S. state, territory or district in which any of them is doing business upon the termination of his employment under this Agreement. In addition, this provision shall not, after the termination of Executive's employment with Employer, prohibit Executive from owning less than 2% of the stock of any publicly held corporation.

10. Non-Solicitation of Customers. Executive agrees that during the Term of this Agreement, and for a period of one (1) year thereafter, whether or not within the original Term of this Agreement, regardless of the circumstances of the termination or any claim that Executive may have against Employer under this Agreement or otherwise, Executive will not:

(a) Solicit or attempt to solicit, for purposes competitive with Employer or any of its affiliates, any person or entity who was an existing customer or employee of Employer or any of its affiliates within one (1) year prior to the termination of Executive's employment with Employer;

(b) Solicit or attempt to solicit any person or entity from whom Employer or any of its affiliates or Executive was, within the one (1) year period prior to the termination of Executive's employment with Employer, actively soliciting or preparing to solicit for the purpose of establishing a customer, employment, or other business relationship; or

(c) Solicit or encourage any vendor, supplier or employee of Employer or any of its affiliates to cease doing business with Employer or any of its affiliates or to divert goods or services previously provided to Employer or any of its affiliates to any person or entity other than Employer or any of its affiliates.

11. Terminate by Executive. Notwithstanding anything herein to the contrary, Executive may terminate his employment with Employer upon providing at least sixty (60) days' prior written notice to Employer at any time and for any reason.

12. Equitable Relief. Executive acknowledges and agrees that a breach of any of the covenants made by him in Sections 7, 8, 9 and 10 above would cause irreparable harm to Employer or any of its affiliates for which there would be no adequate remedy at law. Accordingly, in the event of any threatened or actual breach of any such covenant, Executive agrees that Employer shall be entitled to enforce any such covenant by injunctive and other appropriate equitable relief in any court of competent jurisdiction, in addition to all other remedies available. If Executive breaches Sections 9 or 10 above, the duration of the period identified shall be computed from the date he resumes compliance with the covenant or from the date Employer is granted injunctive or other equitable relief by a court of competent jurisdiction enforcing the covenant, whichever shall first occur, reduced by the number of days Executive was not in breach of the covenant after termination of employment, or any delay in filing suit, whichever is greater.

13. **Assignment.** Employer may assign this Agreement to any other entity acquiring all or substantially all of the assets or stock of Employer or to any other entity into which or with which Employer may be merged or consolidated. Upon such assignment, merger, or consolidation, the rights of Employer under this Agreement, as well as the obligations and liabilities of Employer hereunder, shall inure to the benefit of and be binding upon the assignee, successor-in-interest, or transferee of Employer and Employer shall have no further obligations or liabilities hereunder. This Agreement is not assignable in any respect by Executive.

14. **Invalid Provisions.** It is not the intention of either Party to violate any public policy, or any statutory or common law. If any sentence, paragraph, clause or combination of the same in this Agreement is in violation of the law of any State where applicable, such sentence, paragraph, clause or combination of the same shall be void in the jurisdictions where it is unlawful, and the remainder of the Agreement shall remain binding on the Parties. However, the Parties agree, and it is their desire that a court should substitute for each such illegal, invalid or unenforceable covenant a reasonable and judicially-enforceable limitation in its place, and that as so modified the covenant shall be as fully enforceable as if set forth herein by the Parties themselves in the modified form.

15. **Entire Agreement; Amendments.** This Agreement contains the entire agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, if any, relating to the subject matter hereof. This Agreement may be amended in whole or in part only by an instrument in writing setting forth the particulars of such amendment and duly executed by both Parties.

16. **Multiple Counterparts.** This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which together shall constitute one and the same instrument.

17. **Governing Law.** The validity, construction, interpretation and enforceability of this Agreement and the capacity of the parties shall be determined and governed by the laws of the Commonwealth of Virginia, without regard to the conflict of law rules contained therein.

18. **Taxes.** All payments made under this Agreement shall be subject to the Employer's withholding of all required foreign, federal, state and local income and employment/payroll taxes, and all payments shall be net of such tax withholding. The parties intend that the provisions of this Agreement shall be exempt from or otherwise comply with the Section 409A of the Internal Revenue Code of 1986, as amended and the regulations hereunder (collectively, "Section 409A") and all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. If any provision of this Agreement (or of any payment hereunder) would cause Executive to incur any additional tax or interest under Section 409A, the parties agree to modify this Agreement or the timing (but not increase the amount) of any payment to the extent necessary to comply with Section 409A of the Code and avoid application of any taxes, penalties, or interest thereunder. However, in the event that the payments under the Agreement are subject to any taxes (including, without limitation, those specified in Code Section 409A), the Executive shall be solely liable for the payment of any such taxes.

19. Binding Effect. This Agreement will be binding upon and enforceable by (i) Executive and will inure to the benefit of Executive's executors, administrators, heirs, devisees and legal representatives and (ii) Employer and any successor to or assignee of Employer.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first written above.

EMPLOYER

By: /s/ Paul B. Toms, Jr.
Paul B. Toms, Jr.
Chairman, President and Chief Executive Officer
Hooker Furniture Corporation

EXECUTIVE

/s/ Arthur G. Raymond, Jr.
Arthur G. Raymond, Jr.

APPENDIX A

The term "Change of Control" means the first date on which one of the following events occurs:

(i) any person or more than one person acting as a group acquires beneficial ownership of Employer stock that, together with the Employer stock already held by such person or group, represents more than 50 percent of the total voting power of the Employer stock; provided, however, that if any one person or more than one person acting as a group is considered to own more than 50 percent of the total voting power of the Employer stock, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the Employer for purposes of this subsection (i);

(ii) a majority of members of the Board is replaced during a twelve-consecutive-month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of the appointment or election; provided, however, that if any one person or more than one person acting as a group is considered to effectively control the Employer for purposes of this subsection (ii), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control for purposes of this subsection (ii); or

(iii) all or substantially all of Employer's assets are sold to another entity that is not controlled by Employer's shareholders:

For purposes of this definition, the term "group" shall have the same meaning as in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Act"), modified to the extent necessary to comply with Treasury Regulation Sections 1.409A-3(i)(5)(v)(B), (vi)(D) or (vii)(C) of the (or any successor provisions). The term "beneficial ownership" shall have the same meaning as in Rule 13d-3 promulgated under the Act, modified to the extent necessary to comply with Treasury Regulation Section 1.409A-3(i)(5)(v)(iii) of the (or any successor provision). Notwithstanding anything in this definition to the contrary, an event which does not constitute a change in the ownership or a change in the effective control of the Employer, each as defined in Treasury Regulation Section 1.409A-3(i)(5) (or any successor provision) or a sale of substantially all of the Employer's assets, shall not constitute a Change of Control.

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 and subsidiaries of our reports dated April 13, 2010, with respect to the consolidated balance sheets of Hooker Furniture Corporation as of January 31, 2010 and February 1, 2009, and the related consolidated statements of operations, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended January 31, 2010, and the effectiveness of internal control over financial reporting as of January 31, 2010 which reports appear in the January 31, 2010 annual report on Form 10-K of Hooker Furniture Corporation .

/s/ KPMG LLP

Charlotte, North Carolina

April 13, 2010

Form 10-K for the Annual Period Ended January 31, 2010
SECTION 13a-14(a) CERTIFICATION

I, Paul B. Toms, Jr., 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 15, 2010

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

Form 10-K for the Annual Period Ended January 31, 2010
SECTION 13a-14(a) CERTIFICATION

I, E. Larry Ryder, 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 15, 2010

/s/ E. Larry Ryder
E. Larry Ryder
Executive Vice President - Finance and
Administration 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, 2010 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 15, 2010

By: /s/ Paul B. Toms, Jr. _____
Paul B. Toms, Jr.
Chairman and Chief Executive Officer

By: /s/ E. Larry Ryder _____
E. Larry Ryder
Executive Vice President - Finance and
Administration and Chief Financial Officer

