

HOOKER FURNITURE CORP  
Form 10-Q  
December 10, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

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

For the quarterly period ended November 1, 2015

Commission file number 000-25349

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

Virginia  
(State or other jurisdiction of incorporation or  
organization)

54-0251350  
(IRS employer identification no.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No 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.

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock as of December 3, 2015:

Common stock, no par value (Class of common stock)	10,811,507 (Number of shares)
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

As of	November 1, 2015 (unaudited)	February 1, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$49,474	\$38,663
Trade accounts receivable, less allowance for doubtful accounts of \$1,092 and \$1,329 on each respective date	30,655	32,245
Inventories	42,019	44,973
Prepaid expenses and other current assets	2,456	2,353
Deferred taxes	1,565	1,704
<b>Total current assets</b>	<b>126,169</b>	<b>119,938</b>
Property, plant and equipment, net	22,896	22,824
Cash surrender value of life insurance policies	21,617	20,373
Deferred taxes	4,057	4,188
Intangible assets	1,382	1,382
Other assets	2,300	2,050
<b>Total non-current assets</b>	<b>52,252</b>	<b>50,817</b>
<b>Total assets</b>	<b>\$178,421</b>	<b>\$170,755</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Trade accounts payable	\$8,098	\$10,293
Accrued salaries, wages and benefits	4,713	4,824
Income tax accrual	1,141	1,368
Accrued commissions	882	916
Customer deposits	911	853
Other accrued expenses	911	813
<b>Total current liabilities</b>	<b>16,656</b>	<b>19,067</b>
Deferred compensation	8,714	8,329
Income tax accrual	165	90
Other long-term liabilities	400	360
<b>Total long-term liabilities</b>	<b>9,279</b>	<b>8,779</b>
<b>Total liabilities</b>	<b>25,935</b>	<b>27,846</b>
<b>Shareholders' equity</b>		
Common stock, no par value, 20,000 shares authorized, and 10,812 and 10,774 shares issued and outstanding, respectively, on each date	18,546	17,852
Retained earnings	134,191	125,392
Accumulated other comprehensive loss	(251 )	(335 )

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Total shareholders' equity	152,486	142,909
Total liabilities and shareholders' equity	\$178,421	\$170,755

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

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net sales	\$65,338	\$63,168	\$186,434	\$179,447
Cost of sales	47,173	47,137	135,801	134,149
Gross profit	18,165	16,031	50,633	45,298
Selling and administrative expenses	11,525	11,148	32,892	32,758
Operating income	6,640	4,883	17,741	12,540
Other income, net	33	85	216	183
Income before income taxes	6,673	4,968	17,957	12,723
Income tax expense	2,043	1,764	5,917	4,443
Net income	\$4,630	\$3,204	\$12,040	\$8,280
Earnings per share				
Basic	\$0.43	\$0.30	\$1.11	\$0.77
Diluted	\$0.43	\$0.30	\$1.11	\$0.77
Weighted average shares outstanding:				
Basic	10,787	10,742	10,775	10,733
Diluted	10,809	10,771	10,802	10,766
Cash dividends declared per share	\$0.10	\$0.10	\$0.30	\$0.30

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net Income	\$4,630	\$3,204	\$12,040	\$8,280
Other comprehensive income:				
Amortization of actuarial loss (gain)	44	(13 )	134	(38 )
Income tax effect on amortization	(16 )	11	(50 )	20
Other comprehensive income, net of tax	28	(2 )	84	(18 )
Total comprehensive Income	\$4,658	\$3,202	\$12,124	\$8,262

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

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HOOKER FURNITURE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Thirty-Nine Weeks Ended	
	November 1, 2015	November 2, 2014
<b>Operating Activities:</b>		
Net income	\$12,040	\$8,280
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,082	1,927
Loss/(Gain) on disposal of assets	41	(37)
Deferred income tax expense	346	274
Noncash restricted stock and performance awards	566	405
Provision for doubtful accounts	(132)	728
Changes in assets and liabilities:		
Trade accounts receivable	1,722	(1,220)
Inventories	2,954	1,584
Income tax recoverable	-	682
Gain on life insurance policies	(675)	(586)
Prepaid expenses and other current assets	(269)	(612)
Trade accounts payable	(2,214)	2,248
Accrued salaries, wages, and benefits	47	614
Accrued income taxes	(228)	1,167
Accrued commissions	(34)	(35)
Customer deposits	58	65
Other accrued expenses	99	139
Deferred compensation	439	136
Other long-term liabilities	40	41
Net cash provided by operating activities	16,882	15,800
<b>Investing Activities:</b>		
Purchases of property and equipment	(2,177)	(2,460)
Proceeds received on notes for sale of assets	23	24
Proceeds from sale of property and equipment	-	69
Premiums paid on life insurance policies	(676)	(758)
Net cash used in investing activities	(2,830)	(3,125)
<b>Financing Activities:</b>		
Cash dividends paid	(3,241)	(3,229)
Net cash used in financing activities	(3,241)	(3,229)
Net increase in cash and cash equivalents	10,811	9,446
Cash and cash equivalents - beginning of year	38,663	23,882
Cash and cash equivalents - end of quarter	\$49,474	\$33,328

Supplemental schedule of cash flow information:



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Income taxes paid, net	\$ (5,779	)	\$ (2,311	)
Supplemental schedule of noncash investing activities:				
Increase in property and equipment through accrued purchases	\$ 18		-	

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

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HOOKER FURNITURE CORPORATION AND SUBSIDIARIES  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

For the Thirty-Nine Weeks Ended November 1, 2015

1. Preparation of Interim Financial Statements

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

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

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

§ our results of operations for the thirteen-week period (also referred to as “three months,” “three-month period,” “quarter,” “third quarter” or “quarterly period”) that began August 3, 2015 and the thirty-nine week period (also referred to as “nine months,” “nine-month period” or “year-to-date period”) that began February 2, 2015, which both ended November 1, 2015, compared to the thirteen-week period that began August 4, 2014 and the thirty-nine week period that began February 3, 2014, which both ended November 2, 2014; and

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

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

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

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

2. Accounts Receivable

	November 1, 2015	February 1, 2015
Trade accounts receivable	\$ 27,731	\$ 25,322
Receivable from factor	4,016	8,252
Allowance for doubtful accounts	(1,092 )	(1,329 )

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Accounts receivable	\$ 30,655	\$ 32,245
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“Receivable from factor” represents amounts due with respect to factored accounts receivable. Before the fiscal 2016 second quarter, we factored substantially all of our domestically-produced upholstery accounts receivable without recourse to us. However, we ended Sam Moore’s factoring relationship when our new ERP system became fully operational there at the beginning of the fiscal 2016 second quarter. Since that time, we have been managing Sam Moore’s accounts receivable in-house. As of November 1, 2015 there are no outstanding receivables for which payment is due to us from the factor as part of its residual obligations under Sam Moore’s legacy factoring agreement.

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

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A limited number of our accounts receivable for our domestically produced BY upholstery products are factored with recourse to us. The amounts of these receivables at November 1, 2015 and February 1, 2015 were \$242,000 and \$237,000, respectively. If the factor is unable to collect the amounts due, invoices are returned to us for collection. We include an estimate of potentially uncollectible receivables in the calculation of our allowance for doubtful accounts.

3.	Inventories		
		November 1, 2015	February 1, 2015
	Finished furniture	\$ 54,187	\$ 54,896
	Furniture in process	827	615
	Materials and supplies	7,762	9,131
	Inventories at FIFO	62,776	64,642
	Reduction to LIFO basis	(20,757 )	(19,669 )
	Inventories	\$ 42,019	\$ 44,973

## 4. Property, Plant and Equipment

	Depreciable Lives (In years)	November 1, 2015	February 1, 2015
Buildings and land improvements	15 - 30	\$22,378	\$22,162
Computer software and hardware	3 - 10	15,568	18,444
Machinery and equipment	10	4,836	4,757
Leasehold improvements	5	2,811	2,840
Furniture and fixtures	3 - 8	1,440	2,240
Other	5	564	628
Total depreciable property at cost		47,597	51,070
Less accumulated depreciation		26,990	32,790
Total depreciable property, net		20,607	18,280
Land		1,067	1,067
Construction-in-progress		1,222	3,477
Property, plant and equipment, net		\$22,896	\$22,824

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

At November 1, 2015, construction-in-progress primarily consisted of \$233,000 of expenditures related to our ongoing Enterprise Resource Planning (ERP) conversion efforts and \$989,000 related to various other projects to enhance our facilities and operations.

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

## 5. Fair Value Measurements

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

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

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

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

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As of November 1, 2015 and February 1, 2015, Company-owned life insurance was measured at fair value on a recurring basis based on Level 2 inputs. The fair value of the Company-owned life insurance is determined by inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. Additionally, the fair value of the Company-owned life insurance is marked to market each reporting period and any change in fair value is reflected in income for that period.

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

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

Description	Fair value at November 1, 2015				Fair value at February 1, 2015			
	Level 1 (In thousands)	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
Company-owned life insurance	\$ -	\$ 21,617	\$ -	\$ 21,617	\$ -	\$ 20,373	\$ -	\$ 20,373
Mortgage note receivable	-	-	1,575	1,575	-	-	1,575	1,575

## 6. Intangible Assets

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

## 7. Long-Term Debt

As of November 1, 2015, we had an aggregate \$13.3 million available under our \$15.0 million unsecured revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.7 million, used to

collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of November 1, 2015. There were no additional borrowings outstanding under the revolving credit facility on November 1, 2015. Any principal outstanding under the revolving credit facility is due July 31, 2018.

8. Employee Benefit Plans

We maintain a supplemental retirement income plan (“SRIP”) for certain former and current executives. The liability for the SRIP at November 1, 2015 and February 1, 2015 was \$8.7 million and \$8.4 million, respectively, and is shown in our condensed consolidated balance sheets as follows:

	November 1, 2015	February 1, 2015
Accrued salaries, wages and benefits (current portion)	\$ 354	\$ 354
Deferred compensation (long-term portion)	8,341	8,031
Total liability	\$ 8,695	\$ 8,385

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net periodic benefit cost				
Service cost	\$ 101	\$ 25	\$ 304	\$ 76
Interest cost	72	85	217	254
Actuarial gain	45	(13 )	133	(38 )
Net periodic benefit cost	\$ 218	\$ 97	\$ 654	\$ 292

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## 9. Earnings Per Share

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

We have issued restricted stock awards to non-employee members of the board of directors since 2006 and restricted stock units (RSUs) to certain senior executives since fiscal 2012 under the Company's Stock Incentive Plan. Each RSU entitles the executive to receive one share of the Company's common stock if the executive remains continuously employed with the Company through the end of a three-year service period. Beginning in fiscal 2016, RSU grants to non-employee members of the board of directors have a one-year service period. The RSUs may be paid in shares of our common stock, cash or both at the discretion of the Compensation Committee of our board of directors. We expect to continue to grant these types of awards annually in the future. The following table sets forth the number of outstanding restricted stock awards and RSUs, net of forfeitures and vested shares, as of the fiscal period-end dates indicated:

	November 1, 2015	February 1, 2015
Restricted shares	25	27
Restricted stock units	20	25
	45	52

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net income	\$4,630	\$3,204	\$12,040	\$8,280
Less: Unvested participating restricted stock dividends	2	3	8	8
Net earnings allocated to unvested participating restricted stock	11	8	30	22
Earnings available for common shareholders	4,617	3,193	12,002	8,250
Weighted average shares outstanding for basic earnings per share	10,787	10,742	10,775	10,733
Dilutive effect of unvested restricted stock and RSU awards	22	29	27	33
Weighted average shares outstanding for diluted earnings per share	10,809	10,771	10,802	10,766
Basic earnings per share	\$0.43	\$0.30	\$1.11	\$0.77
Diluted earnings per share	\$0.43	\$0.30	\$1.11	\$0.77

## 10. Income Taxes



We recorded income tax expense of \$2.0 million for the fiscal 2016 third quarter compared to \$1.8 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 third quarters were 30.6% and 35.5%, respectively. Our effective tax rate was lower in the fiscal 2016 third quarter as compared to fiscal 2015 third quarter, primarily due to the settlement of an uncertain tax position during the fiscal 2016 third quarter and increases in certain other permanent differences.

We recorded income tax expense of \$5.9 million for the fiscal 2016 first nine-months compared to \$4.4 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 nine-month periods were 32.9% and 34.9%, respectively. Our effective tax rate was lower in the fiscal 2016 nine-month period as compared to fiscal 2015 nine-month period, primarily due to the settlement of uncertain tax positions during the fiscal 2016 nine-month period and increases in certain other permanent differences.

The net unrecognized tax benefits as of November 1, 2015 and February 1, 2015, which, if recognized, would affect our effective tax rate are \$219,000 and \$426,000, respectively.

Our Federal tax returns for the fiscal years 2014 and 2015 remain subject to examination by federal taxing authorities. An examination of fiscal year 2013 with federal taxing authorities was completed during the fiscal 2016 second quarter with no adjustments. Our state tax returns for the fiscal years ending 2012 through fiscal 2015 remain subject to examination by state taxing authorities. An examination of our North Carolina state tax returns for fiscal years 2012 and 2013 is underway by the North Carolina Department of Revenue.

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## 11. Segment Information

For financial reporting purposes, we are organized into three operating segments – casegoods furniture, upholstered furniture and an “All other” segment, which includes our two new businesses, H Contract and Homeware. The following table presents segment information for the periods, and as of the dates, indicated:

	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
	November 1, 2015	% Net Sales	November 2, 2014	% Net Sales	November 1, 2015	% Net Sales	November 2, 2014	% Net Sales
<b>Net Sales</b>								
Casegoods	\$ 41,199	63.1 %	\$ 39,798	63.0 %	\$ 116,996	62.8 %	\$ 111,142	61.9 %
Upholstery	21,719	33.2 %	22,046	34.9 %	63,718	34.2 %	65,311	36.4 %
All other	2,424	3.7 %	1,634	2.6 %	5,949	3.2 %	3,691	2.1 %
Intercompany eliminations	(4 )		(310 )		(229 )		(697 )	
<b>Consolidated</b>	<b>\$ 65,338</b>		<b>\$ 63,168</b>		<b>\$ 186,434</b>		<b>\$ 179,447</b>	
<b>Gross Profit &amp; Margin</b>								
Casegoods	\$ 12,786	31.0 %	\$ 11,227	28.2 %	\$ 34,991	29.9 %	\$ 31,683	28.5 %
Upholstery	4,742	21.8 %	4,332	19.6 %	13,993	22.0 %	12,565	19.2 %
All other	630	26.0 %	484	29.7 %	1,629	27.4 %	1,067	28.9 %
Intercompany eliminations	7		(12 )		20		(17 )	
<b>Consolidated</b>	<b>\$ 18,165</b>	<b>27.8 %</b>	<b>\$ 16,031</b>	<b>25.4 %</b>	<b>\$ 50,633</b>	<b>27.2 %</b>	<b>\$ 45,298</b>	<b>25.2 %</b>
<b>Operating Income &amp; Margin</b>								
Casegoods	\$ 5,347	13.0 %	\$ 4,226	10.6 %	\$ 13,904	11.9 %	\$ 11,307	10.2 %
Upholstery	1,318	6.1 %	878	4.0 %	4,073	6.4 %	2,135	3.3 %
All other	(32 )	-1.3 %	(209 )	-12.8 %	(256 )	-4.3 %	(885 )	-24.0 %
Intercompany eliminations	7		(12 )		20		(17 )	
<b>Consolidated</b>	<b>\$ 6,640</b>	<b>10.2 %</b>	<b>\$ 4,883</b>	<b>7.7 %</b>	<b>\$ 17,741</b>	<b>9.5 %</b>	<b>\$ 12,540</b>	<b>7.0 %</b>
<b>Capital Expenditures</b>								
Casegoods	\$ 724		\$ 421		\$ 1,664		\$ 1,804	
Upholstery	107		19		524		635	
All other	-		21		7		21	
<b>Consolidated</b>	<b>\$ 831</b>		<b>\$ 461</b>		<b>\$ 2,195</b>		<b>\$ 2,460</b>	
<b>Depreciation &amp; Amortization</b>								
Casegoods	\$ 500		\$ 416		\$ 1,374		\$ 1,171	
Upholstery	240		252		699		756	
All other	3		-		9		-	

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Consolidated	\$ 743	\$ 668	\$ 2,082	\$ 1,927
	As of Nov		As of Feb	
	1,	% Total	1,	% Total
Identifiable Assets	2015	Assets	2015	Assets
Casegoods	\$ 141,900	79.5 %	\$ 135,403	79.3 %
Upholstery	35,534	19.9 %	33,788	19.8 %
All other	1,006	0.6 %	1,605	0.9 %
Intercompany				
eliminations	(19 )		(41 )	
Consolidated	\$ 178,421	100.0 %	\$ 170,755	100.0 %

12. Subsequent Events

Dividends

On December 1, 2015, our board of directors declared a quarterly cash dividend of \$0.10 per share, payable on December 31, 2015 to shareholders of record at December 15, 2015.

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

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

References in this report to:

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

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

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

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

Our business is subject to a number of significant risks and uncertainties, including our reliance on offshore sourcing, any of which can adversely affect our business, results of operations, financial condition or future prospects. For a discussion of risks and uncertainties that we face, see Item 1A, "Risk Factors" and "Forward-Looking Statements" beginning on page eleven of our 2015 Annual Report.

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

Nature of Operations

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

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

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

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For financial reporting purposes, we are organized into three operating segments – casegoods furniture, upholstered furniture and an All other segment that includes our two new businesses – H Contract and Homeware.

Overview

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

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

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

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

The extended weakness in housing and housing-related industries which began as part of the broader economic downturn in 2008 has begun to show signs of sustained recovery, and the mostly positive news on housing and consumer confidence is encouraging. Generally speaking, we believe that our business and the home furnishings industry in general are gaining momentum as the U.S. economy continues to recover from an extended and severe downturn.

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

Our domestic upholstery operations have significantly higher overhead and fixed costs than our import operations, and their profitability has been and can be adversely affected by economic downturns. Our upholstery segment operations have been profitable for the last three fiscal years, with overall profitability improving each year, primarily due to improving profitability in our domestic upholstery, which lagged the import operations during the economic downturn but are now seeing the impact of cost reduction efforts and improving sales on their operations.

Executive Summary-Results of Operations

Consolidated net sales for the fiscal 2016 third quarter increased 3.4% or \$2.2 million to \$65.3 million, while net income increased by nearly 45%, or \$1.4 million, to \$4.6 million, in each case compared to the fiscal 2015 third quarter.

Consolidated net sales for the fiscal 2016 first nine-months increased approximately 4% or \$7.0 million to \$186.4 million, while net income increased by 45.4%, or \$3.8 million, to \$12.0 million, in each case compared to the first nine-months of fiscal 2015.

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

§ Increased net sales. Consolidated net sales increased in both the quarter and year-to-date periods primarily due to net sales increases in our casegoods and All other operating segments, partially offset by net sales decreases in our upholstery segment.

§ Increased gross profit. Consolidated gross profit increased primarily due to:  
§ increased net sales, decreased discounting, returns and allowances and better quality experience in our casegoods segment which, along with lower freight rates, helped offset cost increases on our imported products;  
§ improved operating efficiencies and decreased contract manufacturing in our upholstery segment;  
§ decreased medical claims expenses in all segments; and  
§ increased net sales in our All other segment.

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§ Flat (Q3) and decreased (YTD) selling and administrative expenses as a percentage of net sales. As a percentage of net sales, consolidated selling and administrative expenses were flat for the fiscal 2016 third quarter, but increased in absolute terms due primarily to increased professional fees, contributions and compensation expense, partially offset by lower bad debt and banking expenses. For the fiscal 2016 first nine-months, consolidated selling and administrative expenses decreased as a percentage of net sales, but increased in absolute terms primarily due to increased professional fees, partially offset by decreased bad debts expense and banking expenses.

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

## Results of Operations

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 1, 2015	November 2, 2014	November 1, 2015	November 2, 2014
Net sales	100.0	% 100.0	% 100.0	% 100.0
Cost of sales	72.2	74.6	72.9	74.8
Gross profit	27.8	25.4	27.2	25.2
Selling and administrative expenses	17.6	17.6	17.6	18.3
Operating income	10.2	7.7	9.5	7.0
Other income, net	0.1	0.2	0.1	0.1
Income before income taxes	10.2	7.9	9.6	7.1
Income tax expense	3.1	2.8	3.2	2.5
Net income	7.1	5.1	6.5	4.6

## Fiscal 2016 Third Quarter Compared to Fiscal 2015 Third Quarter

	November 1, 2015		Net Sales Thirteen Weeks Ended November 2, 2014		\$ Change	% Change
		% Net Sales		% Net Sales		
Casegoods	\$41,199	63.1	% \$39,798	63.0	% \$1,401	3.5
Upholstery	21,719	33.2	% 22,046	34.9	% (327)	-1.5
All Other	2,424	3.7	% 1,634	2.6	% 790	48.3
Intercompany Elimination	(4)	)	(310)	)	306	
Consolidated	\$65,338	100.0	% \$63,168	100.0	% \$2,170	3.4

Unit Volume	FY16 Q3 % Increase vs. FY15 Q3	Average Selling Price	FY16 Q3 % Increase vs. FY15 Q3
Casegoods	-2.1	% Casegoods	5.7



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Upholstery	-3.7	%	Upholstery	2.5	%
All Other	55.2	%	All Other	-5.0	%
Consolidated	-1.0	%	Consolidated	4.0	%

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

§ increased average selling prices in our casegoods segment due primarily to lower product discounting which was due to decreased low-margin sales of distressed products in the quarter as compared to the prior-year;

§ increased average selling prices in our upholstery segment primarily due to the mix of leather upholstered products sold; and

§ increased unit volume in our All other segment.

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Those increases were partially offset by decreased upholstery segment net sales principally due to lower unit volume at Hooker Upholstery and lower average selling prices at Sam Moore. These decreases were due primarily to exiting low margin sales programs at the expense of net sales at both operating units. Additionally, at Sam Moore there were some lingering effects of post-ERP implementation inefficiencies. Our ERP system was implemented at the beginning of the fiscal 2016 second quarter at that division. These upholstery segment sales decreases were partially offset by increased net sales at BY due to well-performing new products and market share gains. Our all other segment contributed positively to sales in the fiscal 2016 third quarter compared to the prior-year period, driven by H Contract's sales growth, but remains a small component of our overall sales.

We believe casegoods segment unit volume decreased during the quarter due to:

§ Challenging conditions at retail, particularly in October, some of which we attribute to sales declines in areas particularly affected by current conditions in the domestic oil and gas industry;

§ Outages of key component products that prevented orders for certain suites from shipping during the fiscal 2016 third quarter.

§ Lingering product availability challenges due to expanding lead times and late deliveries of certain of our more popular October 2014 market introductions in that segment during the fiscal 2016 first quarter. We received most of the October market introductions and delivered existing orders to customers during the fiscal 2016 second quarter; however, late deliveries resulted in delayed reorders even on products which have retailed well, which impacted shipments into the fiscal 2016 third quarter.

	November 1, 2015		November 2, 2014		\$ Change	% Change	
		% Net Sales		% Net Sales			
Casegoods	\$12,786	31.0	% \$11,227	28.2	% \$1,559	13.9	%
Upholstery	4,742	21.8	% 4,332	19.6	% 410	9.5	%
All Other	630	26.0	% 484	29.7	% 146	30.2	%
Intercompany Elimination	7		(12 )		19		
Consolidated	\$18,165	27.8	% \$16,031	25.4	% \$2,134	13.3	%

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

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

§ Improved upholstery segment gross profit due to a net sales increase at BY and increased gross profit at Sam Moore despite a net sales decrease, as well as other operating efficiencies such as decreased contract manufacturing and lower medical claims expense in that segment; and

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

Selling and Administrative Expenses  
Thirteen Weeks Ended

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	November 1, 2015		November 2, 2014				\$ Change	% Change
		% Net Sales		% Net Sales				
Casegoods	\$7,439	18.1	% \$7,001	17.6	%	\$438	6.3	%
Upholstery	3,424	15.8	% 3,454	15.7	%	(30 )	-0.9	%
All Other	662	27.3	% 693	42.4	%	(31 )	-4.5	%
Consolidated	\$11,525	17.6	% \$11,148	17.6	%	\$377	3.4	%

Consolidated selling and administrative expenses increased in absolute terms due to increased professional fee expense, partially offset by decreases in bad debt expense in all segments due to better collections experience and decreased banking expenses due to changes in sales policies and were flat as a percentage of sales.

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	November 1, 2015		November 2, 2014		\$ Change	% Change	Operating Profit and Margin Thirteen Weeks Ended	
		% Net Sales		% Net Sales				
Casegoods	\$5,347	13.0	% \$4,226	10.6	% \$1,121	26.5	%	
Upholstery	1,318	6.1	% 878	4.0	% 440	50.1	%	
All Other	(32 )	-1.3	% (209 )	-12.8	% 177	-84.7	%	
Intercompany Elimination	7		(12 )		19			
Consolidated	\$6,640	10.2	% \$4,883	7.7	% \$1,757	36.0	%	

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

	November 1, 2015		November 2, 2014		\$ Change	% Change	Income Taxes Thirteen Weeks Ended	
		% Net Sales		% Net Sales				
Consolidated income tax expense	\$2,043	3.1	% \$1,764	2.8	% \$279	15.8	%	
Effective Tax Rate	30.6	%	35.5	%				

We recorded income tax expense of \$2.0 million for the fiscal 2016 third quarter compared to \$1.8 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 third quarters were 30.6% and 35.5%, respectively. Our effective tax rate was lower in the fiscal 2016 third quarter as compared to fiscal 2015 third quarter, primarily due to the settlement of an uncertain tax position during the fiscal 2016 third quarter and increases in certain other permanent differences.

	November 1, 2015		November 2, 2014		\$ Change	% Change	Net Income Thirteen Weeks Ended	
		% Net Sales		% Net Sales				
Consolidated	\$4,630	7.1	% \$3,204	5.1	% \$1,426	44.5	%	
Earnings per share	\$0.43		\$0.30					

## Fiscal 2016 First Nine Months Compared to Fiscal 2015 First Nine Months

	November 1, 2015		November 2, 2014		\$ Change	% Change	Net Sales Thirty-Nine Weeks Ended	
		% Net Sales		% Net Sales				

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Casegoods	\$116,996	62.8	%	\$111,142	61.9	%	\$5,854	5.3	%
Upholstery	63,718	34.2	%	65,311	36.4	%	(1,593)	-2.4	%
All Other	5,949	3.2	%	3,691	2.1	%	2,258	61.2	%
Intercompany Elimination	(229)	)		(697)	)		468		
Consolidated	\$186,434	100.0	%	\$179,447	100.0	%	\$6,987	3.9	%

Unit Volume	FY16 YTD %		Average Selling Price	FY16 YTD %	
	Increase vs. FY15 YTD	%		Increase vs. FY15 YTD	%
Casegoods	0.0	%	Casegoods	4.8	%
Upholstery	-6.5	%	Upholstery	4.3	%
All Other	101.2	%	All Other	-19.9	%
Consolidated	0.6	%	Consolidated	2.7	%

The increase in consolidated net sales for the fiscal 2016 first nine-months was principally due to higher average selling prices in our casegoods segment (due to the mix of products sold and lower discounting) on flat consolidated unit volume.

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We believe the flat unit volume in our casegoods segment was due to:

§ Challenging conditions at retail, particularly in October, some of which we attribute to sales declines in areas particularly affected by the challenging conditions in the domestic oil and gas industry;

§ Lingering product availability challenges due to expanding lead times and late deliveries of certain of our more popular October 2014 market introductions in that segment during the fiscal 2016 first quarter. We received most of the October market introductions and delivered standing orders to customers during the fiscal 2016 second quarter; however, late deliveries resulted in delayed reorders even on products which have retailed well, which impacted shipments into the fiscal 2016 third quarter; and

§ Outages of key component products that prevented orders for certain suites from shipping during the fiscal 2016 third quarter.

Unit volume decreases in our upholstery segment were primarily caused by decreases at Sam Moore due to the effects of discontinuing unprofitable sales programs at the expense of net sales and lingering post-ERP implementation inefficiencies during the fiscal 2016 third quarter.

	November 1, 2015		Gross Income and Margin Thirty-Nine Weeks Ended November 2, 2014		\$ Change	% Change	
		% Net Sales		% Net Sales			
Casegoods	\$34,991	29.9 %	\$31,683	28.5 %	\$3,308	10.4	%
Upholstery	13,993	22.0 %	12,565	19.2 %	1,428	11.4	%
All Other	1,629	27.4 %	1,067	28.9 %	562	52.7	%
Intercompany Elimination	20		(17 )		37		
Consolidated	\$50,633	27.2 %	\$45,298	25.2 %	\$5,335	11.8	%

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

§ Improved casegoods segment gross profit due to increased sales, decreased discounting due to product mix, lower cost of goods sold due to declining freight costs, which more than offset vendor price increases, and lower returns and allowances as a result of better product quality;

§ Improved upholstery segment gross profit due to operating efficiencies such as decreased contract manufacturing and lower medical claims expense in that segment; and

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

	November 1, 2015		Selling and Administrative Expenses Thirty-Nine Weeks Ended November 2, 2014		\$ Change	% Change	
		% Net Sales		% Net Sales			
Casegoods	\$21,087	18.0 %	\$20,376	18.3 %	\$711	3.5	%
Upholstery	9,921	15.6 %	10,430	16.0 %	(509 )	-4.9	%
All Other	1,884	31.7 %	1,952	52.9 %	(68 )	-3.5	%

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Consolidated	\$32,892	17.6	%	\$32,758	18.3	%	\$134	0.4	%
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Consolidated selling and administrative expenses decreased as a percentage of net sales and were essentially flat in absolute terms for the fiscal 2016 first nine-months primarily due to decreased bad debts expense in all segments due to favorable collections experience and decreased banking expenses in our casegoods segment primarily due to changes to our sales policies. These decreases were partially offset by increased professional and consulting fees in our casegoods segment. Selling and administrative expenses in our All other segment decreased despite a net sales increase in that segment, as our H Contract and Homeware businesses have exited the startup phases of their life cycle.

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	November 1, 2015		Operating Profit and Margin Thirty-Nine Weeks Ended November 2, 2014		\$ Change	% Change
		% Net Sales		% Net Sales		
Casegoods	\$ 13,904	11.9 %	\$ 11,307	10.2 %	\$ 2,597	23.0 %
Upholstery	4,073	6.4 %	2,135	3.3 %	1,938	90.8 %
All Other	(256 )	-4.3 %	(885 )	-24.0 %	629	-71.1 %
Intercompany Elimination	20		(17 )		37	
Consolidated	\$ 17,741	9.5 %	\$ 12,540	7.0 %	\$ 5,201	41.5 %

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

	November 1, 2015		Income Taxes Thirty-Nine Weeks Ended November 2, 2014		\$ Change	% Change
		% Net Sales		% Net Sales		
Consolidated income tax expense	\$5,917	3.2 %	\$4,443	2.5 %	\$1,474	33.2 %
Effective Tax Rate	32.9 %		34.9 %			

We recorded income tax expense of \$5.9 million for the fiscal 2016 first nine months compared to \$4.4 million for the comparable prior year period. The effective tax rates for the fiscal 2016 and 2015 nine-month periods were 32.9% and 34.9%, respectively. Our effective tax rate was lower in the fiscal 2016 nine-month period as compared to fiscal 2015 nine-month period, primarily due to the settlement of uncertain tax positions during the fiscal 2016 nine-month period and increases in certain other permanent differences.

	November 1, 2015		Net Income and Earnings Per Share Thirty-Nine Weeks Ended November 2, 2014		\$ Change	% Change
		% Net Sales		% Net Sales		
Consolidated	\$12,040	6.5 %	\$8,280	4.6 %	\$3,760	45.4 %
Earnings per share	\$1.11		\$0.77			

## Review

We are pleased that the casegoods segment generated an operating margin of over 10% for five consecutive fiscal quarters and we believe that smaller, incremental improvements are possible. While casegoods segment profitability continues to be strong, demand for our casegoods products was down in both fiscal October and November, in each case compared to the comparable prior-year periods. The bi-annual furniture International Home Furnishings Market



held in October was disappointing in terms of order generation and we are seeing challenging conditions at retail, too. However, we are focused on improving sales growth through aggressive promotional activity in order to fuel earnings growth.

While upholstery segment sales were down for the fiscal 2016 third quarter and first nine-months, we were pleased with a fiscal 2016 year-to-date \$1.9 million operating income improvement, due to operating improvements at Sam Moore and Bradington-Young (BY), including a net sales increase at BY for both the fiscal 2016 third quarter and first nine-months. We believe the net sales increases at BY are due to a series of sales initiatives designed to fuel sales growth and that these initiatives have made BY a more important product source in the luxury leather niche. We are also pleased that Sam Moore is back to its pre-ERP go-live production run rate and that during fiscal October 90% of all orders shipped within 45-days of receipt. Prior-year operating income was adversely affected by higher medical claims expenses and higher material costs; which represent two continued sources of risk for that segment's operating profitability. We were disappointed with Hooker Upholstery's (HU) sales performance in the fiscal 2016 third quarter after a double-digit sales increase in the fiscal 2016 second quarter. We attribute the decrease in HU's third quarter net sales to pressure on motion upholstery pricing and, to a lesser extent, exiting lower margin sales programs at the expense of net sales. We have improved BY's and HU's opening price points to offer a better value proposition for both and are also improving design and color choices. The achievement of future upholstery segment profitability increases will require us to increase sales while maintaining BY gross margins at, or close to, current levels, to continue to improve manufacturing processes and work flow at the Sam Moore facility, and to minimize the impact of raw material and labor costs increases for this segment.

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

Outlook

So far in fiscal 2016, we saw improved demand earlier in the fiscal year but more recently demand has decreased across the casegoods and upholstery segments compared to the same period a year ago. After several years of stability, we have experienced product cost increases for our imported products from China and also experienced rising ocean freight costs during late 2014 and early 2015 due to port congestion and labor issues as well as heavy demand. Ocean freight costs have since subsided and the reduced costs have begun to positively impact our cost of goods sold. We believe we have been able to offset most of these rising costs with lower ocean freight rates and price increases.

The effects of the recent devaluation of China’s currency by its government early in the fiscal third quarter, appear to be settled for the time being. While our sales into China are minimal, we believe any benefits that may have been realized as a result of the devaluation on items imported from China will be offset by other factors including rising labor rates and materials costs in China. Furthermore, we are unable to gauge what effects, if any, these events will have on consumer confidence and demand for home furnishings products like our own. Despite these recent events, and in light of improving economic conditions as previously noted in this report, we are optimistic about our longer-term future, both with our core businesses and our new ventures. We believe we are positioned to capitalize on continued improvements in the economy as they occur. We continue to increase production capacity at our upholstery manufacturing facilities, to maintain good inventory positions on our best-selling casegoods products and promote what we believe to be our strongest product lines in several years. Additionally, we continue to explore opportunities in which we can best leverage our balance sheet.

As we complete fiscal 2016 and move into fiscal 2017, we will continue to focus on:

- § evaluating ways to expand into new distribution channels;
- § growing and improving the profitability of our new business initiatives;
- § building on our initial successes in expanding our merchandising reach in the “better” parts of our “good-better-best” casegoods product offerings;
- § supporting our recently launched newly-licensed Cynthia Rowley home furnishings collection;
- § improving the product assortment and value proposition of the Hooker Upholstery imported products line;
- § increasing operating profitability and increasing production capacity at Sam Moore;
- § mitigating inflation on our imported products and raw materials;
- § maintaining proper inventory levels and optimizing product availability on best-selling items;
- §

strengthening our relationships with key vendors and sourcing product from cost-competitive locations and from quality-conscious sourcing partners;

§ offering an array of new products and designs, which we believe will help generate additional sales;  
§ upgrading and refining our information systems capabilities to support our businesses, including implementing our ERP system in the remainder of our upholstery segment; and

§ controlling costs.

#### Potential Duties on Accent Chests

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

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

During the fiscal 2015 third quarter, the DoC agreed to reconsider some of its earlier findings related to accent chests and early in the fiscal 2015 fourth quarter, DoC reaffirmed its decision that certain of our competitor's accent chests constituted wooden bedroom furniture subject to anti-dumping duties. The competitor challenged DoC's position in the United States Court of International Trade. On December 1, 2015, the court issued a decision remanding the accent chest issue to DoC with the instruction to reconsider the treatment of accent chests in a manner consistent with the court's decision, which on balance is favorable to our views. However, it is too early to know how DoC will ultimately rule and, while the court's decision is encouraging, we cannot say that other accent chests are no longer at risk.

## Customs Penalty

In September 2009, CBP issued an audit report asserting that we had not paid all required antidumping duties due with respect to certain bedroom furniture we imported from China. In February 2015, CBP assessed a civil penalty of approximately \$2.1 million and unpaid duties of approximately \$500,000 on the matter. We assert that no antidumping duties are due and that there is no basis for the imposition of a penalty. We intend to defend against the penalty vigorously. In the opinion of management, the ultimate disposition of this matter will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

## Financial Condition, Liquidity and Capital Resources

## Balance Sheet and Working Capital

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

	Balance Sheet and Working Capital		
	November 1, 2015	February 1, 2015	\$ Change
Total Assets	\$178,421	\$170,755	\$7,666
Cash and Cash Equivalents	\$49,474	\$38,663	\$10,811
Trade Receivables, net	30,655	32,245	(1,590)
Inventories	42,019	44,973	(2,954)
Prepaid Expenses & Other	4,021	4,057	(36)
Total Current Assets	\$126,169	\$119,938	\$6,231
Trade Accounts Payable	\$8,098	\$10,293	\$(2,195)
Accrued Salaries, Wages and Benefits	4,713	4,824	(111)
Other Accrued Expenses	3,845	3,950	(105)

Total Current Liabilities	\$16,656	\$19,067	\$(2,411 )
Net Working Capital	\$109,513	\$100,871	\$8,642
Working Capital Ratio	7.6 to 1	6.3 to 1	

As of November 1, 2015, total assets increased compared to February 1, 2015, primarily due to increased cash and cash equivalents resulting from increased net sales, decreased inventories as a result of matching inventory levels with projected demand and decreased accounts receivable due to increased collections.

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## Cash Flows – Operating, Investing and Financing Activities

	Thirty-Nine Weeks Ended	
	November 1, 2015	November 2, 2014
Net cash provided by operating activities	\$ 16,882	\$ 15,800
Net cash used in investing activities	(2,830 )	(3,125 )
Net cash used in financing activities	(3,241 )	(3,229 )
Net increase in cash and cash equivalents	\$ 10,811	\$ 9,446

During the nine months ended November 1, 2015, cash generated from operations of \$16.9 million helped to fund an increase in cash and cash equivalents of \$10.8 million, cash dividends of \$3.2 million and capital expenditures of \$2.2 million to enhance our business systems and facilities and to pay premiums of \$676,000 on Company-owned life insurance policies.

During the nine months ended November 2, 2014, cash generated from operations of \$15.8 million helped to fund an increase in cash and cash equivalents of \$9.4 million, cash dividends of \$3.2 million and capital expenditures of \$2.5 million to enhance our business systems and facilities and to pay premiums of \$758,000 on Company-owned life insurance policies.

## Liquidity, Financial Resources and Capital Expenditures

Our financial resources include:

§ available cash and cash equivalents, which are highly dependent on incoming order rates and our operating performance;

§ expected cash flow from operations;

§ available lines of credit; and

§ the cash surrender value of Company-owned life insurance.

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

§ capital expenditures;

§ working capital, including capital required for insourcing our upholstery segment trade receivables in fiscal 2016 and for our new business initiatives;

§ the payment of regular quarterly cash dividends on our common stock; and

§ the servicing of any long-term debt related to strategic growth.

As of November 1, 2015, we had an aggregate \$13.3 million available under our revolving credit facility to fund working capital needs. Standby letters of credit in the aggregate amount of \$1.7 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under the revolving credit facility as of November 1, 2015. There were no additional borrowings outstanding under the revolving credit facility on November 1, 2015.

## Loan Agreement and Revolving Credit Facility

We have a \$15 million unsecured revolving credit facility under a loan agreement with Bank of America, N.A., up to \$3.0 million of which can be used to support letters of credit. The loan agreement allows the Company to permanently

terminate or reduce the \$15 million revolving commitment without penalty and includes, among others, the following terms:

§ a maturity date of July 31, 2018;  
§ a floating interest rate, adjusted monthly, based on LIBOR, plus an applicable margin based on the ratio of our funded debt to our EBITDA (each as defined in the loan agreement); and  
§ a quarterly unused commitment fee of 0.20%.

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

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

We were in compliance with each of these financial covenants at November 1, 2015 and expect to remain in compliance with existing covenants for the foreseeable future. The loan agreement does not restrict our ability to pay cash dividends on, or repurchase shares of, our common stock, subject to complying with the financial covenants under the loan agreement.

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### Factoring Arrangement

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

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

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

### Capital Expenditures

We expect to spend between \$500,000 to \$750,000 in capital expenditures during the remainder of the 2016 fiscal year to maintain and enhance our operating systems and facilities.

### Enterprise Resource Planning

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

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

We refer you to Item 1A. "Risk Factors" beginning on page 12 of our 2015 Annual Report above for additional discussion of risks involved in our ERP system conversion and implementation.

### Share Repurchase Authorization

During the fiscal 2013 first quarter, our Board of Directors authorized the repurchase of up to \$12.5 million of the Company's common shares. The authorization does not obligate us to acquire a specific number of shares during any period and does not have an expiration date, but it may be modified, suspended or discontinued at any time at the discretion of our Board of Directors. Repurchases may be made from time to time in the open market, or through privately negotiated transactions or otherwise, in compliance with applicable laws, rules and regulations, and subject to our cash requirements for other purposes, compliance with the covenants under the loan agreement for our



revolving credit facility and other factors we deem relevant. No shares were purchased under the authorization during the first nine-months of fiscal 2016, fiscal 2015 or fiscal 2014. Approximately \$11.8 million remained available for future purchases under the authorization as of November 1, 2015.

#### New Accounting Pronouncements

In November 2015, the Financial Accounting Standards Board issued guidance that amends the balance sheet classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent on the balance sheet. Previous guidance required deferred tax liabilities and assets to be separated into current and noncurrent amounts on the balance sheet. The guidance is effective for fiscal years beginning on or after December 15, 2016, and interim periods within those years. We are currently evaluating the impact that the new guidance will have on our consolidated financial statements.

#### Critical Accounting Policies

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

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Forward-Looking Statements

Certain statements made in this report, including under Part I, Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in the notes to the condensed consolidated financial statements included in this report, are not based on historical facts, but are forward-looking statements. These statements reflect our reasonable judgment with respect to future events and typically can be identified by the use of forward-looking terminology such as “believes,” “expects,” “projects,” “intends,” “plans,” “may,” “will,” “should,” “would,” “could” or “ant negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Those risks and uncertainties include but are not limited to:

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

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

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

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

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

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

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

§ price competition in the furniture industry;

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

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

§ risks associated with the cost of imported goods, including fluctuation in the prices of purchased finished goods and transportation and warehousing costs;

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

§

the interruption, inadequacy, security breaches or integration failure of our information systems or information technology infrastructure, related service providers or the internet;

§ the direct and indirect costs associated with the implementation of our Enterprise Resource Planning system, including costs resulting from unanticipated disruptions to our business;

§ adverse political acts or developments in, or affecting, the international markets from which we import products, including duties or tariffs imposed on those products;

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

§ capital requirements and costs;

§ competition from non-traditional outlets, such as catalog and internet retailers and home improvement centers;

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

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

§ higher than expected employee medical costs.

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

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

Amounts outstanding under our revolving credit facility would bear interest at variable rates. In the past, we have entered into swap agreements to hedge against the potential impact of increases in interest rates on our floating-rate debt instruments. There was no outstanding balance under our revolving credit facility as of November 1, 2015, other than standby letters of credit in the amount of \$1.7 million. Therefore, a fluctuation in market interest rates of one percentage point (or 100 basis points) would not have a material impact on our results of operations or financial condition.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended November 1, 2015. Based on this evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective as of November 1, 2015 to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended November 1, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 6. Exhibits

- 3.1 Amended and Restated Articles of Incorporation of the Company, as amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 28, 2003)
- 3.2 Amended and Restated Bylaws of the Company, as amended December 10, 2013 (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K (SEC File No. 000-25349) for the year ended February 2, 2014)
- 4.1 Amended and Restated Articles of Incorporation of the Company, as amended (See Exhibit 3.1)
- 4.2 Amended and Restated Bylaws of the Company, as amended (See Exhibit 3.2)
- 31.1\* Rule 13a-14(a) Certification of the Company's principal executive officer
- 31.2\* Rule 13a-14(a) Certification of the Company's principal financial officer
- 32.1\*\* Rule 13a-14(b) Certification of the Company's principal executive officer and principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101\* The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended November 1, 2015, formatted in Extensible Business Reporting Language ("XBRL"): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of income, (iii) condensed consolidated statements of comprehensive income, (iv) condensed consolidated statements of cash flows, and (v) the notes to the condensed consolidated financial statements

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\*Filed herewith

\*\* Furnished herewith

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SIGNATURE

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

HOOKER FURNITURE CORPORATION

Date: December 10, 2015

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

