HOOKER FURNITURE CORP
Form 10-Q
December 12, 2014

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 2, 2014

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of December 5, 2014:

Common stock, no par value	10,773,675
(Class of common stock)	(Number of shares)

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

As of	November 2, 2014 (Unaudited)	February 2, 2014
Assets		
Current assets		
Cash and cash equivalents	$33,328	$23,882
Trade accounts receivable, less allowance for doubtful accounts of $1,244 and $1,243 on each respective date	29,885	29,393
Inventories	47,432	49,016
Prepaid expenses and other current assets	3,034	2,413
Deferred taxes	1,472	1,664
Income tax recoverable	-	682
Total current assets	115,151	107,050
Property, plant and equipment, net	22,979	23,752
Cash surrender value of life insurance policies	20,053	18,891
Deferred taxes	4,063	4,051
Intangible assets	1,382	1,382
Other assets	2,077	355
Total non-current assets	50,554	48,431
Total assets	$165,705	$155,481
Liabilities and Shareholders' Equity		
Current liabilities		
Trade accounts payable	$9,325	$7,077
Accrued salaries, wages and benefits	4,092	3,478
Accrued commissions	899	934
Customer deposits	724	659
Income tax accrual	1,167	-
Other accrued expenses	896	759
Total current liabilities	17,103	12,907
Deferred compensation	8,072	7,668
Income tax accrual	141	103
Other long-term liabilities	343	-
Total long-term liabilities	8,556	7,771
Total liabilities	25,659	20,678
Shareholders' equity		
Common stock, no par value, 20,000 shares authorized, and 10,774 and 10,753 shares issued and outstanding, respectively, on each date	17,795	17,585
Retained earnings	122,171	117,120

Accumulated other comprehensive income	80	98
Total shareholders’ equity	140,046	134,803
Total liabilities and shareholders’ equity	$165,705	$155,481

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

Table of Contents

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2014	November 3, 2013	November 2, 2014	November 3, 2013
Net sales	$63,168	$59,125	$179,447	$170,721
Cost of sales	47,137	45,527	134,149	129,950
Gross profit	16,031	13,598	45,298	40,771
Selling and administrative expenses	11,148	10,443	32,758	31,742
Operating income	4,883	3,155	12,540	9,029
Other income (expense), net	85	9	183	(45)
Income before income taxes	4,968	3,164	12,723	8,984
Income tax expense	1,764	1,048	4,443	3,054
Net income	$3,204	$2,116	$8,280	$5,930
Earnings per share				
Basic	$0.30	$0.20	$0.77	$0.55
Diluted	$0.30	$0.20	$0.77	$0.55
Weighted average shares outstanding:				
Basic	10,742	10,724	10,733	10,721
Diluted	10,771	10,753	10,766	10,748
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.

Table of Contents

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2014	November 3, 2013	November 2, 2014	November 3, 2013
Net Income	$3,204	$2,116	$8,280	$5,930
Other comprehensive income:				
Amortization of actuarial gain	(13)	(27)	(38)	(81)
Income tax effect on amortization of actuarial gains	11	10	20	30
Adjustments to net periodic benefit cost	(2)	(17)	(18)	(51)
Comprehensive Income	$3,202	$2,099	$8,262	$5,879

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

Table of Contents

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

	November 2, 2014	November 3, 2013
Operating Activities:		
Net income	$8,280	$5,930
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,927	1,818
Gain on disposal of assets	(37)	(6)
Deferred income tax expense (benefit)	274	(331)
Noncash restricted stock and performance awards	405	500
Provision for doubtful accounts	728	191
Changes in assets and liabilities:		
Trade accounts receivable	(1,220)	1,536
Inventories	1,584	877
Income tax recoverable	682	-
Gain on life insurance policies	(586)	(480)
Prepaid expenses and other current assets	(612)	46
Trade accounts payable	2,248	880
Accrued salaries, wages, and benefits	614	(248)
Accrued income taxes	1,167	(519)
Accrued commissions	(35)	(229)
Customer deposits	65	-
Other accrued expenses	139	(317)
Deferred compensation	136	139
Other long-term liabilities	41	-
Net cash provided by operating activities	15,800	9,787
Investing Activities:		
Purchases of property and equipment	(2,460)	(2,608)
Proceeds received on notes for sale of assets	24	30
Acquisition of Homeware.com URL	-	(125)
Proceeds from sale of property and equipment	69	31
Premiums paid on life insurance policies	(758)	(802)
Proceeds received on life insurance policies	-	516
Net cash used in investing activities	(3,125)	(2,958)
Financing Activities:		
Cash dividends paid	(3,229)	(3,225)
Net cash used in financing activities	(3,229)	(3,225)
Net increase in cash and cash equivalents	9,446	3,604
Cash and cash equivalents - beginning of year	23,882	26,342
Cash and cash equivalents - end of quarter	$33,328	$29,946

Supplemental schedule of cash flow information:		
Income taxes paid, net	$(2,311)	$(3,904)

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

Table of Contents

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollar and share amounts in tables, except per share amounts, in thousands unless otherwise indicated)
(Unaudited)
For the Thirty-Nine Weeks Ended November 2, 2014

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 2, 2014 ("2014 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 4, 2014 and the thirty-nine week period (also referred to as "nine months," "nine-month period") that began February 3, 2014, which both ended November 2, 2014, compared to the thirteen-week period that began August 5, 2013 and the thirty-nine week period that began February 4, 2013, which both ended November 3, 2013; and

§ our financial condition as of November 2, 2014 compared to February 2, 2014.

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

§ the 2015 fiscal year and comparable terminology mean the fiscal year that began February 3, 2014 and will end February 1, 2015; and

§ the 2014 fiscal year and comparable terminology mean the fiscal year that began February 4, 2013 and ended February 2, 2014.

2. Change in Presentation of Consolidated Statement of Cash Flows

GAAP permits the direct or indirect methods of computing cash flows. Beginning with our fiscal 2014 annual report on Form 10-K, we elected to change the presentation of our cash flow statements from the direct to indirect method of computing cash flows. We believe the indirect method is preferable because:

§ it provides a more straight-forward presentation of the reconciliation between consolidated net income and consolidated cash flows;

§ it helps financial statement users to better understand how non-cash transactions are factors of consolidated net income but not sources of consolidated cash flows; and

§ it helps financial statement users to better understand the different linkages among our consolidated financial statements.

Consequently, we have recast our prior-year condensed consolidated statements of cash flows to conform to the fiscal 2015 presentation under the indirect method.

Table of Contents

3. Accounts Receivable

	November 2, 2014	February 2, 2014
Trade accounts receivable	$ 22,999	$ 22,776
Receivable from factor	8,130	7,860
Allowance for doubtful accounts	(1,244)	(1,243)
Accounts receivable	$ 29,885	$ 29,393

"Receivable from factor" represents amounts due with respect to factored accounts receivable. We factor substantially all of our domestically-produced upholstery accounts receivable without recourse to us.

Under our factoring agreement, invoices for domestically produced 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.

A limited number of our accounts receivable for our domestically produced upholstery are factored with recourse to us. The amounts of these receivables at November 2, 2014 and February 2, 2014 were $––––257,000 and $324,000, 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 our calculation of our allowance for doubtful accounts.

4. Inventories

	November 2, 2014	February 2, 2014
Finished furniture	$ 57,873	$ 58,515
Furniture in process	768	804
Materials and supplies	8,375	8,068
Inventories at FIFO	67,016	67,387
Reduction to LIFO basis	(19,584)	(18,371)
Inventories	$ 47,432	$ 49,016

Table of Contents

5. Property, Plant and Equipment

	Depreciable Lives (In years)	November 2, 2014	February 2, 2014
Computer software and hardware	3 - 10	$ 22,769	$ 22,294
Buildings and land improvements	15 - 30	22,180	24,026
Machinery and equipment	10	4,788	4,495
Leasehold improvements	5	2,839	2,765
Furniture and fixtures	3 - 8	2,215	2,060
Other	5	668	689
Total depreciable property at cost		55,459	56,329
Less accumulated depreciation		36,690	36,447
Total depreciable property, net		18,769	19,882
Land		1,067	1,152
Construction-in-progress		3,143	2,718
Property, plant and equipment, net		$ 22,979	$ 23,752

At November 2, 2014, construction-in-progress consisted of approximately $2.5 million of expenditures related to our ongoing Enterprise Resource Planning (ERP) conversion efforts and approximately $690,000 related to various other projects to enhance our facilities and operations.

The $1.8 million decline in buildings and land improvements during the fiscal 2015 first nine months is primarily due to the completion of the sale of our Cloverleaf warehouse facility in April 2014. We recognized a gain of $34,000 on the sale in our fiscal 2015 year-to-date financial statements. See Item 2 of this report, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, for additional information regarding this transaction.

6. Fair Value Measurements

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

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

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

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

As of November 2, 2014 and February 2, 2014, 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 2, 2014, a mortgage note receivable was measured at fair value on a non-recurring basis using Level 3 inputs. The note receivable was delivered to us by the buyer as part of the purchase price for our Cloverleaf facility during the fiscal 2015 first quarter and was recorded at approximately $1.6 million, the original face value of the note. The carrying value of the note is assumed to approximate its fair value. We measure the probability that amounts due to us under this note will be collected primarily based on the buyer’s payment history. Specifically, we consider the buyer’s adherence to the contractual payment terms for both 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 note, we would measure the note for impairment and record a valuation allowance against the note, if needed, with the related expense charged to income for that period. The note is included in the “Other assets” line of our condensed consolidated balance sheets.

Table of Contents

Our assets measured at fair value on a recurring and non-recurring basis at November 2, 2014 and February 2, 2014, were as follows:

	Fair value at November 2, 2014				Fair value at February 2, 2014			
Description	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In thousands)							
Assets measured at fair value								
Company-owned life insurance	$-	$20,053	$-	$20,053	$-	$18,891	$-	$18,891
Mortgage note receivable	-	-	1,575	1,575	-	-	-	-

7. Intangible Assets

Non-amortizable Intangible Assets	Segment	November 2, 2014	February 2, 2014
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

8. Long-Term Debt

As of November 2, 2014, we had an aggregate $13.1 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 $1.9 million, used to collateralize certain insurance arrangements and for imported product purchases, were outstanding under our revolving credit facility as of November 2, 2014. There were no additional borrowings outstanding under the revolving credit facility on November 2, 2014. Any principal outstanding under the revolving credit facility is due July 31, 2018.

9. Employee Benefit Plans

We maintain a supplemental retirement income plan (“SRIP”) for certain former and current executives. The liability for the SRIP at November 2, 2014 and February 2, 2014 was $7.8 million and $7.7 million, respectively, and is shown in our condensed consolidated balance sheets as follows:

	November 2, 2014	February 2, 2014
Accrued salaries, wages and benefits (current portion)	$ 354	$ 354
Deferred compensation (long-term portion)	7,427	7,308
Total liability	$ 7,781	$ 7,662

Total deferred compensation in the long-term liabilities section of our consolidated balance sheets is $8.1 million at November 2, 2014 and $7.7 million at February 2, 2014. These totals include the amounts shown in the deferred compensation line in the table above, as well as additional long-term compensation-related items unrelated to our SRIP.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2014	November 3, 2013	November 2, 2014	November 3, 2013
Net periodic benefit cost				
Service cost	$25	$64	$76	$192
Interest cost	85	73	254	219
Actuarial gain	(13)	(26)	(38)	(79)
Net periodic benefit cost	$97	$111	$292	$332

Table of Contents

10. 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 2014 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) and/or restricted stock to certain senior executives and other key employees since fiscal 2012 under the Company's Stock Incentive Plan. Each RSU entitles the recipient to receive one share of the Company's common stock if the recipient remains continuously employed with the Company through the end of a three-year service period. The RSUs may be paid in shares of our common stock, cash or both at the discretion of the Compensation Committee of our board of directors. We expect to continue to grant these types of awards annually in the future. The following table sets forth the number of outstanding restricted stock awards and RSUs, net of forfeitures and vested shares, as of the fiscal period-end dates indicated:

	November 2, 2014	February 2, 2014
Restricted shares	28	29
Restricted stock units	24	32
	52	61

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 2, 2014	November 3, 2013	November 2, 2014	November 3, 2013
Net income	$3,204	$2,116	$8,280	$5,930
Less: Unvested participating restricted stock dividends	3	3	8	9
Net earnings allocated to unvested participating restricted stock	8	6	22	16
Earnings available for common shareholders	3,193	2,107	8,250	5,905
Weighted average shares outstanding for basic earnings per share	10,742	10,724	10,733	10,721
Dilutive effect of unvested restricted stock and RSU awards	29	29	33	27
Weighted average shares outstanding for diluted earnings per share	10,771	10,753	10,766	10,748
Basic earnings per share	$0.30	$0.20	$0.77	$0.55
Diluted earnings per share	$0.30	$0.20	$0.77	$0.55

11. Income Taxes

We recorded income tax expense of $1.8 million for the fiscal 2015 third quarter compared to $1.0 million for the comparable prior year period. The effective tax rates for the fiscal 2015 and 2014 third quarters were 35.5% and 33.1%, respectively. The effective tax rate was higher in the fiscal 2015 third quarter due to the diminished effects of permanent tax rate benefits (that do not vary due with sales or taxable income) on higher taxable income in the current year quarter. These permanent benefits were company-owned life insurance, our captive insurance arrangement and inventory contributions.

We recorded income tax expense of $4.4 million for the fiscal 2015 first three quarters compared to $3.1 million for the comparable prior year period. The effective tax rate for the fiscal 2015 and 2014 nine-month periods was 34.9% and 34.0%, respectively. The effective tax rate was higher in the fiscal 2015 third quarter due to the diminished effects of permanent tax rate benefits (that do not vary due with sales or taxable income) on higher taxable income in the current year quarter. These permanent benefits were company-owned life insurance, our captive insurance arrangement and inventory contributions.

The net unrecognized tax benefits as of November 2, 2014 and February 2, 2014, which, if recognized, would impact our effective tax rate are $419,000 and $303,000, respectively. In fiscal 2014, an uncertain tax position was identified and accrued for which forthcoming remediation will effectively settle the uncertainty in the next 12 months. In fiscal 2014, we also established a reserve for an uncertain tax position related to the use of a portion of state loss carryforwards in our current tax returns. The balance of that reserve was $141,000 at November 2, 2014 and $103,000 at February 2, 2014.

The tax years ending 2012 through 2014 remain subject to examination by federal taxing authorities. State tax returns for the years ending 2011 through 2014 remain subject to examination.

Table of Contents

12. Segment Information

For financial reporting purposes, we are organized into three operating segments – casegoods furniture, upholstered furniture and all other. Prior to the fiscal 2015 third quarter just ended, we reported our results of operations in two operating segments- casegoods and upholstery. We aggregated the results of our two new business ventures – H Contract and Homeware- with our casegoods segment in accordance with the provisions of ASC 280 Segment Reporting. We did this primarily due to the similarity of the nature of the products, production processes, distribution methods, types of customers and regulatory environment. These similarities persist and although H Contract and Homeware are likely to remain immaterial to our consolidated results of operations for the near-to-medium term, we believe that information about these businesses would be beneficial to the readers of our financial statements; therefore, we have elected to separately disclose information about them in an "All other" segment. The following table presents segment information for the periods, and as of the dates, indicated:

	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
	November 2, 2014		November 3, 2013		November 2, 2014		November 3, 2013	
		% Cons. Net Sales		% Cons. Net Sales		% Cons. Net Sales		% Cons. Net Sales
Net Sales								
Casegoods	$39,798	63.0 %	$37,190	62.9 %				