

HOOKER FURNITURE CORP  
Form 10-K  
April 17, 2015

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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Form 10-K  
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Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended February 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  
(I.R.S. Employer Identification Number)

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

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

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

	Name of Each Exchange on Which Registered
Common Stock, no par value	NASDAQ Global Select Market

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

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

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

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

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

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$152.8 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of April 10, 2015:

Common stock, no par value	10,811,165
(Class of common stock)	(Number of shares)

Documents incorporated by reference: Portions of the registrant's definitive Proxy Statement for its Annual Meeting of Shareholders scheduled to be held June 4, 2015 are incorporated by reference into Part III.

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Hooker Furniture Corporation

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Hooker Furniture Corporation  
Part I

ITEM 1. BUSINESS

Hooker Furniture Corporation (the “Company”, “we,” “us” and “our”) 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 2013 shipments to U.S. retailers, according to a 2014 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 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. We also market a line of imported leather upholstery under the Hooker Upholstery trade name. 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.

H Contract supplies upholstered seating and casegoods to upscale senior living facilities throughout the country, working with designers specializing in the contract industry to provide functional furniture for senior living facilities that meets the style and comfort expectations of today’s retirees.

Homeware is an online-only brand that is sold through leading international e-commerce retailers as well as our own e-commerce website, homeware.com. It supplies unique chairs and ottomans designed to be assembled in minutes by the consumer with no tools or hardware required. Homeware also offers home accessories, living room tables, multi-seat upholstery and expects to offer entertainment centers and dining room furniture in fiscal 2016.

Strategy and Mission

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

§ To offer world-class style, quality and product value as a complete residential and contract wood, metal and upholstered furniture resource through excellence in product design, manufacturing, global sourcing, marketing, logistics, sales and customer service.

§ To be an industry leader in sales growth and profitability performance, providing an outstanding investment for our shareholders and contributing to the well-being of our customers, employees, suppliers and community.

§

To nurture the relationships, teamwork and integrity that define our corporate culture and have distinguished our company for over 90 years.

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## Segments

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, we reported our results of operations in two operating segments- casegoods and upholstery. In reports prior to the fiscal 2015 third quarter, 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 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, as it is to management; therefore, we have separately disclosed information about them in an “All other” segment. The financial information for fiscal 2014 and fiscal 2013 appearing in the tables and narratives contained in this section has been updated to conform to the fiscal 2015 presentation of our operating segments. Our operating segments and their associated brands are as follows:

Hooker Furniture Corporation  
Operating Segments

Casegoods Brands: Hooker Furniture	Upholstery Brands: Bradington-Young Hooker Upholstery Sam Moore	All other Brands: H Contract Homeware
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Home furnishings sales account for all of our net sales. The percentages of net sales provided by each of our segments for the fifty-two week fiscal years that ended February 1, 2015 (fiscal 2015) and February 2, 2014 (fiscal 2014) and the fifty-three week fiscal year ended February 3, 2013 (fiscal 2013), were as follows:

Segment Sales as a Percentage of Consolidated Net Sales

	Fiscal Year					
	2015		2014		2013	
Casegoods segment	63	%	63	%	65	%
Upholstery segment	35	%	36	%	35	%
All other segment	2	%	1	%	-	
<b>Total</b>	<b>100</b>	<b>%</b>	<b>100</b>	<b>%</b>	<b>100</b>	<b>%</b>

## Sourcing

## Imported Products

We have sourced products from foreign manufacturers since 1988. Imported casegoods and upholstered furniture together accounted for approximately 71% of net sales in fiscal 2015, 72% of net sales in fiscal 2014 and 73% of net sales in fiscal 2013. We import finished furniture in a variety of styles, materials and product lines. We believe the best way to leverage our financial strength and differentiate our import business from the industry is through innovative and collaborative design, extensive product lines, compelling products, value, consistent quality, excellent customer service, easy ordering and quick delivery through significant finished goods inventories, world-class global

logistics and robust distribution systems.

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We import products primarily from China, Vietnam, Indonesia and Mexico. Because of the large number and diverse nature of the foreign factories from which we source our imported products, we have significant flexibility in the placement of products in any particular factory or country. Factories located in China and Vietnam are our primary resources for imported furniture. In fiscal 2015, imported products sourced from China and Vietnam accounted for approximately 73% and 20%, respectively, of import purchases. The factory in China from which we directly source the most product, accounted for approximately 59% of our worldwide purchases of imported product. A disruption in our supply chain from this factory, or from China or Vietnam in general, could significantly compromise our ability to fill customer orders for products manufactured at that factory or in that country. If such a disruption were to occur, we believe that we would have sufficient inventory currently on hand and in transit to our U.S. warehouses in Martinsville, Virginia to adequately meet demand for approximately four months, with up to an additional one and one quarter months available for immediate shipment from our primary Asian warehouse. Also, with the broad spectrum of product we offer, we believe that, in some cases, buyers could be offered similar products available from alternative sources. We believe we could, most likely at higher cost, source most of the products currently sourced in China or Vietnam from factories in other countries and could produce certain upholstered products domestically at our own factories. However, supply disruptions and delays on selected items could occur for up to six months. If we were to be unsuccessful in obtaining those products from other sources or at a comparable cost, then a disruption in our supply chain from our largest import furniture supplier, or from China or Vietnam in general, could decrease our sales, earnings and liquidity. Given the capacity available in China, Vietnam and other low-cost producing countries, we believe the risks from these potential supply disruptions are manageable.

Our imported furniture business is subject to inherent risks in importing products manufactured abroad, including, but not limited to, supply disruptions and delays, currency exchange rate fluctuations, transportation-related issues, economic and political developments and instability, as well as the laws, policies and actions of foreign governments and the United States. These acts may include regulations affecting trade or the application of tariffs.

### Manufacturing and Raw Materials

At February 1, 2015, we operated approximately 465,000 square feet of manufacturing and supply plant capacity in North Carolina and Virginia for our domestic upholstered furniture production. We consider the machinery and equipment at these locations to be generally modern and well-maintained.

We believe there are continued strong market opportunities for domestically produced upholstery, particularly in the upper and upper-medium price points, which provide two key competitive advantages compared to imported upholstery:

- § the ability to offer customized upholstery combinations to the upscale consumer and interior design trade; and
- § the ability to offer quick four-to six-week product delivery of custom products.

Significant materials used in manufacturing upholstered furniture products include leather, fabric, foam, wooden frames and metal mechanisms. Most of the leather is imported from Italy, South America and China, and is purchased as full hides and cut and sewn in our facilities, or is purchased as pre-cut and sewn kits processed by our vendors to our pattern specifications.

We believe that our sources for raw materials are adequate and that we are not dependent on any one supplier. Hooker's five largest suppliers accounted for approximately 40% of our raw materials supply purchases for domestic upholstered furniture manufacturing operations in fiscal 2015. One supplier accounted for approximately 14% of our raw material purchases. Should disruptions with this supplier occur, we believe we could successfully source these products from other suppliers without significant disruption to our operations.





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### Products

Our product lines cover most major style categories, including European and American traditional, contemporary, transitional, urban, country, casual, and cottage designs. We offer furniture in a variety of materials, such as various types of wood, metal, leather and fabric, as well as veneer and other natural woven products, often accented with marble, stone, slate, glass, ceramic, brass and/or hand-painted finishes.

Major casegoods product categories include accents, home office, dining, bedroom and home entertainment furniture which are marketed under the Hooker Furniture brand name, as well as “private label” products marketed under a retailer’s brand name. Our casegoods are typically designed for and marketed in the upper-medium to lower high-end price range.

Bradington-Young markets its products under the Bradington-Young brand name, offers a broad variety of residential leather and fabric upholstered furniture and specializes in leather reclining and motion chairs, sofas, club chairs and executive desk chairs. Bradington-Young offers approximately 150 leather selections and over 250 fabric selections for domestically produced upholstered furniture. Generally, Bradington-Young-branded products are targeted at the upper price range.

Hooker Upholstery is an imported line of leather upholstery and is targeted at the upper-medium price points. Hooker Upholstery offers approximately 75 leather selections and 10 fabric selections and offers a broad variety of married cover options on stationary sofa groups, recliners, office chairs, club chairs, motion groups, and decorative ottomans.

Sam Moore Furniture’s products, which are primarily domestically produced, are marketed under the Sam Moore brand name and offer upscale occasional chairs, sofas and other seating with an emphasis on fabric-to-frame customization. Sam Moore offers approximately 350 different styles of upholstered products in over 500 fabric selections and over 20 leather selections, including customer supplied upholstery coverings commonly referred to as “COM” or customer-owned material. Sam Moore’s products are targeted at the upper-medium and upper price ranges.

In an effort to broaden the appeal of our line to both consumers and retailers, we offer a “better-best” merchandising assortment. Broadening our merchandising price range has made us a more complete resource for our established dealers, and has provided new opportunities with retailers who are positioned above or below our historical price niche. Many of our most successful collections have been in the upper and upper-medium price points in recent years. To better address more moderate price points, during the 2014 fiscal year we hired a merchandising executive with extensive experience developing product for these price points. We began introducing these products at the Spring 2014 International Home Furnishings Market and believe they have been well-received by our customers.

We launched two new initiatives during fiscal 2014, which are intended to help us reach a broader consumer base:

- § H Contract- which supplies upholstered seating and casegoods to upscale senior living facilities throughout the country. This division works with designers specializing in the contract industry to provide functional furniture for senior living facilities that meets the style and comfort expectations of today’s retirees; and
- § Homeware- which features customer-assembled, modular upholstered and casegoods products, as well as home accessories, is designed for younger and more mobile furniture customers and marketed direct-to-consumer via the internet. Using patented connectors designed by an experienced furniture engineer and designer, we expect consumers will be able to assemble and disassemble these products in minutes, with no tools or hardware, and move them easily from residence to residence, room to room, or on staircases and elevators in high-rise apartment and condominium complexes. In addition, alternative design elements, arm and leg styles and covers will allow consumers to transform the furnishings as their tastes and life stages evolve.



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### Product Life Cycle

The product life cycle for home furnishings continues to shorten as consumers demand innovative new features, functionality, style, finishes, and fabrics which will enhance their lifestyles while providing value and durability. New styles in each of our product categories are designed and developed semi-annually to replace discontinued products and collections, and in some cases, to enter new product or style categories. Our collaborative product design process begins with the marketing team identifying customer needs and trends and then conceptualizing product ideas and features. A variety of sketches are produced, usually by independent designers, from which prototype furniture pieces are built. We invite some of our independent sales representatives and a representative group of retailers to view and critique these prototypes. Based on this input, we may modify the designs and then prepare samples for full-scale production. We generally introduce new product styles at the International Home Furnishings Market held each Fall and Spring in High Point, N.C., and support new product launches with promotions, public relations, product brochures, point-of-purchase consumer catalogs and materials and online marketing through our websites, as well as social media marketing through venues such as Facebook®, Twitter®, Pinterest® and YouTube®. The flexibility of both our global-sourcing business model and the quick delivery times provided by our domestic upholstery manufacturing presence gives us the ability to offer a wide range of styles, items and price points to a variety of retailers serving a range of consumer markets. Based on sales and market acceptance, we believe our products represent good value, and that the style and quality of our furniture compares favorably with more premium-priced products.

### Marketing

We utilize approximately 80,000 square feet of showroom space at the International Home Furnishings Market in High Point, North Carolina to introduce new products and collections and increase sales of existing products during the furniture industry's Spring and Fall international furniture pre-markets and markets. We schedule purchases of imported furniture and the production of domestically manufactured upholstered furniture based upon actual and anticipated orders and product acceptance at the Spring and Fall markets.

Recognizing the profound shift toward e-commerce, online research, and the influence of social media, we adopted an all-digital marketing strategy. Our digital marketing efforts are centered on directly engaging the consumer, to connect them with Hooker Furniture brands and direct them to our retail partners. This strategic shift puts more of our marketing dollars into the channels consumers prefer and gives us more impressions at lower cost per impression. Digital marketing also provides more data about our customers and allows us to tailor future marketing efforts based on these analytics and our team of e-commerce professionals manages the unique requirements of our major online customers. We believe this team has expertise in customer acquisition, online marketing and in data maintenance, which we believe are required to succeed in the e-commerce channel.

To support our all-digital marketing efforts, our redesigned consumer-centric websites offer responsive platforms conducive to both mobile and traditional computing platforms, improved consumer engagement, including a first-in-industry customer chat function that has hosted over 10,000 unique chat sessions since its debut in August 2014, and is supported by extended customer-care hours. Our new websites also offer "room planners", improved dealer locators, "find it now" options, and shortcuts to post to social media that we believe make our digital spaces inviting places for consumers to research their furniture purchases.

Realizing that the emerging young "millennial" consumer's shopping preferences are vastly different from our core "baby boomer" customers, and in response to a shift of volume and shopping activity to the internet, we launched a new retailer partnership program in late fiscal 2013 to help our retailers realign their business models to these new retail realities. "P3" is an integrated, strategic and web-centric retail partnership program. Through P3, we are assisting retailers in setting up local e-marketing and e-commerce through an online "iStore." In addition to the build-out of the

iStore, the P3 program also offers ongoing training and service, as well as selected discounts and allowances and marketing support.

During fiscal 2015, we continued to see the expanding influence of the internet on consumer buying habits, both in and out of retail stores. We also noted that our P3 network of dealers outperformed our overall consolidated sales increase as they expanded their digital footprints and continued to become more responsive to these consumer trends.

As such, we continued to expand the P3 management team by adding additional personnel with expertise in the digital space as well as new support programs designed to accelerate the retailer's omni-channel transition. In fiscal 2016, we expect to expand the program further by inviting additional retailers to be a part of the network.

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### Warehousing and Distribution

We sell our branded products to retailers of residential home furnishings throughout the world through over 65 independent North American sales representatives and 9 foreign sales representatives servicing the international market. These retailers are broadly dispersed throughout North America as well as in nearly 40 countries around the world. We sell our products through a large number of distribution channels which include independent furniture retailers, department stores, national membership clubs, regional chain stores, catalog merchandisers, designers and E-retailers. We also work directly with several large customers to develop private-label, unbranded products exclusively for those customers.

We sold to approximately 3,800 customers during fiscal 2015. No single customer accounted for more than 3.5% of our sales in 2015. No significant part of our business is dependent upon a single customer, the loss of which would have a material effect on our business. However, the loss of several of our major customers could have a material impact on our business. In addition to our broad domestic customer base, approximately 6% of our sales in fiscal 2015 were to international customers. We believe our broad network of retailers and independent sales representatives reduces our exposure to regional recessions and allows us to capitalize on emerging trends in channels of distribution.

We distribute furniture to retailers from our distribution centers and warehouses in Virginia and North Carolina and directly from Asia via our container direct from factory program. We have a warehousing and distribution arrangement in China with our largest supplier of imported products. Our warehouse and distribution facility in China is owned by the supplier and operated by the supplier and a third party, utilizing a global warehouse management system that updates our central inventory management and order processing systems on a daily basis. Under our container direct program, we offer directly to retailers in the U.S. a focused and in-stock mix of over 400 of our best selling items sourced from our largest supplier. The program features an internet-based product ordering system and a delivery notification system that is easy to use and available to pre-registered dealers. In addition, we also ship containers directly from a variety of other suppliers in Asia.

Based on the long-term success of our warehouse in China, we opened a similar operation in Vietnam during fiscal year 2015. This warehouse is owned and operated by two separate third-party logistics companies, the operator specializing in furniture. The facility allows customers to mix best-selling products from several of our Vietnam supplier factories and, therefore, to purchase a broader assortment of products compared to ordering full containers directly from a single factory.

We strive to provide imported and domestically produced furniture on-demand for our dealers. During fiscal year 2015, we shipped 92% of all casegoods orders and approximately 57% of all upholstery orders within 30 days of order receipt. It is our policy and industry practice to allow order cancellation for casegoods up to the time of shipment; therefore, customer orders for casegoods are not firm. However, domestically produced upholstered products are predominantly custom-built and shipped within six to eight weeks after an order is received and consequently, cannot be cancelled once the leather or fabric has been cut.

For imported products, we generally negotiate firm pricing with foreign suppliers in U.S. Dollars, typically for a term of at least one year. We accept the exposure to exchange rate movements beyond these negotiated periods. We do not use derivative financial instruments to manage this risk but could choose to do so in the future. Since we transact our imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar could increase the price we pay for imported products beyond the negotiated periods. We generally expect to reflect substantially all of the effects of any price increases from suppliers in the prices we charge for imported products. However, these price changes could adversely impact sales volume and profit margin during affected periods. Conversely, a relative increase in the value of the U.S. Dollar could decrease the cost of imported products and favorably impact net sales and profit margins during affected periods. See also "Item 7A. Quantitative and Qualitative Disclosures About Market

Risk.”

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Working Capital Practices

The following describes our working capital practices:

**Inventory:** We generally import casegoods inventory and certain upholstery items in amounts that enable us to meet the delivery requirements of our customers, our internal in-stock goals and minimum purchase requirements from our sourcing partners. We do not carry significant amounts of domestically produced upholstery inventory, as most of these products are built to order and are shipped shortly after their manufacture.

**Accounts receivable:** Substantially all of our trade accounts receivable are due from retailers and dealers that sell residential home furnishings, which consist of a large number of entities with a broad geographic dispersion. We perform credit evaluations of our customers and generally do not require collateral. For qualified customers, we offer payment terms, generally requiring payment 30 days from shipment. However, we may offer extended payment terms in certain circumstances, including to promote sales of our products. Our upholstery segment factors substantially all of its receivables, in most cases on a non-recourse basis; however, in order to realize operational efficiencies, cost savings, leverage best practices and present a single face to our customers, we plan to end our factoring relationship as our new Enterprise Resource Planning system (“ERP”) becomes fully operational for our domestic upholstery companies, which we expect to occur at Sam Moore in the first-half of fiscal 2016 and in the second half of fiscal 2016 at Bradington-Young. 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.

**Accounts payable:** Payment for our imported products warehoused first in Asia is due fourteen days after our quality audit inspections are complete and the vendor invoice is presented. Beyond that, payment for goods which are generally shipped to Hooker FOB Origin is due upon proof of lading onto a US-bound vessel and invoice presentation. Payment terms for domestic raw materials and non-inventory related charges vary, but are generally 30 days from invoice date.

Order Backlog

At February 1, 2015, our backlog of unshipped orders for our casegoods, upholstery and all other segments were as follows:

Order Backlog (Dollars in 000s)			
February 1, 2015		February 2, 2014	
Dollars	Weeks	Dollars	Weeks