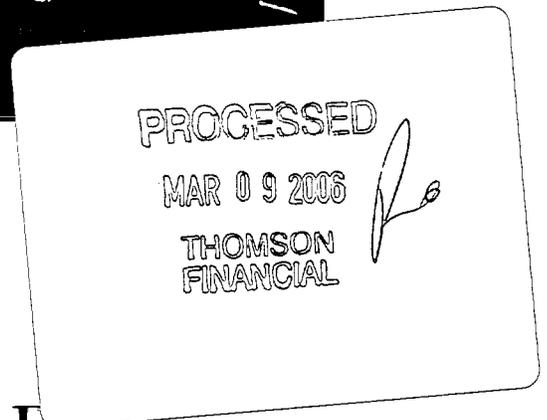
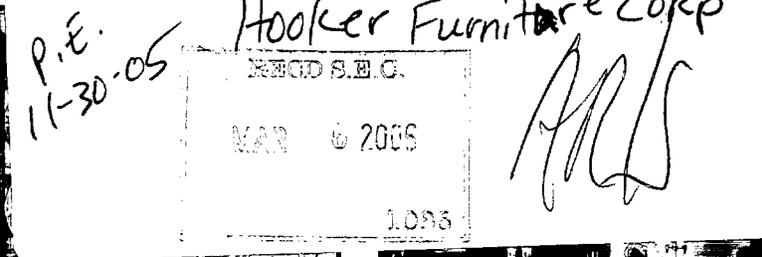


2005 Annual Report



HOOKER
FURNITURE

Company Profile

Ranked as the nation's sixth largest public furniture provider in sales to U.S. retailers, Hooker Furniture is an 81-year-old importer and producer of wall and entertainment units, office, dining, occasional, bedroom and upholstered leather furniture for the home. Through our Employee Stock Ownership Plan, our employees have become proud, motivated owners of their Company. Extensive style selections within each of our product niches make the Company an important resource for retailers in the upper-medium price range. Hooker has a broad distribution network that includes independent furniture stores, department stores, specialty retailers, national and regional chains and catalog merchants. Hooker owns manufacturing facilities, distribution centers and warehouses in Virginia and North Carolina, including those of Bradington-Young, a specialist in upscale upholstered leather and reclining seating. Hooker's stock is listed on the Nasdaq Capital Market under the symbol HOFT. Visit us on the World Wide Web at www.hookerfurniture.com and visit our subsidiary, Bradington-Young, at www.bradington-young.com.

Strategy

- To offer world-class style, quality and product value as a complete residential wood and upholstered furniture resource through excellence in product design, global sourcing, manufacturing, logistics, sales, marketing 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 employee owners, customers, suppliers and community neighbors.
- To nurture the relationship-driven, team-oriented and integrity-minded corporate culture that has distinguished our company for over 80 years.

Mission

To enrich the lives of the people we touch through innovative home furnishings of exceptional value.

Core Values

- Integrity
- Listening
- Innovation
- Caring
- Service
- Honesty
- Citizenship
- Responsibility



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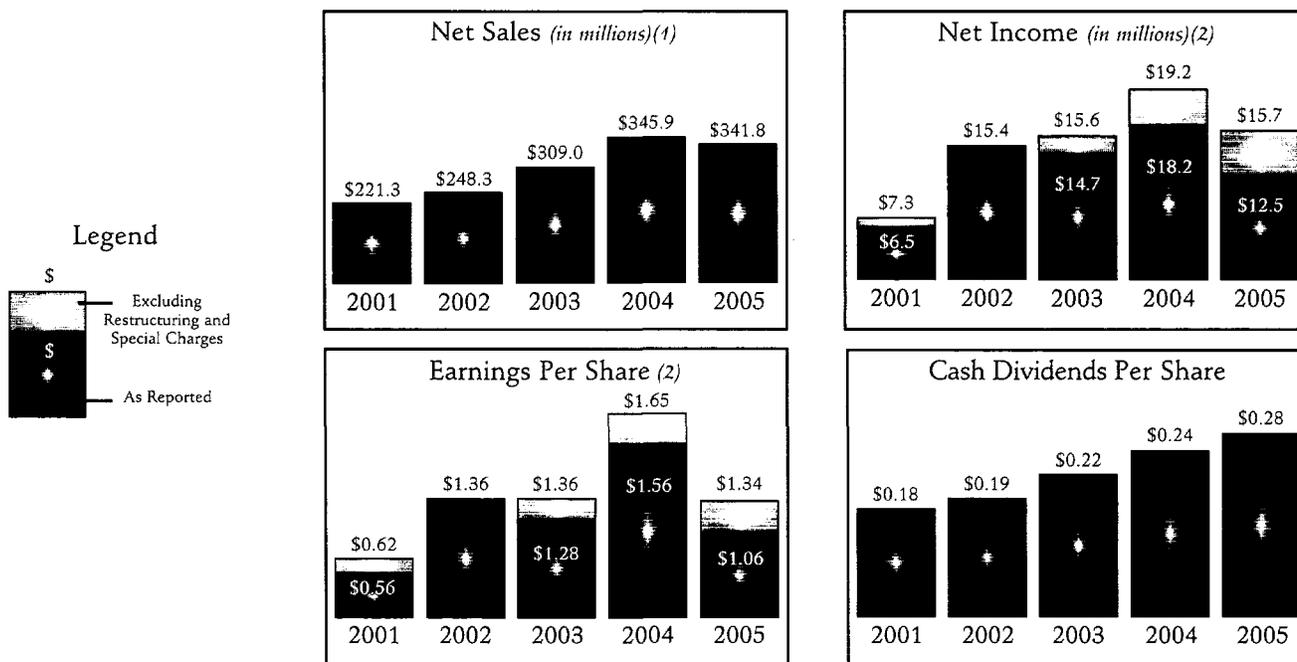


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| Corporate directors & officers | inside back cover |
| <i>The Waverly Hall dining group, introduced in Fall 2005, has an English Manor cherry "plank top" look.</i> | |

FINANCIAL HIGHLIGHTS (in thousands, except per share data)

| Income Statement Data: | 2005 | 2004 | 2003(1) | 2002 | 2001 |
|--|-------------|-------------|----------------|-------------|-------------|
| Net sales | \$341,775 | \$345,944 | \$309,005 | \$248,346 | \$221,289 |
| Operating income | 21,155 | 31,166 | 25,752 | 26,319 | 11,077 |
| Net income | 12,485 | 18,204 | 14,710 | 15,391 | 6,510 |
| Restructuring and special charges, after tax (2) | 3,255 | 994 | 911 | | 745 |
| Net income excluding restructuring and special charges (2) | 15,740 | 19,198 | 15,621 | 15,391 | 7,255 |
| Per Share Data: | | | | | |
| Basic and diluted earnings per share | \$ 1.06 | \$ 1.56 | \$ 1.28 | \$ 1.36 | \$ 0.56 |
| Restructuring and special charges per share (2) | .28 | 0.09 | 0.08 | | 0.06 |
| Earnings per share excluding restructuring and special charges (2) | 1.34 | 1.65 | 1.36 | 1.36 | 0.62 |
| Cash dividends per share | .28 | 0.24 | 0.22 | 0.19 | 0.18 |



- (1) In 2003, the Company acquired substantially all of the assets of Cherryville, N.C. based leather seating specialist Bradington-Young, LLC. Shipments of upholstered furniture products accounted for \$62.5 million in 2005, \$57.5 million in 2004 and \$44.2 million during the eleven month period following its acquisition in January 2003.
- (2) Since 2000, the Company has reduced its domestic wood furniture manufacturing capacity as a result of lower demand precipitated by competition from lower-priced imports primarily from China. As a result, the Company has recorded charges principally for severance and asset impairment as follows: (a) in 2005, the Company recorded an after tax charge of \$3.3 million (\$5.3 million pretax), or \$0.28 per share principally related to the closing of its Pleasant Garden, NC facility; (b) in 2004, the Company recorded an after tax charge of \$994,000 (\$1.6 million pretax), or \$0.09 per share principally related to the closing of its Maiden, N.C. facility; (c) in 2003, the Company recorded an after tax charge of \$911,000 (\$1.5 million pretax), or \$0.08 per share related to the closing of its Kernersville, N.C. facility; and, (d) in 2001, the Company reduced its workforce at the Martinsville, VA facility and recorded an after tax charge of \$546,000 (\$881,000 pretax) and a special after tax expense of \$199,000 (\$321,000 pretax) related to certain benefits distributed under its Employee Stock Ownership Plan ("ESOP"). These combined after tax charges of \$745,000 (\$1.2 million pretax) reduced earnings per share by \$0.06 in 2001.

2005 MESSAGE TO SHAREHOLDERS

In last year's annual report, we emphasized the changes taking place in the furniture industry and at Hooker Furniture. We reported on changes that were taking place as we transitioned from a domestic, predominately wood furniture manufacturer to a complete wood and upholstery home furnishings resource; from a pure manufacturer to a marketing, logistics, manufacturing, and distribution company; and the changes resulting from being a small quasi-public company to a listed public corporation. Although 2005 was a disappointing year in terms of revenue growth and net income, we have made many changes in the Company that will better position us for the future. These changes support a renewed focus on the core business of this Company: wood and upholstered furniture marketed under the Hooker and Bradington-Young brands.

We continued to operate in a sluggish economy throughout 2005. The consumer's appetite for lower-priced imports continued to take its toll on our domestically produced wood furniture offerings. Decline in demand for these products precipitated the downsizing of our wood furniture operations over the past few years, culminating in the August 2005 closing of our Pleasant Garden, North Carolina facility. The challenge we have faced these past few years has been to align domestic production capacity to demand while simultaneously increasing the flow of imported product. As a result, we have seen our sales of imported products grow from 31% of total revenues in 2001 to over 60% in 2005. In 2005, sales of our domestically produced wood furniture declined 25% from the previous year as a result of lower demand and higher discounting. Unlike recent years, we were unable to offset that domestic decrease with imported wood and upholstered furniture sales.

The closing of our Pleasant Garden, N.C. plant this year proved to be more costly than the previous plant closings. For the year, restructuring and asset impairment charges totaling \$5.3 million before tax or \$.28 per share after tax were incurred. We continue to believe that there is a place and a need for domestic casegoods manufacturing, particularly in the categories of home office and home entertainment furniture. While ultimately the consumer will decide the proper mix of domestic versus imported furniture, we believe that with the Pleasant Garden closing, our production capacity is better aligned with demand.

Perhaps the most promising strides the Company made this year were in the area of supply chain planning and management. Transitioning to an import furniture resource and managing over 80 international suppliers with over 3,000 items has been a challenge. Our customers demand and deserve "just in time" delivery of their orders. Managing the delivery process, particularly for imported furniture, has presented many challenges. During the year, the Company created a new department of Supply Chain Management and made strategic investments in the areas of logistics, personnel and systems. We have established targets for controlling inventory item count and consolidating suppliers to a more appropriate mix. We believe these initiatives will improve our sourcing operations, increase inventory turns, provide logistics efficiency, and position us to provide significant enhancements in customer service and inventory availability at lower costs.

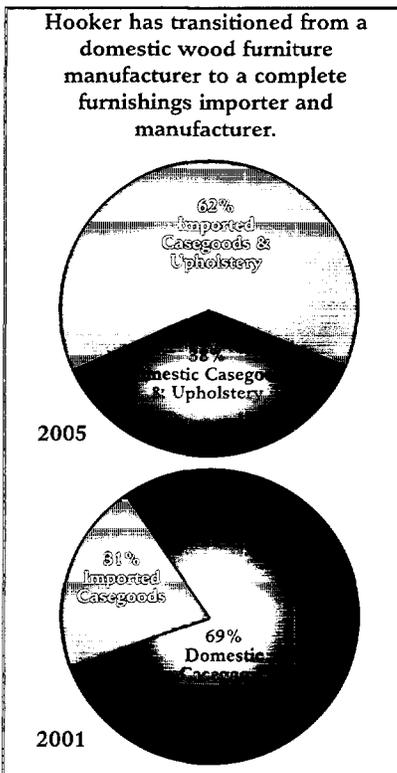
Historically, the Company has prospered by offering great values in stand-alone items such as entertainment centers, home office furnishings, leather seating, occasional and accent pieces. We believe there are additional opportunities for expanded growth by offering whole-home collections. In 2005, we successfully introduced three new collections to our customers. We also unveiled a "store within a store" gallery program with the Company's existing dealers through "SmartLiving ShowPlaces" dedicated exclusively to furniture and whole home collections under the Hooker and Bradington-Young brands. We believe these programs offer significant opportunity to expand relationships with existing dealers.

Bradington-Young, our leather seating specialist, continued an expansion of its product line in 2005 by growing its offering of imported leather seating, differentiated from the domestic line by styling and price. This medium-priced alternative to the custom-made, upper range product of Bradington-Young has given retailers a lower starting price point in their leather furniture offering while taking advantage of the Bradington-Young styling. As a result, Bradington-Young saw an increase of nearly 9% in their sales for upholstered furniture over the previous year, driven primarily by increases in sales of its imported products.

We continue to thank our Board of Directors who bring a wealth of talent from varied backgrounds to your Company. Your Board is dedicated to providing proper corporate governance along with helping to develop strategy for continued growth. In 2005, we lost the services of A. Frank Hooker, Jr. who had been a director with the Company since 1958. Frank did not stand for re-election to the Board at the March stockholders meeting. His long history as a director and retired president and chief operating officer gave the Board and management tremendous insight over the years in guiding this company. While his presence on the Board will be sorely missed, we know he will continue to stay in touch as a champion of Hooker



*Hooker Furniture Executive Committee:
Larry Ryder, CFO; Paul Toms, CEO; Doug Williams, COO*



2005 MESSAGE TO SHAREHOLDERS

Furniture. Joining the Board this year was Robert M. "Mac" Cooper, Jr. Mac brings the background of a chief executive whose company has achieved explosive growth in a related industry and is very experienced in importing, domestic assembly, and merchandising.

We continue to admire the employee-owners of Hooker Furniture Corporation. Experiencing yet another difficult year of personal sacrifice and uncertainty, our employees remain loyal and dedicated with a wonderfully positive attitude. We are truly proud to be associated with such a fine group of individuals.

2005 may have been a difficult year financially, but we believe that many positive changes have taken place. In order to be successful we must continue to focus on innovative design, on-time delivery and continuous improvement in product quality and customer service. We believe we have the tools that are necessary with excellent people, well-managed and fully equipped facilities, strong international partners, financial strength, an excellent product line, a broad dealer base and outstanding sales representatives.

We are optimistic about our prospects for the coming year. As we begin the new year, we have seen an increase in incoming order rates in the late fall/early winter. While it may be premature to signal the end to slumping demand, we are nonetheless encouraged. We assure you that everyone at Hooker Furniture from management to sales representatives to employee-owners and directors will strive to bring you a better year in 2006.

Sincerely,



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



Douglas C. Williams
President and Chief Operating Officer



E. Larry Ryder
Executive Vice President and Chief Financial Officer

About the cover:

Front cover, left to right and top to bottom:

Trend setting, important product introductions by Hooker Furniture in 2005 included a new tall multi-functional desk format with a companion tall desk chair and tall computer credenza. The desk has a lift-up tilting surface to accommodate drafting and drawing, and also is wired to accommodate a computer keyboard and mouse. In home entertainment, Kimball Bridge takes home theater wall units to a new level of elegance with a heavily antiqued finish and leaded glass doors, along with a new concept featuring doors that slide to cover the side units when the TV is being viewed and slide to the center console to conceal most 50-inch TVs when the TV is off.

The Preston Ridge dining room is part of the well-received 60-piece Preston Ridge whole house collection with a distinctive two tone finish contrasting a black rub-through treatment with gold accent and a rich cherry finish. The updated traditional collection is punctuated with curves, shaping and intricately patterned veneer inlay tops. The introduction of high-back tufted leather sofas with a companion fabric cocktail ottoman is an example of the kind of sophisticated and upscale seating offered by Bradington-Young.

Back cover:

The Highgate Manor console is a standout within Hooker's assortment of plasma TV hideaway "pop-up" consoles, an important niche for the Company.

Hooker Furniture leverages core strengths in time of transition

2005 was a year of preparation and positioning as Hooker Furniture transitions to a new business model while building on the proven best practices of our 81-year-old foundation.

Against a backdrop of unprecedented, rapid change in the home furnishings industry, Hooker made significant progress in our goals to become a world class product design, sourcing, operations, logistics, marketing and customer service company.

While we have not arrived at our final goals, we are well on our way to adapting our business to the dramatic paradigm shifts in our industry over the last five years. Hooker's strategic advantage will come in leveraging our core competencies of product development, manufacturing and sales while we develop our tactical skills in supply chain management, logistics and marketing.

Hooker transitions in sourcing, logistics, product mix

Hooker is a company in transition in the area of product sourcing. In 2001, approximately 70% of sales volume was produced in the Company's five U.S. wood furniture plants. Four years later, over 60% of our wood and upholstery furniture is imported from a network of factories throughout the Pacific Rim, Mexico and Central America.

Another area of transition for Hooker is our evolution from a manufacturing specialist to a sourcing and logistics specialist. 2005 was a landmark year in which we established a department of Supply Chain Management and activated a comprehensive logistics computer software system. Hooker is now positioned to realize key improvements in timely product flow and delivery, inventory management, demand forecast accuracy and vendor management in the next year and beyond.

In addition, Hooker is transitioning from a niche and category-driven company to a company that also offers whole-home collections with furnishings for every room of the house and includes both the Hooker and Bradington-Young brands. Hooker now offers several 40- to 70-piece collections united by a common style theme and lifestyle vision, including Intimate Home, Casa del Sol, Preston Ridge and Albany Park. A new collection, Modern Classics, was introduced at the Fall International Home Furnishings Market.

Hooker developing marketing focus to complement product focus

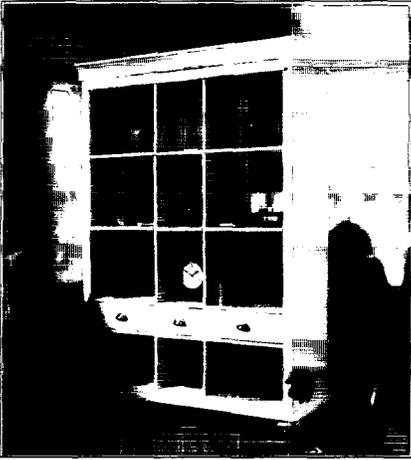
Finally, Hooker is transitioning from a purely product-driven company to a company with increasing focus on consumer marketing. After years of being known as the "low-cost producer" for better wood and leather upholstered furniture, Hooker is further developing our points of differentiation. The Company is taking a critical step closer to the consumer through the development of its SmartLiving in-store galleries that will display a broad array of Hooker and Bradington-Young products in a branded environment of substantial square footage, creating an enhanced shopping environment for the consumer and retail salesperson.

As Hooker navigates the sea changes of recent years, we are confident that – because of our people, our plan, our products and our priceless culture – a promising future is ahead.

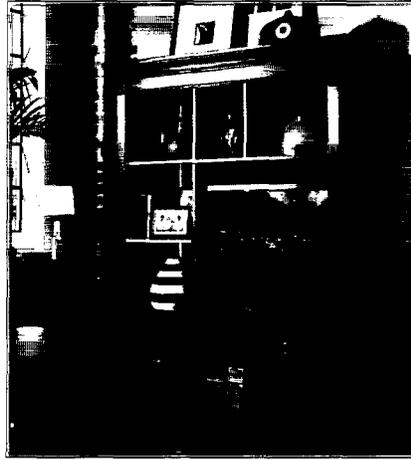


The Metropolitan View office group, introduced in April 2005, features a new tall, multi-purpose desk format and companion tall desk chair, computer credenza and hutch and a dual function étagère that converts into an entertainment center.

PRODUCT HIGHLIGHTS



Entertainment étagère as a room divider

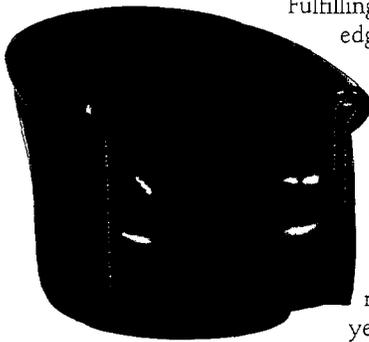


Entertainment étagère for a 30" TV



Entertainment étagère for a 50" TV

Home entertainment innovations, Seven Seas Seating, whole home collections energize new products



Fulfilling its mission to enrich lives through innovative home furnishings, Hooker introduced several leading edge entertainment solutions in 2005. A dual function room divider that converts into an entertainment center for televisions up to 50 inches wide was well received by retailers and consumers. The étagère can be used as a room divider for displaying collectables, and converts into an entertainment center to accommodate 30 to 50-inch TVs when a few shelves and partitions are removed. The Company's introduction of the futuristic "Reversica" plasma TV hideaway console and hutch allows a home theater to be transformed into a library with a dual-function hutch that spins 360 degrees, providing a bookcase on one side and a back panel for mounting a plasma TV on the other.

Bradington-Young's growing Seven Seas Seating imported line helped the Company achieve a record sales performance for leather upholstery of \$62.5 million in 2005, a nearly 9% increase over last year. Originally launched in 2004, Seven Seas Seating offers more moderate price points than

Bradington-Young's historic upper-end niche, and has expanded to include executive desk chairs, sofas, chairs that recline and club chairs. In another strategy to add incremental sales, Bradington-Young continues to introduce new product categories. In October, Bradington-Young successfully entered the category of leather swivel tub chairs.

In 2005, Hooker pursued its strategy of adding incremental sales and improving the presentation of its products on retail floors by expanding its line with whole-home collections. Collections began to generate significant revenue by the end of the 2005 third quarter. Three of the new whole-home collections that began shipping in 2005 include Intimate Home, a warm, relaxing, romantic style; Preston Ridge, an updated traditional collection punctuated with curves, shaping and a contrasting wood and black painted finish; and Casa del Sol, inspired by sun-splashed villas from Aegean and Mediterranean seacoasts. During the 2005 Fall International Home Furnishings Market, the Company launched Modern Classics, a collection offering modern interpretations of 20th Century style influences such as Shaker, Mission and Art Deco.



Reversica console and hutch as a library



Reversica dual function hutch spins 360 degrees



Reversica console and hutch for mounting and viewing a plasma TV

STRATEGIC AND MARKETING HIGHLIGHTS

Supply chain management department established in 2005

As our mix of imported products has grown to approximately 62% of total revenues from about 31% just four years ago in 2001, we have been challenged by the increased complexity of flowing products from a broad network of factories in the Pacific Rim, Central America and Mexico. Among the most important strategic initiatives begun in 2005 were those in the areas of supply chain and logistics management.

Our customers demand and deserve timely deliveries of their orders. Aiming to meet this demand, Hooker created a new department of Supply Chain Management and invested in the areas of logistics, personnel and systems. We have established targets for controlling inventory item count and consolidating suppliers to a more appropriate mix. We believe these initiatives will improve our sourcing operations, increase inventory turns, provide logistics efficiency and position us to provide significant enhancements in customer service and inventory availability at lower costs.



*Front row, left to right: Beth Dodson, Michelle Harbour, Kimberly Clark, Carmela Whitfield, Judy Coleman
Back row: Mary Fackler, Carol Hill, Stephanie Hedrick, Karen Orr, Robert Moore, Harrison Toms, Tim Grabus*

SmartLiving "store-within-a-store" dealer partnerships launched



SmartLiving ShowPlace prototype display in Hooker's High Point N.C. showroom.

A key development in marketing and distribution began in 2005 with the debut of our SmartLiving ShowPlace "store-within-a-store" galleries, dedicated exclusively to furniture groups and whole-home collections under the Hooker and Bradington-Young brands. These displays, featuring upscale architectural elements and in-store communications such as signage and educational consumer takeaway materials, typically comprise 3,500 square feet to just under 10,000 square feet of retail space. The mission of the SmartLiving program is to develop progressive partnerships with retailers consisting of a merchandising and marketing plan to drive increased sales as it positively impacts the consumers' purchase decision, satisfaction and loyalty through an enhanced shopping experience.

CORPORATE DATA

CORPORATE OFFICES

Hooker Furniture Corporation
440 East Commonwealth Boulevard
Martinsville, VA 24112 or
P.O. Box 4708
Martinsville, VA 24115
(276) 632-0459
E-Mail: investor@hookerfurniture.com
Website: www.hookerfurniture.com

STOCK TRANSFER AGENT AND DIVIDEND DISBURSING AGENT

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
(800) 937-5449
Website: www.amstock.com

LEGAL COUNSEL

McGuireWoods LLP
One James Center
901 East Cary Street
Richmond, VA 23219

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
301 North Elm Street, Suite 700
Greensboro, NC 27401-2159

ANNUAL MEETING

The Annual Meeting of Shareholders of Hooker Furniture Corporation will be held on Friday, March 31, 2006 at 2:00 p.m. at the Piedmont Arts Association, 215 Starling Avenue, Martinsville, VA.

ANNUAL REPORT ON FORM 10-K

Hooker Furniture Corporation's Annual Report on Form 10-K, included herein, is also available on our website at www.hookerfurniture.com. A free copy of Form 10-K may also be obtained by contacting Robert W. Sherwood, Vice President – Credit, Secretary and Treasurer at the corporate offices of the Company.

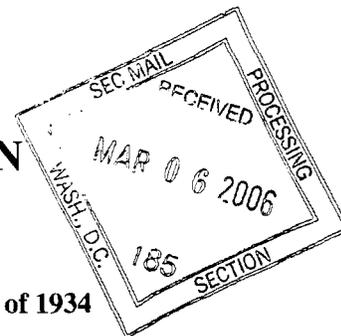
QUARTERLY FINANCIAL INFORMATION

Quarterly financial results are announced by press releases that are available at www.hookerfurniture.com in the "Investors' Information" section. The Company's quarterly reports on Form 10-Q are also available at www.hookerfurniture.com.



Bradington-Young's club chair line, developed over the last two years, has added significant incremental sales since its inception.

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



Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended November 30, 2005

Commission file number 000-25349

HOOKER FURNITURE CORPORATION

(Exact name of registrant as specified in its charter)

Virginia

54-0251350

(State or other jurisdiction of incorporation or organization)

(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:
None

Securities registered pursuant to Section 12(g) of the Act:
Common stock, no par value
(Title of class)

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 ()

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. (X)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated Filer () Accelerated Filer (X) Non-accelerated Filer ()

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$141.9 million.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of February 10, 2006:

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

14,430,151
(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 March 31, 2006 are incorporated by reference into Part III.

Hooker Furniture Corporation

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Hooker Furniture Corporation
Part I

ITEM 1. BUSINESS

General

Incorporated in Virginia in 1924, Hooker Furniture Corporation (the “Company”) is the nation's sixth largest publicly traded furniture provider, based on 2004 shipments to U.S. retailers, according to *Furniture/Today*, a leading trade publication. The 81-year old Company is a leading importer and manufacturer of residential wood, metal and upholstered leather furniture. Major furniture categories include wall and entertainment units, and office, dining, bedroom, accent, occasional, and upholstered leather furniture for the home. Extensive new collections, designs and finish options in each of these product categories make the Company a comprehensive resource for retailers primarily targeting the upper-medium price range. The Company’s principal customers are retailers of residential home furnishings who are broadly dispersed throughout North America. Customers include independent furniture stores, specialty retailers, department stores, catalog merchants and national and regional chains.

The Company markets its wood and metal furniture under the Hooker Furniture brand name, and markets its upholstered furniture under the Bradington-Young brand name. Furniture is designed and marketed as stand-alone products or products within small multi-piece groups or broader collections offering a unifying style, design theme and finish. Examples of Hooker Furniture collections include Preston Ridge, Intimate Home, Casa del Sol and Modern Classics. Products are also marketed by product category, such as The Great Entertainers, SmartWorks Home Office, SmartKids-Youth and PGA TOUR® Home. Hooker’s wood and metal furniture is typically designed for and marketed to the upper-medium price range. Under its Bradington-Young upholstery brand, the Company 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. Domestically produced upholstered furniture is targeted at the upper and upper-medium price ranges, while imported upholstered furniture, marketed as the Bradington-Young Seven Seas Seating line, is targeted at the medium and upper-medium price ranges. The Company provides a comprehensive resource for retailers by offering furniture collections and products for virtually every room of the home.

Hooker’s Employee Stock Ownership Plan (“ESOP”), in which substantially all employees participate, holds more Hooker Furniture shares than any other shareholder of the Company (25.9% of the Company’s outstanding common stock as of November 30, 2005). The Company has approximately 1,400 employees and owns or operates four manufacturing facilities, two supply plants, six distribution centers and warehouses, three showrooms and a corporate headquarters located in Virginia and North Carolina totaling approximately 2.8 million square feet. The Company also utilizes a distribution center and a warehouse located in China that are owned and operated by third parties. The Company’s stock is listed on the NASDAQ Capital Market under the symbol HOFI. Please visit the Company’s websites on the World Wide Web at www.hookerfurniture.com and www.bradington-young.com.

The Company’s mission is to “enrich the lives of the people we touch through innovative home furnishings of exceptional value,” using the following strategy:

- To offer world-class style, quality and product value as a complete residential wood and upholstered furniture resource through excellence in product design, global sourcing, manufacturing, logistics, sales, marketing 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 employee owners, customers, suppliers and community neighbors.
- To nurture the relationship-driven, team-oriented and integrity-minded corporate culture that has distinguished our company for over 80 years.

The Company sells one category of products, home furnishings, which accounts for all of the Company’s net sales of products. The percentages of net sales provided by each of its major product sub-categories for the last three years are as follows:

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-------------|-------------|-------------|
| Wood and metal furniture products | 82% | 83% | 86% |
| Upholstered furniture products | <u>18</u> | <u>17</u> | <u>14</u> |
| Total | <u>100%</u> | <u>100%</u> | <u>100%</u> |

Product Design, Collections and Styles

The product life cycle for furniture is shortening as consumers demand innovative new features, functionality, style and finishes that will enhance their lifestyle while providing value and durability. The Company believes that its distinctive product design, development and market-launch process provides it with a competitive advantage. Hooker Furniture and its Bradington-Young subsidiary design and

develop new product styles semi-annually to replace discontinued products and collections and, in some cases, to enter new categories. The Company's product design process begins with the marketing team identifying customer needs and trends, and conceptualizing product ideas and features. A variety of sketches are produced, usually by independent designers, from which prototype furniture pieces are built. The Company invites its independent sales representatives and a representative group of dealers to view and critique the prototypes. Based on this input, the Company may modify the designs. Then, the Company's engineering department, or one or more of the Company's off-shore suppliers, prepares a sample for actual full-scale production. The Company generally introduces its new product styles at the fall and spring International Home Furnishings Market in High Point, North Carolina, and supports new product launches with promotions, public relations, product brochures, websites and point-of-purchase consumer materials.

Rapid changes in consumer electronics technology prompt continual product format updates in the home entertainment and home office furniture categories. These are two categories in which Hooker strives for innovation and is recognized as an industry leader. In 2005, the Company introduced several leading edge home entertainment products including pop-up-and-swivel plasma TV "hideaway" consoles and two-sided room dividers that convert into entertainment étagères for televisions up to 50 inches wide. Also in the home entertainment category, Hooker introduced the 'Reversica' plasma TV hideaway console and hutch, featuring a dual function hutch that rotates 180 degrees, with a functioning bookcase on one side and a back panel for mounting and viewing a plasma TV on the other.

In the home office category, the Company introduced a new tall multi-functional desk format with a companion tall desk chair and tall computer credenza. The desk, which is 37½ inches tall compared with a standard 30-inch desk, has a lift-up, tilting surface to accommodate drafting and drawing, and also is wired to accommodate a computer keyboard and mouse.

Bradington-Young continues to add incremental sales by entering new product categories and expanding its assortment with global sourcing of leather seating in more moderate price points than the upper end niche occupied by its domestically produced seating. In October, Bradington-Young successfully entered the new category of leather swivel tub chairs. Also in 2005, Bradington-Young expanded its imported Seven Seas Seating line, originally launched in late 2004, with products such as reclining chairs targeted at the medium and upper-medium price ranges.

In 2005, the Company continued to pursue its strategy of adding incremental sales and improving the presentation of its products on retail floors by expanding its product line with whole-home collections. Whole-home collections are launched with multiple furniture pieces across product categories reflecting a common design, finish, theme and lifestyle. Product categories include Hooker's historical areas of strength – wall and entertainment units, and office, occasional and accent furniture – as well as bedroom, dining and upholstered leather furniture. Whole-home collections were first introduced at the Fall 2004 International Home Furnishing Market, and began shipping in 2005. New collections were launched in both the 2005 Spring and Fall International Home Furnishings Markets, and these collections began to generate significant revenue by the end of the 2005 third quarter. Three of the new whole-home collections that began shipping in 2005 include Intimate Home, a warm, relaxing, romantic style; Preston Ridge, an updated traditional collection punctuated with curves and shaping and a contrasting wood and black painted finish; and Casa del Sol, inspired by sun-splashed villas from the Aegean and Mediterranean seacoasts. During the 2005 Fall International Home Furnishings Market, the Company launched Modern Classics, a collection that offers modern interpretations of 20th Century style influences such as Shaker, Mission and Art Deco.

From time to time, the Company will partner with third parties to design and market products under mutually beneficial licensing agreements. The Company introduced its first complete whole-home furniture collection, called "Intimate Home," which began shipping in summer of 2005. This 75-piece collection includes bedroom, dining, office, entertainment, accent and occasional furniture under the Hooker name, as well as upholstered and leather seating under the Bradington-Young name. The collection, in updated romantic styling with European influences, was developed in collaboration with Nancy Lindemeyer, founding editor of Victoria magazine, former senior editor of Better Homes and Gardens magazine and editor of numerous home decorating books. Ms. Lindemeyer is regarded in the industry to be an authority on romantic style and home-related trends. The Company maintains a separate website, www.intimatehomecollection.com, to help market this collection.

Another product group developed under a mutually beneficial license agreement is the PGA TOUR® Home group. The Company has introduced new products for this group each year since its introduction in 2001, and has renewed its licensing agreement with the PGA TOUR® through 2007. These products are marketed, along with other PGA TOUR® Home-licensed furnishings, through the website, www.pgatourhome.com.

The Company's product lines cover most major style categories, including European and American traditional, transitional, urban, country, casual, cottage and romantic designs. The Company offers furniture in a variety of materials, such as various types of wood, metal, leather and fabric, as well as veneer and rattan, often accented with marble, stone, slate, ceramic, glass, brass and/or hand-painted finishes. Products are designed to be attractive to consumers both as individual furniture pieces and as pieces within whole-home collections. The Company believes that its wide variety of product categories, styles and finishes enables it to anticipate and respond quickly to changing consumer preferences. The Company offers retailers a comprehensive furniture resource principally in the upper-medium price range, and additional products within both the upscale and medium price ranges. Based on sales and market

acceptance, the Company believes that its products represent good value and that the style and quality of its furniture compare favorably with more premium-priced products.

Distribution

The general marketing practice followed in the furniture industry is to exhibit products at international and regional furniture markets attended by retail buyers. In the spring and fall of each year, the world's largest furniture market is held in High Point, North Carolina. The Company utilizes 126,000 square feet of facility space in High Point to introduce new products and collections; increase sales of existing products; and design and test innovative features, products and marketing programs.

The Company sells its furniture through over 90 independent sales representatives to retailers of residential home furnishings who are broadly dispersed throughout North America, including:

- independent furniture retailers such as Furnitureland South of Jamestown/High Point, North Carolina, Gabberts of Minneapolis and Dallas, Louis Shanks of Texas, Baer's Furniture of South Florida, and Berkshire Hathaway-owned companies Star Furniture, Jordan's Furniture, Nebraska Furniture Mart and R.C. Willey;
- department stores such as Macys and Dillard's;
- regional chain stores such as Raymour & Flanigan, Robb & Stuckey and Haverty's;
- national chain stores such as Z Gallerie; and
- catalog merchandisers such as Frontgate and the Horchow Collection, a unit of Neiman Marcus.

The Company believes this broad network of retailers and independent sales representatives reduces its exposure to regional recessions, and allows it to capitalize on emerging trends in channels of distribution.

The Company offers tailored merchandising programs, such as SmartLiving in-store galleries, Intimate Home and Seven Seas Treasures boutiques and home entertainment and SmartWorks home office galleries, to address each channel of distribution. A key distribution development began in 2005 with the introduction of SmartLiving ShowPlace "store within a store" galleries, which are dedicated exclusively to furniture groups and whole-home collections under the Hooker and Bradington-Young brands and typically comprise 3,500 square feet to just under 10,000 square feet of retail space. The mission of the SmartLiving program is to develop progressive partnerships with retailers consisting of a merchandising and marketing plan to drive increased sales and profitability and positively impact consumers' purchase decisions, satisfaction and loyalty through an enhanced shopping experience.

The Intimate Home Collection, which first shipped in the summer of 2005, was well received by existing retailers. During the second half of 2005, over 50 Intimate Home boutiques -- branded environments of 700 to 1,000 square feet featuring signage and other point-of-purchase collateral materials -- were established in stores throughout the country. Another important development for imported furniture products that began in 2003 and continued in 2004 and 2005 was the expansion of the Seven Seas Treasures retail boutique program. Currently, over 400 stores dedicate space to display the Company's Seven Seas Treasures line of imported upscale and casual dining room furniture, metal beds, occasional tables and functional accents, including hand-painted furniture, carved writing desks, tables and chests. In the home entertainment and home office categories in which Hooker is recognized as an industry leader, the Company has well-developed product specialty gallery programs supported by semi-annual national sales promotions, a special Website dealer locator and point-of-purchase collateral materials. Currently, there are over 450 Home Entertainment by Hooker galleries and over 325 SmartWorks Home Office galleries established in retail stores. In addition, almost 1,500 retailers offered Bradington-Young leather upholstery products.

The Company sold to over 4,900 customers during 2005. No single customer accounted for more than 4% of the Company's net sales in 2005. No significant part of the Company's business is dependent upon a single customer, the loss of which would have a material effect on the business of the Company. However, the loss of several of the Company's major customers could have a material impact on the business of the Company. In addition to the Company's broad domestic customer base, the Company also sells to a limited international market. Approximately 3% of the Company's net sales in 2005 were to international customers.

During 2005, Hooker Furniture announced the creation of a new supply chain planning and management department, and is continuing to make key investments to refine its logistics, personnel and systems. The Company expects that these initiatives will improve sourcing operations, inventory turnover and logistics efficiency, and position Hooker to provide significant enhancements in customer service, timely product flow and delivery at lower cost. The Company also offers easy ordering options, reduced lead times and extensive inventory, thus reducing inventory investment and risk for retailers.

The Company distributes furniture to retailers from its distribution centers and warehouses in Virginia and North Carolina, as well as directly from Asia and Latin America via its Container Direct Program. In the 2004 fourth quarter, the Company entered into a warehousing and distribution arrangement in China with its largest supplier of imported products. The warehouse and distribution facilities are owned by the supplier and operated by that supplier and a third party utilizing a state of the art global warehouse management system that updates daily the Company's central inventory management and order processing systems. This Asian distribution center operates as a consolidation point for a wide selection of the Company's imported products manufactured by this supplier, and enables the Company to ship containers of mixed products directly to retailers in the U.S. under its Container Direct Program. The ability to mix over 500 ready-to-ship products to create unique containers for each retailer's needs while reducing the retailer's inventory risk and investment puts the program within the reach of significantly more furniture dealers. The program features an internet-based product ordering system and a delivery notification system that is easy to use and available to the Company's pre-registered dealers. In addition, the Company also ships containers directly from a supplier in Honduras. The Company developed this distinct value-added container-direct program to shorten delivery times while providing significant cost savings for retailers.

Seven Seas Seating, Bradington-Young's line of imported stationary seating, has grown rapidly since its introduction in the 2004 fourth quarter. The Company has leased additional warehouse space to help manage warehousing and distribution of this inventory.

The Company schedules purchases of imported furniture and production of domestically manufactured wood furniture based upon actual and anticipated orders and product acceptance at furniture markets. The Company strives to provide imported and domestically produced furniture on-demand for its dealers. During 2005, the Company shipped 74% of imported wood and metal furniture orders and 86% of domestic wood product orders within 30 days of order receipt. It is the Company's policy and industry practice to allow order cancellation up to the time of shipment; therefore customer orders for wood and metal furniture are not firm. However, domestically produced upholstered product orders are predominantly custom built and shipped within one to seven weeks after the order is received, and consequently cannot be cancelled once the leather or fabric is cut.

The Company's backlog of unshipped orders for all of its products amounted to \$46.0 million or seven weeks of sales as of November 30, 2005. During 2005, approximately 12% of orders for new and existing products shipped more than 60 days after order receipt. Over the last three years, 93% of all orders booked were ultimately shipped. Management considers orders and backlogs to be one helpful indicator of sales for the upcoming 30-day period, but because of the Company's quick delivery and its cancellation policy, management does not consider order backlogs to be a reliable indicator of expected long-term business.

Sourcing

Hooker Furniture has the capability, resources, longstanding business relationships and experience to import and/or manufacture wood and upholstered furniture. All metal furniture is imported.

Imported Products

The Company has imported products from foreign manufacturers since 1988. Hooker Furniture imports both finished furniture, as well as furniture that it assembles, in a variety of styles, materials and product lines. The Company believes that the best way to leverage its financial strength and differentiate its import business from the industry is through innovative and collaborative design, outstanding products, great value, consistent quality, easy ordering, world-class logistics and global distribution systems. Imported furniture accounted for 62% of net sales in 2005, 53% of net sales in 2004 and 48% of net sales in 2003.

The Company imports products primarily from China, the Philippines, Mexico, Indonesia, Vietnam, Honduras and Guatemala through direct relationships with factories and with agents representing other factories. Because of the large number and diverse nature of the foreign factories from which the Company sources its imported products, the Company has some flexibility in the placement of products in any particular factory or country. Factories located in China have become an important resource for the Company. In 2005, imported products sourced from China accounted for approximately 67% of import purchases, and the factory in China from which the Company directly sources the most product accounted for approximately 33% of the Company's worldwide purchases of imported product. A sudden disruption in the Company's supply chain from this factory, or from China in general, could significantly impact the Company's ability to fill customer orders for products manufactured at that factory or in that country. If such a disruption were to occur, the Company believes that it would have sufficient inventory to adequately meet demand for a four to five-month period. Also, with the broad spectrum of product the Company offers, the Company believes that, in some cases, buyers could be offered similar product available from alternative sources. The Company believes that it could, most likely at higher cost, source most of the products currently sourced in China from factories in other countries and could produce certain of those products domestically at its own factories. However, supply disruptions and delays on selected items could occur for approximately six-months. If the Company were to be unsuccessful in obtaining those products from other sources, then a sudden disruption in the Company's supply chain from its largest import furniture supplier, or from China in general, could have a short-term material adverse effect on the

Company's results of operations. Given the capacity available in China and other low-cost producing countries, the Company believes the risks from these potential supply disruptions are manageable.

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

For imported products, the Company generally negotiates firm pricing with its foreign suppliers in U.S. Dollars for periods typically of up to one year. The Company accepts the exposure to exchange rate movements beyond these negotiated periods without using derivative financial instruments to manage this risk. Since the Company transacts its imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar could increase the price the Company pays for imported products beyond the negotiated periods. The Company generally expects to reflect substantially all of the effect of any price increases from suppliers in the prices it charges for imported products. These price changes could adversely impact sales volume and profit margin during affected periods. Conversely, a relative increase in the value of the U.S. Dollar could decrease the cost of imported products and favorably impact sales volume and profit margin during affected periods. See also "Item 7A. Quantitative and Qualitative Disclosures about Market Risk."

Manufacturing and Raw Materials

The Company's wood and upholstered furniture manufacturing strategy is to manufacture products that are on the leading edge of changing consumer demand for residential furniture, such as home theater, wall unit, home office, computer furniture, bedroom furniture, and reclining and stationary leather seating. The Company stresses strong customer participation in developing new products such as "pop-up and swivel" lift consoles for thin-screen TVs, entertainment étagères, new SmartWorks Home Office groups, and Bradington-Young reclining and swivel chairs. The Company believes strongly in employee involvement and empowerment, with employee and management teams working and communicating in all areas of manufacturing to continually improve production processes and emphasize quality.

In order to enhance the appeal, competitiveness and profitability of domestically produced wood and upholstered furniture, new features and functions are quickly incorporated into products in order to gain market acceptance as quickly as possible. The Company maintains longstanding relationships and communicates constantly with key suppliers in monitoring and addressing quality and timely delivery of parts and supplies, a process that enables both the Company and its suppliers to respond quickly to constantly changing customer needs.

The Company presently operates approximately 1.1 million square feet of manufacturing and supply plant capacity in North Carolina and Virginia for its domestic wood and upholstered furniture production. The Company considers its machinery and equipment generally to be modern and well-maintained. To meet customer expectations of just-in-time product delivery the remaining two wood furniture plants maintain the flexibility to produce multiple product lines. The Company's strategy has been to strike a balance between using shorter, more frequent production runs for high-demand products and maintaining adequate inventory levels for lower-demand furniture.

The Company's domestic wood furniture manufacturing operations have suffered from lower demand and significant declines in volume for its bedroom, home office and home entertainment products principally due to competition from lower-priced imported furniture products. These declines led to the closing of the Company's Pleasant Garden, N.C. facility in October 2005, Maiden, N.C. facility in October 2004, and Kernersville, N.C. facility in August 2003; a workforce reduction at its Martinsville, VA manufacturing facility in 2001; and short work schedules at its wood manufacturing facilities over much of the time period since 2001.

The principal materials used by the Company in manufacturing its wood furniture products include lumber, veneer, plywood, particleboard, hardware, glue, finishing material, glass products, fasteners and mechanical lifts and remote controls. The Company uses a variety of species of lumber, including poplar, cherry, maple, oak and pine. The Company's strategy for its two upholstered furniture production facilities and two upholstered furniture supply plants is to be a comprehensive leather resource for retailers positioned in the upper and upper-medium price ranges. Bradington-Young offers a comprehensive selection of over 250 leather covers for domestically produced upholstered furniture. Bradington-Young's objective is to be a total leather resource to the upper-middle and high-end customer with a focus on the motion category which comprises approximately 50% of its production levels. The upholstery manufacturing process begins with the cutting of leather or fabric and the cutting and precision machining of frames. Precision frames are important for motion furniture to operate properly and to provide durable service over the life of the products. Finally, the cut leather or fabric upholstery, frames, foam and other materials are assembled to build reclining chairs, executive seating, stationary seating and multiple seat reclining furniture.

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

Foam is a key raw material, and a significant component of materials cost, of leather and fabric upholstered furniture. A large percentage of domestically produced foam is made in the Gulf Coast region, and/or is dependent on raw materials produced in that region. The production of foam was interrupted as a result of hurricanes in the Gulf Coast region in the summer and fall of 2005, and domestic suppliers have indicated that foam shortages may continue for an indefinite timeframe. In addition, the cost of foam has been impacted by foam production capacities and by increased prices for petroleum products. The Company has utilized longstanding business relationships with suppliers to maintain adequate supplies of foam, such that production schedules have not been impacted. There is no assurance that the Company can continue to obtain adequate supplies of foam or obtain foam at competitive prices. The Company has communicated to its retailers that there may be temporary or permanent surcharges as a result of increasing foam prices. The Company began implementing these surcharges in the 2005 fourth quarter.

With the possible exception of foam as discussed above, the Company believes that its sources for raw materials are adequate and that it is not dependent on any one supplier. The Company's five largest suppliers accounted for approximately 20% of its supply purchases for its domestic furniture manufacturing operations in 2005.

Competition

The furniture industry is highly competitive and includes a large number of foreign and domestic manufacturers and importers, none of which dominates the market. While the markets in which the Company competes include a large number of relatively small and medium-sized manufacturers, certain competitors of the Company have substantially greater sales volumes and financial resources than the Company. In addition, foreign manufacturers from a number of countries, such as China, have substantially lower production costs, particularly lower labor costs, compared to the Company. U.S. imports of furniture produced overseas, such as from China, have grown rapidly in recent years, and overseas companies have increased both their presence in the United States and their shipments directly to U.S. retailers during that period.

The primary competitive factors for home furnishings in the Company's price points include price, style, availability, service, quality and durability. In addition, more recently designed products generally have more demand than dated designs. The Company believes that its design capabilities, ability to import and/or manufacture furniture, product value, longstanding customer and supplier relationships, significant distribution and inventory capabilities, ease of ordering, financial strength, experienced management and customer support are significant competitive advantages.

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

Employees

As of November 30, 2005, the Company had approximately 1,400 employees. None of the Company's employees is represented by a labor union. The Company considers its relations with its employees to be good.

The Company sponsors the Hooker Furniture Corporation ESOP, a retirement plan that enables eligible employees to share in the growth of the Company by accumulating an ownership interest in the Company's common stock. Substantially all employees participate in the ESOP, which held 25.9% of the Company's outstanding common stock as of November 30, 2005.

Patents and Trademarks

The Hooker Furniture and Bradington-Young trade names represent many years of continued business. The Company believes these trade names are well-recognized and associated with quality and service in the furniture industry. The Company also owns a number of patents, trademarks and licenses, none of which is considered to be material to the Company.

Hooker, H logo, Bradington-Young, B-Y logo, Intimate Home, Preston Ridge, Casa del Sol, Waverly Place, Modern Classics, Highgate Manor, Seven Seas, Seven Seas Seating, Kimball Bridge, Albany Park, SmartLiving, Metropolitan View, SmartKids, SmartWorks, Christopher Coleson and The Great Entertainers are trademarks of Hooker Furniture Corporation. All rights reserved.

Governmental Regulations

The Company is subject to federal, state, and local laws and regulations in the areas of safety, health, environmental pollution controls, and imports. Compliance with these laws and regulations has not in the past had any material effect on the Company's earnings, capital expenditures, or competitive position; however, the effect of compliance in the future cannot be predicted. Management believes that the Company is in material compliance with applicable federal, state and local safety, health, environmental and imports regulations.

The Company also is subject to provisions of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") pertaining to the review, documentation and testing of internal control over financial reporting and to other corporate governance matters. Compliance with the regulations promulgated under the Sarbanes-Oxley Act led to an increase in professional service fees and staff; and required substantial efforts by internal personnel in 2004. In 2005, compliance costs declined compared to 2004, but increased significantly compared to 2003 and earlier years. As a result, compliance with these regulations had a substantial impact on the Company's earnings for 2004 and a smaller, but significant, impact on results during 2005. The Company expects that future compliance costs related to the Sarbanes-Oxley Act will be consistent with dollar levels expended in 2005.

Additional Information

You may visit us online at www.hookerfurniture.com and www.bradington-young.com. The Company makes available, free of charge through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other documents as soon as practical after filing or furnishing the material to the Securities and Exchange Commission. A free copy of the Company's Form 10-K may also be obtained by contacting Robert W. Sherwood, Vice President - Credit, Secretary and Treasurer at the corporate offices of the Company.

Forward-Looking Statements

Certain statements made in this report, including under "Item 1 - Business" and "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," are not based on historical facts, but are forward-looking statements. These statements reflect the Company's reasonable judgment with respect to future events and can be identified by the use of forward-looking terminology such as "believes," "expects," "projects," "may," "will," "should," "would" or "anticipates," or the negative thereof, or other variations thereon, or comparable terminology, or by discussions of strategy. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Those risks and uncertainties include but are not limited to:

- domestic and international competition in the furniture industry, including price competition from lower-priced imports;
- general economic or business conditions, both domestically and internationally;
- the cyclical nature of the furniture industry;
- achieving and managing growth and change, and the risks associated with acquisitions, restructurings, strategic alliances and international operations;
- risks associated with manufacturing operations, such as fluctuations in the price of key raw materials, including lumber and leather, and environmental matters;
- supply, transportation and distribution disruptions or delays affecting imported and domestically manufactured products;
- adverse political acts or developments in, or affecting, the international markets from which the Company imports products, including duties or tariffs imposed on products imported by the Company;
- changes in domestic and international monetary policies and fluctuations in foreign currency exchange rates affecting the price of the Company's imported products;
- risks associated with distribution through retailers, such as non-binding dealership arrangements; and
- capital requirements and costs.

ITEM 2. PROPERTIES

Set forth below is information with respect to the Company's principal properties. The Company believes that all these properties are well-maintained and in good condition. The Company believes its manufacturing facilities are being efficiently utilized. During 2005, the Company estimated that its wood and upholstery manufacturing facilities operated at approximately 90% of capacity, on a one-shift basis. All Company production facilities are equipped with automatic sprinkler systems, except for the Woodleaf, N.C. facility. All facilities maintain modern fire and spark detection systems, which the Company believes are adequate. The Company has leased certain warehouse facilities for its distribution and imports operation on a short-term basis. The Company expects that it will be able to renew or extend these leases or find or purchase alternative facilities to meet its warehousing and distribution needs at a reasonable cost. The Company also utilizes a 210,000 square foot warehouse and distribution center located in China that is owned and operated by third parties. All facilities set forth below are active and operational.

| <u>Location</u> | <u>Primary Use</u> | <u>Approximate Size in Square Feet</u> | <u>Owned or Leased</u> |
|-------------------|--------------------------------|--|------------------------|
| Martinsville, Va. | Corporate Headquarters | 43,000 | Owned |
| Martinsville, Va. | Manufacturing and Distribution | 760,000 | Owned |
| Martinsville, Va. | Distribution and Imports | 580,000 | Owned |
| Martinsville, Va. | Distribution and Imports | 125,000 | Leased (1) |
| Martinsville, Va. | Distribution and Imports | 150,000 | Leased (2) |
| Martinsville, Va. | Distribution | 189,000 | Owned |
| Martinsville, Va. | Distribution | 146,000 | Owned |
| Roanoke, Va. | Manufacturing | 265,000 | Owned |
| High Point, N.C. | Showroom | 79,000 | Leased (3) |
| High Point, N.C. | Showroom | 14,000 | Owned |
| Cherryville, N.C. | Manufacturing and Offices | 144,000 | Owned (4) |
| Cherryville, N.C. | Manufacturing Supply Plant | 53,000 | Owned (4) |
| Cherryville, N.C. | Distribution and Imports | 74,000 | Leased (4) (5) |
| Hickory, N.C. | Manufacturing | 91,000 | Owned (4) |
| Woodleaf, N.C. | Manufacturing Supply Plant | 34,000 | Leased (4) (6) |
| High Point, N.C. | Showroom | 33,000 | Owned (4) |

(1) Lease may be terminated with 90 days notice

(2) Lease expires December 31, 2007

(3) Lease expires October 31, 2010

(4) Comprise the principal properties of Bradington-Young

(5) Lease expires June 30, 2009

(6) Lease provides for five consecutive one year extensions and expires December 31, 2009

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

**EXECUTIVE OFFICERS OF
HOOKER FURNITURE CORPORATION**

The Company's executive officers and their ages as of February 10, 2006 and the year each joined the Company are as follows:

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Year Joined Company</u> |
|---------------------|------------|---|----------------------------|
| Paul B. Toms, Jr. | 51 | Chairman and Chief Executive Officer | 1983 |
| Douglas C. Williams | 58 | President and Chief Operating Officer | 1971 |
| E. Larry Ryder | 58 | Executive Vice President-Finance and Administration, Assistant Secretary and Assistant Treasurer | 1977 |
| Michael P. Spece | 53 | Executive Vice President-Merchandising and Design | 1997 |
| Raymond T. Harm | 56 | Senior Vice President-Sales | 1999 |
| Henry P. Long, Jr. | 54 | Senior Vice President-Merchandising and Design | 1983 |
| C. Scott Young | 48 | Chief Executive Officer and President of Bradington-Young LLC | 2003 |

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

Douglas C. Williams has been President and Chief Operating Officer since December 2000. Mr. Williams was Executive Vice President - Manufacturing from December 1999 to December 2000, Senior Vice President - Manufacturing from 1987 to 1999, and Vice President - Manufacturing from 1986 to 1987. Prior to 1986, Mr. Williams held various positions in manufacturing management. Mr. Williams joined the Company in 1971 and has been a Director since 1987.

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

Michael P. Spece has been Executive Vice President - Merchandising and Design since September 2004. Mr. Spece was Senior Vice President - Import Division from December 2001 to September 2004. Mr. Spece was Vice President - Import Division from the time he joined the Company in 1997 until December 2001.

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

Henry P. Long, Jr. has been Senior Vice President - Merchandising and Design since 1994. Mr. Long was Vice President - Sales from 1987 to 1994. Prior to 1987, Mr. Long served in various merchandising and product development management positions. Mr. Long joined the Company in 1983 and was a Director from 1993 until 2003.

C. Scott Young has been the Chief Executive Officer and President of the Company's wholly owned subsidiary, Bradington-Young LLC, since January 2003. Mr. Young joined the Company in connection with the Company's acquisition of substantially all of the assets of the predecessor of that subsidiary. Mr. Young served as the Chief Executive Officer and President of the predecessor of Bradington-Young from June 1995 to January 2003.

Hooker Furniture Corporation
Part II

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

The Company's stock is traded on the NASDAQ Capital Market under the symbol "HOFT". The table below sets forth the high and low sales prices per share for the Company's common stock and the dividends per share paid by the Company with respect to its common stock for the periods indicated.

| | <u>2005</u> | | | <u>2004</u> | | |
|---------------------|------------------------------|----------------|------------------|------------------------------|------------|------------------|
| | <u>Sales Price Per Share</u> | | <u>Dividends</u> | <u>Sales Price Per Share</u> | | <u>Dividends</u> |
| | <u>High</u> | <u>Low</u> | <u>Per Share</u> | <u>High</u> | <u>Low</u> | <u>Per Share</u> |
| First Quarter | \$27.14 | \$20.75 | \$0.07 | \$25.99 | \$19.09 | \$0.06 |
| Second Quarter..... | 26.50 | 13.65 | 0.07 | 24.75 | 20.94 | 0.06 |
| Third Quarter | 20.39 | 14.68 | 0.07 | 28.15 | 18.99 | 0.06 |
| Fourth Quarter..... | 18.29 | 12.90 | 0.07 | 28.50 | 21.65 | 0.06 |

As of January 15, 2006, the Company had approximately 2,500 beneficial shareholders and 1,127 current and former employees participating in the Company's ESOP who were eligible to vote shares of common stock. The Company pays dividends on its common stock on or about the last day of February, May, August and November, when declared by the Board of Directors, to shareholders of record approximately two weeks earlier. Although the Company presently intends to continue to declare cash dividends on a quarterly basis for the foreseeable future, the determination as to the payment and the amount of any future dividends will be made by the Board of Directors from time to time and will depend on the Company's then-current financial condition, capital requirements, results of operations and any other factors then deemed relevant by the Board of Directors.

Purchases of Equity Securities by the Issuer or Affiliated Purchasers

In June 2001, the Company announced that its Board of Directors had authorized the repurchase of up to \$3.0 million of the Company's common stock and announced an increase in that authorization of \$2.2 million in October 2001, for an aggregate authorization of \$5.2 million. There is no expiration date for this authorization. Repurchases may be made from time to time in the open market, or in privately negotiated transactions, at prevailing market prices that the Company deems appropriate. During 2005, the Company repurchased 50,000 shares of common stock for \$930,000 in cash, or \$18.60 per share. No shares of common stock were repurchased by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a) (3) under the Securities Exchange Act of 1934, as amended) during the 2005 fourth quarter. Through November 30, 2005, the Company had repurchased approximately 634,000 shares at a total cost of \$3.44 million or an average of \$5.42 per share. Based on the market value of the common stock as of November 30, 2005, the remaining \$1.72 million of the authorization would allow the Company to repurchase approximately 111,000 shares, or 0.8%, of the 14.4 million shares outstanding, or 1.0% of the Company's outstanding shares excluding the 3.7 million shares held by the ESOP.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data for each of the last five years ended November 30, 2005, has been derived from the Company's audited, consolidated financial statements. The selected financial data should be read in conjunction with the Consolidated Financial Statements, including the related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report.

| | <u>2005</u> | For The Years Ended November 30, | | | <u>2001</u> |
|--|------------------|--|----------------|-------------|-------------|
| | | <u>2004</u> | <u>2003(1)</u> | <u>2002</u> | |
| | | <i>(In thousands, except per share data)</i> | | | |
| Income Statement Data: | | | | | |
| Net sales | \$341,775 | \$345,944 | \$309,005 | \$248,346 | \$221,289 |
| Cost of sales | 249,873 | 250,467 | 226,880 | 179,558 | 170,008 |
| Gross profit..... | 91,902 | 95,477 | 82,125 | 68,788 | 51,281 |
| Selling and administrative expenses | 65,497 | 62,707 | 54,903 | 42,469 | 39,323 |
| Restructuring and asset impairment charges (2) | 5,250 | 1,604 | 1,470 | | 881 |
| Operating income..... | 21,155 | 31,166 | 25,752 | 26,319 | 11,077 |
| Other income, net..... | 563 | 627 | 286 | 560 | 1,213 |
| Interest expense..... | 1,209 | 1,869 | 2,638 | 2,094 | 2,140 |
| Income before income taxes | 20,509 | 29,924 | 23,400 | 24,785 | 10,150 |
| Income taxes..... | 8,024 | 11,720 | 8,690 | 9,394 | 3,640 |
| Net income | 12,485 | 18,204 | 14,710 | 15,391 | 6,510 |
| Per Share Data: | | | | | |
| Basic and diluted earnings per share (2)..... | \$ 1.06 | \$ 1.56 | \$ 1.28 | \$ 1.36 | \$ 0.56 |
| Cash dividends per share..... | 0.28 | 0.24 | 0.22 | 0.19 | 0.18 |
| Net book value per share (3)..... | 12.50 | 11.60 | 10.02 | 8.87 | 7.72 |
| Weighted average shares outstanding..... | 11,795 | 11,669 | 11,474 | 11,285 | 11,619 |
| Balance Sheet Data: | | | | | |
| Cash and cash equivalents..... | \$ 16,365 | \$ 9,230 | \$ 14,859 | \$ 2,316 | \$ 7,926 |
| Trade accounts receivable..... | 43,993 | 40,960 | 37,601 | 33,771 | 29,430 |
| Inventories..... | 68,718 | 69,735 | 42,442 | 54,959 | 33,522 |
| Assets held for sale (4)..... | 1,656 | 5,376 | | | |
| Working capital..... | 109,719 | 97,139 | 74,814 | 71,376 | 59,624 |
| Total assets..... | 189,052 | 188,918 | 167,099 | 149,881 | 130,695 |
| Long-term debt (including current maturities) | 13,295 | 23,166 | 30,837 | 24,703 | 26,911 |
| Common stock held by ESOP (5)..... | | | | | 9,397 |
| Shareholders' equity (5)..... | 148,612 | 136,585 | 116,264 | 101,044 | 87,138 |

(1) In 2003, the Company acquired substantially all of the assets of Cherryville, N.C. based leather seating specialist Bradington-Young LLC. Shipments of upholstered furniture products accounted for \$62.5 million in 2005, \$57.5 million in 2004 and \$44.2 million during the eleven-month period following its acquisition in January 2003.

(2) Since 2000, the Company has reduced its domestic wood furniture manufacturing capacity. As a result, the Company has recorded restructuring charges, principally for severance and asset impairment, as follows: (a) in 2005, the Company recorded an after tax charge of \$3.3 million (\$5.3 million pre tax), or \$0.28 per share principally related to the closing of its Pleasant Garden, N.C. facility; (b) in 2004, the Company recorded an after tax charge of \$994,000 (\$1.6 million pretax), or \$0.09 per share principally related to the closing of its Maiden, N.C. facility; (c) in 2003, the Company recorded an after tax charge of \$911,000 (\$1.5 million pretax), or \$0.08 per share related to the closing of its Kernersville, N.C. facility; and in 2001, the Company reduced its workforce at the Martinsville, VA facility and recorded an after tax charge of \$546,000 (\$881,000 pretax) and a special after tax expense of \$199,000 (\$321,000 pretax) related to certain benefits distributed under its ESOP. These combined after tax charges of \$745,000 (\$1.2 million pretax) reduced earnings per share by \$0.06 in 2001.

(3) Net book value per share is derived by dividing (a) the sum of (i) "shareholders' equity" and (ii) "common stock held by ESOP" (for 2001) by (b) the number of common shares issued and outstanding, excluding unearned ESOP shares, all determined as of November 30 of each year.

(4) In connection with both the October 2005 closing of the Pleasant Garden, N.C. plant and the October 2004 closing of the Maiden, N.C. plant, the Company reclassified substantially all of the related property, plant and equipment to "assets held for sale". The carrying value of these assets approximated fair value less anticipated selling expenses. The Company sold all of the assets located in Maiden N.C. during the first half of 2005. In December 2005, the Company sold substantially all of the machinery and equipment located at the Pleasant Garden, N.C. facility, having a carrying value of \$907,000, for an aggregate consideration of \$932,000 in cash, net of selling expense. The Company is actively marketing the remaining real and personal property and anticipates that it will be sold within the next twelve months.

(5) In 2002, Hooker Furniture common stock began trading on the NASDAQ Capital Market. As a result, the Company is no longer obligated to repurchase shares from participants in the Company's ESOP. Consequently, shares previously reflected in the Company's balance sheets as "common stock held by ESOP" were reclassified to "shareholders' equity" in 2002.

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

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

Overview

Over the four-year period ended November 30, 2005, the Company has operated in a sluggish economy impacted by low to moderate levels of consumer confidence and growing consumer preference for lower-priced imported furniture products. The Company's results of operations have been affected in opposing ways by lower-priced imported furniture.

- First, the Company's domestic wood furniture manufacturing operations have suffered from lower demand and significant declines in volume for bedroom, home office, home entertainment and other products. These declines led to the closing of the Company's Pleasant Garden, N.C. facility in 2005, Maiden, N.C. facility in 2004 and Kernersville, N.C. facility in 2003, a workforce reduction at the Martinsville, VA facility in 2001 and reduced work schedules at the Company's wood furniture manufacturing facilities over most of the period since 2001. The Company's domestic upholstered furniture manufacturing operations experienced reduced shipments in the 2005 third and fourth quarters, and reduced work schedules in the 2005 fourth quarter.
- Second, net sales of the Company's imported wood and metal furniture have experienced significant growth during this four-year period, and imported upholstered furniture net sales have experienced significant growth during the current year. Net sales of imported products have increased to record levels every year since 2001 and have grown as a percentage of total net sales, from 31.2% in 2001 to 61.7% in 2005.

The Company's results of operations during 2005 were principally impacted by the following factors:

- A 1.2% or \$4.1 million decline in net sales
- A decrease in gross profit margin in 2005 to 26.9% compared to 27.6% in 2004. Declines in gross profit margin for domestically produced wood furniture and for upholstered furniture offset a slight increase in gross profit margin for imported wood and metal furniture.
- A 4.4% or \$2.8 million increase in selling and administrative expenses principally due to:
 - higher warehousing costs resulting from higher imported product shipments and additional warehousing facilities, distribution programs and supply chain management initiatives, and
 - higher sales and marketing expense related to the Company's introduction of multi-category "whole home" collections and "store within a store" SmartLiving Showplaces with existing retailers.
- Restructuring and asset impairment charges increased to \$5.3 million (\$3.3 million after tax, or \$0.28 per share) principally related to the closing of the Pleasant Garden, N.C. facility in October 2005.

Results of Operations

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

| | For the Years Ended November 30, | | |
|---|----------------------------------|-------------|-------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales..... | <u>73.1</u> | <u>72.4</u> | <u>73.4</u> |
| Gross profit..... | 26.9 | 27.6 | 26.6 |
| Selling and administrative expenses | 19.2 | 18.1 | 17.8 |
| Restructuring and asset impairment charges..... | <u>1.5</u> | <u>0.5</u> | <u>0.5</u> |
| Operating income | 6.2 | 9.0 | 8.3 |
| Other income, net | <u>0.2</u> | <u>0.2</u> | <u>0.1</u> |
| Income before interest and income taxes | 6.4 | 9.2 | 8.4 |
| Interest expense | <u>0.4</u> | <u>0.6</u> | <u>0.8</u> |
| Income before income taxes..... | 6.0 | 8.6 | 7.6 |
| Income taxes..... | <u>2.3</u> | <u>3.3</u> | <u>2.8</u> |
| Net income | <u>3.7%</u> | <u>5.3%</u> | <u>4.8%</u> |

2005 Compared to 2004

Net sales of \$341.8 million for the year ended November 30, 2005, declined \$4.1 million, or 1.2%, from \$345.9 million in 2004. In 2005, Hooker achieved record sales levels in imported wood and metal furniture and Bradington-Young upholstered furniture. These sales gains were more than offset by a significant decline in shipments of the Company's domestically produced wood furniture. Annual 2005 net sales by product category were as follows:

- Wood and metal furniture net sales declined by \$9.2 million, or 3.2%, to \$279.2 million in 2005 versus \$288.4 million in 2004. Domestic wood furniture net sales dropped to \$77.0 million in 2005 from \$103.0 million in 2004, a decline of \$26.3 million, or 25.5%, principally due to lower incoming order rates and more aggressive pricing and discounting. Domestic wood furniture net sales decreased to 22.5% of total net sales in 2005 compared to 29.8% in 2004. Imported wood and metal furniture net sales, including record level shipments under the Company's Container Direct Program, grew to \$202.3 million, an increase of \$16.6 million, or 8.9%, compared to \$185.4 million in 2004.
- Upholstered furniture net sales grew by \$4.9 million, or 8.5%, to \$62.5 million in 2005, compared to \$57.5 million during 2004. Increasing shipments of imported upholstered furniture, introduced in the spring of 2004, more than offset a slight decline in orders and shipments of domestically produced upholstered furniture. Upholstered furniture net sales increased to 18.3% of total net sales in 2005 from 16.6% in 2004.

Management believes that net sales growth for Hooker's imported wood and metal furniture was the result of:

- stylish and innovative new furniture designs, groups and whole-home collections such as Preston Ridge and Intimate Home;
- growth in container-direct capabilities, orders and shipments resulting, in part, from the Company's web-based ordering system that provides retailers with the ability to more easily configure containers with a variety of products that are shipped from offshore facilities directly to the retailer; and
- investments in marketing media, advertising and retail support services and materials, including the introduction of SmartLiving "store within a store" galleries, and Intimate Home boutiques as well as the expansion of Seven Seas Collection boutiques.

Net sales growth for Bradington-Young upholstered furniture operations was principally the result of:

- sales of newly introduced products, including new leather and fabric products designed for Hooker whole-home collections; and
- sales growth in imported Seven Seas Seating products, launched in the spring of 2004, targeted at the medium and upper-medium upholstery market niches, which represents a lower-priced starting point for Bradington-Young.

During 2005, average selling prices declined compared to 2004. Average selling prices declined for domestically produced wood furniture as a result of aggressive pricing, discounting and the mix of products shipped, and declined for upholstered products due to the mix of products shipped, including increased sales of lower-priced imported upholstered furniture. These declines more than offset increased average selling prices for imported wood and metal furniture resulting from the changing mix of products shipped.

Gross profit margin declined to 26.9% of net sales in 2005 compared to 27.6% in 2004, due to declining gross profit margin for both upholstered furniture and domestic wood furniture, partially offset by improved gross margin for imported wood and metal furniture. The decline in demand for domestic wood furniture caused underutilization of the Company's domestic production capacity, which in turn led to production inefficiencies resulting in increased labor and overhead costs as a percentage of net sales. This, coupled with aggressive pricing and promotional discounts, contributed to the decline in gross profit margin for domestic wood furniture. The decline in gross profit margin for upholstered furniture resulted from the underutilization of domestic capacity in the second half of the year, higher employee benefits cost, principally for health insurance, and higher material costs, principally for foam.

Selling and administrative expenses increased by \$2.8 million, or 4.4%, to \$65.5 million, or 19.2% of net sales in 2005 from \$62.7 million, or 18.1% of net sales in 2004 principally due to the following:

- higher warehousing and distribution expenses resulting from increased demand for imports. Imported furniture typically requires a higher level of sourcing, warehousing and distribution costs compared to domestically produced furniture. Increasing levels of expense were also a result of launching new collections and the Seven Seas Seating program; and investing in warehousing facilities, distribution programs and supply chain management. These expenses include higher information technology and distribution costs principally to support operations such as the distribution center and warehouse located in China (owned and operated by vendors) and the new initiatives in supply chain management,
- increased sales and marketing expenses, principally as a result of increased trade advertising and marketing support related to the Company's introduction of multi-category "whole home" collections and "store within a store" SmartLiving Showplaces, and
- a one-time charge to depreciation expense in the first quarter of 2005 of \$520,000 (\$322,000 after tax, or \$0.03 per share) to correct an error in the application of GAAP related to amortizing leasehold improvements. The Company reduced the estimated useful lives of certain leasehold improvements at its High Point, N.C. showroom to correspond with the remaining term of the related lease. The impact of this charge was immaterial to 2005 results and results in each of the prior periods in which the error arose.

These increases in selling and administrative expenses were partially offset by reduced compliance costs related to corporate governance and financial reporting mandates under the Sarbanes-Oxley Act.

ESOP cost (including administrative costs) decreased \$550,000 to \$3.4 million compared to \$3.9 million in the same 2004 period, principally due to a decline in the average market price of the Company's common stock. The Company records non-cash ESOP cost for the number of shares that it commits to release to eligible employees at the average market price of the Company's common stock during each respective period based on the amount of the annual principal and interest payments made on the ESOP Loan. The ESOP committed to release approximately 171,000 shares at an aggregate market value of \$3.2 million, or \$18.90 per share during 2005 compared to approximately 161,200 shares at an aggregate market value of \$3.8 million or \$23.47 per share during 2004. The ESOP shares have a cost basis of \$6.25 per share. The cost of the plan is allocated between cost of goods sold and selling and administrative expenses based on employee compensation.

Profitability for both 2005 and 2004 was impacted by restructuring charges related to plant closings. Competitive pressures from consumer preference for lower-priced imports, which have caused continuing declines in orders and shipments of domestically produced wood furniture, led to decisions to close the Pleasant Garden and Maiden, N.C. facilities.

During 2005, the Company recorded aggregate restructuring charges of \$5.3 million (\$3.3 million after tax or \$0.28 per share) principally related to:

- the October 2005 closing of its Pleasant Garden, N.C. plant (\$4.3 million), and the September 2005 consolidation of related plywood production at its Martinsville, Va. manufacturing facility (\$406,000), which included \$1.5 million in severance and related benefits for approximately 300 hourly and salaried employees, \$2.9 million in related asset impairment charges and \$258,000 for other costs to prepare the property for sale; and
- additional costs of \$586,000 related to its Maiden, N.C. facility (which closed in 2004) and its Kernersville, N.C. facility (which closed in 2003) consisting of :

- \$322,000 principally for additional asset impairment and health care expenses related to the sale of the Maiden real property; and
- \$264,000 of additional costs principally for environmental monitoring related to the closing of the Kernersville facility.

In connection with the closing of the Pleasant Garden facility, the Company transferred related plywood production from a facility located in Martinsville, Va. to its main Martinsville manufacturing facility. The Company completed this transfer in the 2005 fourth quarter and expects to complete the conversion of this separate facility into a finished goods warehouse during the 2006 first quarter.

During 2005, the Company reclassified to "assets held for sale" the real and personal property at the Pleasant Garden facility and certain plywood production equipment located at the Martinsville plywood facility, with an aggregate carrying value of \$1.7 million net of anticipated selling expenses. These assets are included in "current assets" on the consolidated balance sheet as of November 30, 2005. In December 2005, the Company sold the majority of the machinery and equipment, having a carrying value of \$907,000, for an aggregate consideration of \$932,000 in cash, net of selling expense. The Company is actively marketing the remaining real and personal property and anticipates that they will be sold within the next twelve months. The Company anticipates recording \$200,000 to \$300,000 of additional restructuring charges, principally disassembly costs, which will be expensed as incurred during 2006, in connection with the sale of the Pleasant Garden real property.

The 2004 restructuring and asset impairment charges totaled \$1.6 million (\$1.0 million after tax or \$0.09 per share) and included:

- costs related to the October 2004 closing of its Maiden, N.C. manufacturing facility (\$1.5 million), which included \$872,000 in severance and related benefits for approximately 280 hourly and salaried employees and approximately \$637,000 in related asset impairment and other costs to prepare the facility for sale; and
- additional health care costs (\$95,000) related to its Kernersville, N.C. facility, which closed in 2003.

The Maiden, N.C. real property, machinery and equipment, with a carrying value of \$5.4 million as of November 30, 2004, were reclassified to "assets held for sale." All of these assets were sold during the 2005 first half for an aggregate consideration of \$5.3 million in cash, net of selling expense, and a note receivable of \$104,000.

As a result of the above, operating income as a percentage of net sales decreased to 6.2% in 2005, compared to 9.0% in 2004.

Other income, net declined by \$64,000 to \$563,000 in 2005 from \$627,000 in 2004. Miscellaneous cash receipts and interest income declined compared to the prior year.

Interest expense decreased \$660,000 to \$1.2 million during 2005 from \$1.9 million in 2004. The decrease is due to lower debt levels partially offset by higher weighted average interest rates. Debt declined principally due to a \$4.6 million debt prepayment made by the Company in May 2005 and other scheduled debt repayments made during 2005.

The Company's effective tax rate decreased to 39.1% in 2005 compared to 39.2% in 2004, principally as a result of lower state income taxes partially offset by the effect of assessments from a captive insurance company which provides certain insurance coverage to Hooker Furniture. Certain assessments from this captive insurance company are treated as capital contributions for income tax purposes and accordingly are not deductible.

Net income for 2005 of \$12.5 million, or \$1.06 per share, declined \$5.7 million, or 31.4%, compared to 2004 net income of \$18.2 million, or \$1.56 per share.

2004 Compared to 2003

Hooker Furniture Corporation established record net sales and income in 2004. Net sales of \$345.9 million for the year ended November 30, 2004, increased 12.0% from \$309.0 million in 2003. Net income for 2004 of \$18.2 million, or \$1.56 per share, increased 23.8% compared to 2003 net income of \$14.7 million, or \$1.28 per share. Improved profitability performance in 2004 compared with 2003 was achieved despite significant additional expenses, such as restructuring costs associated with the October 2004 closing of the Maiden, N.C. plant and expenses incurred to comply with corporate governance and financial reporting mandates brought about by the Sarbanes-Oxley Act. Improvement in net sales, net income and profitability as a percentage of net sales in 2004 was principally driven by higher unit volume and improved gross profit margin.

Increases in net sales for 2004 were attributed to unit volume growth in Hooker's imported furniture and growth in the Bradington-Young line of upholstered furniture, partially offset by decreased shipments of domestically produced wood furniture. During 2004, average selling prices increased for imported wood and metal furniture, and increased slightly for domestic wood furniture, but

declined for upholstered furniture, compared to 2003. Overall, average selling prices increased slightly in 2004 compared to 2003. Annual 2004 net sales by product category were as follows:

- Wood and metal furniture net sales grew by \$23.6 million, or 8.9%, to \$288.4 million in 2004 from \$264.8 million in 2003. Imported wood and metal furniture net sales, including shipments under the Company's Container Direct Program, grew to \$185.4 million, an increase of 24.7% compared to \$148.7 million in 2003. Imported wood and metal furniture net sales increased to 53.6% of total net sales in 2004 from 48.1% in the prior year. Domestic wood furniture net sales dropped to \$103.0 million, a decline of 11.3% compared to \$116.1 million in 2003. This category decreased to 29.8% of total net sales in 2004 compared to 37.6% in 2003.
- Upholstered furniture net sales grew to \$57.5 million, compared to \$44.2 million during the eleven months following the acquisition of Bradington-Young at the beginning of January 2003. Upholstery net sales increased to 16.6% of total net sales in 2004 from 14.3% in 2003.

The double-digit net sales growth for Hooker's Bradington-Young operations was principally the result of an expanded sales organization and a broader product line. While the Company provided a four-fold increase in the number of professional sales representatives selling this line, net sales growth exceeded the growth rate in related selling and distribution expenses. Consequently, these expenses declined as a percentage of upholstered furniture net sales.

Gross profit margin increased to 27.6% of net sales in 2004 compared to 26.6% in 2003. The increased proportion of imported wood and metal furniture shipments helped to improve gross profit margin in 2004, since these products typically carried higher gross profit margins than domestically manufactured products (however, imported furniture typically required a higher level of sourcing, warehousing and distribution costs, which are reflected in selling and administrative expenses, compared to domestically produced furniture).

The gross profit margin on imported furniture increased during 2004 compared to 2003, based on the mix of products sold and reduced assembly costs. The improvement was partially offset by higher levels of shipments under the Company's Container Direct Program. Products shipped under the Container Direct Program had higher volume discounts than imported products shipped from domestic warehouses. Gross profit margin on domestically produced wood furniture improved slightly during 2004, helped by lower levels of promotional discounting and lower domestic wood furniture production costs as a percentage of net sales. The production cost margin improved based on steps taken to more closely align production capacity with demand. Bradington-Young's 2004 gross profit margin approximated the 2003 gross profit margin. Improved raw material utilization and lower overhead costs, resulting from higher unit volume, were offset by higher labor and benefits costs (principally non-cash ESOP cost).

Selling and administrative expenses increased by \$7.8 million, or 14.2%, to \$62.7 million in 2004 from \$54.9 million in 2003. The increase is principally due to the following:

- Higher professional services and personnel expenses incurred to comply with accounting, internal control and corporate governance mandates brought about by the Sarbanes-Oxley Act of 2002 and new SEC and NASDAQ rules and regulations.
- Higher selling, warehousing and distribution costs supporting higher import net sales, including the costs incurred to bring the new affiliated Asian warehouse and distribution center and internet-based product ordering system on line during the second half of 2004.
- Increased sales and marketing expenses supporting higher upholstery net sales, including the start up and operating costs incurred for the Seven Seas Seating warehouse during the second half of 2004. In addition, selling and administrative expenses for 2003 included only eleven months of operating expenses for Bradington-Young compared to twelve months of operating expenses during 2004.

As a percentage of net sales, selling and administrative expenses increased to 18.1% in 2004 from 17.8% in 2003, principally due to the higher corporate governance and financial reporting compliance costs mentioned previously. However, warehousing, distribution, selling and marketing expenses declined as a percentage of net sales through the effect of higher net sales.

The non-cash cost of the Company's ESOP for 2004 increased \$874,000 to \$3.8 million compared to \$2.9 million in 2003. The Company records non-cash ESOP cost for the number of shares that it commits to release to eligible employees at the average market price of the Company's common stock during each respective period based on the amount of the annual principal and interest payments made on the ESOP Loan. As allowed under the terms of the ESOP Loan, the Company reduced the amount of 2004 contributions to the ESOP. Consequently, the ESOP committed to release approximately 161,200 shares at an average market price of \$23.47 during 2004 compared to approximately 212,200 shares at an average market price of \$13.83 during 2003. The ESOP shares have a cost basis of \$6.25 per share. The cost of the plan is allocated between cost of goods sold and selling and administrative expenses based on employee compensation.

Profitability for both 2004 and 2003 was impacted by restructuring charges related to plant closings. Competitive pressures from lower priced imports, which caused continuing declines in shipments of domestically produced wood furniture, led to decisions to close the Maiden and Kernersville, N.C. facilities. The pretax restructuring charges reduced operating income in both 2004 and 2003 by 0.5% of net sales.

- In 2004, the Company recorded a \$1.6 million pretax (\$1.0 million after tax, or \$0.09 per share) restructuring and related asset impairment charge principally related to the October 2004 closing of the Company's Maiden, N.C. wood furniture manufacturing facility.
- In 2003, the Company recorded a \$1.5 million pretax (\$911,000 after tax, or \$0.08 per share) restructuring and related asset impairment charge related to the August 2003 closing of the Company's Kernersville, N.C. wood furniture plant.

Competitive pressures from lower priced imports, which caused continuing declines in shipments of domestically produced wood furniture, led to decisions to close the Maiden and Kernersville, N.C. facilities.

As a result of the above, operating income as a percentage of net sales increased to 9.0% in 2004, compared to 8.3% for 2003.

"Other income, net" increased by \$341,000 to \$627,000 in 2004 from \$286,000 in 2003. The increase reflects higher levels of miscellaneous cash receipts and interest income. Also in 2003, the Company recorded a loss of \$139,000 on the termination of an interest rate swap agreement.

Interest expense decreased \$769,000 to \$1.9 million during 2004 from \$2.6 million in 2003. The decrease was principally due to a \$15.0 million debt prepayment made by the Company in the fourth quarter of 2003 and other scheduled debt repayments made during 2004.

The Company's effective tax rate increased to 39.2% in 2004 compared to 37.1% in 2003, principally as a result of higher non-cash ESOP cost and higher state income taxes. The Company records non-cash ESOP cost based on the average market value of the Company's common stock during the year, but may deduct only the cost basis of the shares for income tax purposes.

Financial Condition, Liquidity and Capital Resources

Balance Sheet and Working Capital

Total assets increased \$134,000 to \$189.1 million from \$188.9 million principally as a result of a \$7.1 million increase in cash and cash equivalents, a \$3.0 million increase in trade accounts receivable and a \$1.4 million increase in the cash surrender value of life insurance policies. These increases were partially offset by a combined \$10.8 million decline in "property, plant and equipment" and "assets held for sale" principally due to depreciation, the write-down of assets for the Pleasant Garden N.C. facility to fair market value and the January 2005 sale of the Maiden, N.C. facility; and a \$1.0 million reduction in inventories.

Working capital increased by \$12.6 million to \$109.7 million as of November 30, 2005, from \$97.1 million at the end of 2004, principally as a result of an increase in cash and cash equivalents and a decline in current liabilities (trade accounts payable and current maturities of long-term debt). The Company's long-term debt, including current maturities, decreased to \$13.3 million on November 30, 2005, compared to \$23.2 million on November 30, 2004 as a result of the early redemption of the industrial revenue bonds in May 2005 and scheduled debt payments. Shareholders' equity at November 30, 2005 increased \$12.0 million to \$148.6 million compared to \$136.6 million on November 30, 2004.

Summary Cash Flow Information – Operating, Investing and Financing Activities

| | For the Years Ended November 30, | | |
|--|----------------------------------|------------------|-----------------|
| | 2005 | 2004 | 2003 |
| Net cash provided by operating activities | \$19,624 | \$ 7,449 | \$42,107 |
| Net cash provided by (used in) investing activities | 1,636 | (2,621) | (25,965) |
| Net cash used in financing activities | (14,125) | (10,457) | (3,599) |
| Net increase (decrease) in cash and cash equivalents | <u>\$ 7,135</u> | <u>\$(5,629)</u> | <u>\$12,543</u> |

During 2005, cash generated from operations (\$19.6 million) and proceeds from the sale of property and equipment (\$5.2 million principally from the sale of the Maiden, N.C. facility) funded payments on long-term debt and the termination of an interest rate swap agreement (\$9.9 million), an increase in cash and cash equivalents (\$7.1 million) capital expenditures (\$3.6 million), cash dividends (\$3.3 million), and the purchase and retirement of common stock (\$930,000).

During 2004, cash generated from operations (\$7.4 million), a decrease in cash and cash equivalents (\$5.6 million), proceeds from borrowing (\$2.0 million), the collection of a note receivable (\$900,000 issued in connection with the November 2003 sale of the Kernersville, N.C. manufacturing facility) and proceeds from the sale of property (\$181,000) funded the repayment of long-term debt (\$9.7 million), capital expenditures (\$3.7 million) and dividend payments (\$2.8 million).

During 2003, proceeds from borrowings (\$77.3 million), cash generated from operations (\$42.1 million), and proceeds from the sale of property (\$92,000) provided cash for the acquisition of Bradington-Young (\$22.1 million, net of cash acquired), the refinancing and repayment of long-term debt (\$75.3 million, including the repayment of \$4.1 million of debt assumed in the Bradington-Young acquisition), an increase in available cash and cash equivalents (\$12.5 million), capital expenditures (\$4.0 million), payments to terminate interest rate swap agreements (\$3.2 million) and dividend payments (\$2.5 million).

In 2005, cash generated from operations of \$19.6 million increased \$12.2 million from \$7.4 million in 2004. The increase was due to an \$11.7 million decrease in payments to suppliers and employees (principally due to lower domestic production levels and lower purchases of imported products), a \$2.4 million decline in income taxes paid as a result of lower taxable income and a \$343,000 decrease in interest payments due to the \$9.9 million decline in long-term debt. The increase was partially offset by a decline of \$2.3 million in cash received from customers on lower net sales.

Cash generated from operations in 2004 of \$7.4 million decreased \$34.7 million from \$42.1 million in 2003. The decrease was due to \$65.0 million in higher payments to suppliers and employees and \$2.5 million in higher income tax payments, partially offset by \$31.9 million in higher payments received from customers and \$1.0 million in lower interest payments. Payments to suppliers and employees increased principally to fund increased purchases and inventory levels of imported furniture, higher production of upholstered furniture (including an additional month of Bradington-Young upholstery production and operating costs compared to the prior year) and higher selling and administrative expenses, partially offset by reduced cash requirements to support lower domestic wood furniture production levels and increased levels of trade payables and accrued liabilities. During the 2004 third quarter, the Company began utilizing a warehouse and distribution center located in China (owned and operated by third parties) targeted to drive growth in the Company's Container Direct Program. The Company began shipping from that facility in late August 2004. As of November 30, 2004, that facility contained \$8.1 million of inventory. Cash received from customers increased \$31.9 million as a result of higher imported and upholstered furniture net sales (including an additional month of Bradington-Young upholstery shipments compared to the prior year). Tax payments increased \$2.5 million principally due to higher levels of taxable income and differences in the amount of required payments due in each respective period. Interest payments decreased \$1.0 million principally due to lower debt levels.

Investing activities generated \$1.6 million in 2005 compared to consuming \$2.6 million during 2004 and \$26.0 million in 2003. In 2005, \$5.2 million in proceeds from the sale of property and equipment (principally from the sale of the Maiden, N.C. facility), exceeded a \$3.6 million investment in property, plant and equipment. In 2004, the investment of \$3.7 million in property, plant and equipment exceeded the receipt of \$1.1 million in proceeds from the sale of property and equipment (principally from the sale of the Kernersville, N.C. facility). In 2003, the Company purchased Bradington-Young for cash payments totaling \$22.1 million (net of cash acquired); invested \$4.0 million in property, plant and equipment; and received \$92,000 from the sale of property, plant and equipment. As the number of domestic wood and upholstered furniture plants has fallen from eight to five, the proportion of new property, plant and equipment for manufacturing operations has declined but has increased for new investments in distribution, warehousing, imports, the Company's Container Direct Program, supply chain management and related computer systems.

Financing activities consumed cash of \$14.1 million in 2005, \$10.5 million in 2004 and \$3.6 million in 2003. During 2005, the Company expended \$4.6 million in cash for early redemption of industrial revenue bonds; paid \$5.3 million in other scheduled debt payments, including the final scheduled payment on Term Loan B; paid cash dividends of \$3.3 million, or \$0.07 per share per quarter; and redeemed 50,000 shares of Company common stock for \$930,000 under the Company's stock repurchase authorization. During 2004, the Company borrowed \$2.0 million under its revolving credit facility, repaid \$9.7 million of long-term debt and paid cash dividends of \$2.8 million.

During 2003, the Company borrowed: a) \$42.8 million under new term loan agreements to complete the refinancing of its long-term debt in April 2003, b) \$26.7 million to fund the purchase of Bradington-Young and to repay debt assumed in the acquisition, and c) \$7.8 million under its revolving credit line to fund other operating, investing and financing activities. Also during 2003, the Company repaid a) \$17.8 million under an existing term loan and \$25.0 million of the bank debt used to acquire Bradington-Young, primarily in connection with refinancing its long-term debt, b) \$10.0 million under its revolving credit line, c) \$4.1 million of debt assumed in the Bradington-Young acquisition and d) \$18.4 million under outstanding term loans. The Company also paid \$3.2 million to terminate interest rate swap agreements and paid dividends of \$2.5 million during 2003.

Swap Agreements

The Company is party to an interest rate swap agreement that in effect provides for a fixed interest rate of 4.1% through 2010 on Term Loan A. In 2003, the Company terminated a similar swap agreement for Term Loan A, which in effect provided a fixed interest rate of approximately 7.4% on Term Loan A. The Company's \$3.0 million payment to terminate the related swap agreement is being amortized over the remaining payment period for Term Loan A, resulting in an effective fixed interest rate of approximately 7.4% on Term Loan A. The Company is accounting for the interest rate swap agreement for Term Loan A as a cash flow hedge.

The aggregate fair market value of the Company's swap agreements decreases when interest rates decline and increases when interest rates rise. While interest rates have increased since the 2003 second quarter through the 2005 fourth quarter, overall, interest rates have declined since the inception of the Company's swap agreements. The aggregate decrease in the fair market value of the effective portion of these agreements of \$226,000 (\$364,000 pretax) as of November 30, 2005, and \$759,000 (\$1.2 million pretax) as of November 30, 2004, is reflected under the caption "accumulated other comprehensive loss" in the consolidated balance sheets. The Company also reduced interest expense by \$10,000 in 2005 and \$45,000 in 2004, and recognized additional interest expense of \$44,000 in 2003, for the ineffective portion of the swap agreements' change in value. Approximately \$130,000 of the aggregate pretax decrease in fair market value of the swap agreements is expected to be reclassified into interest expense during the next twelve months.

Debt Covenant Compliance

The credit agreement for the Company's revolving credit facility and outstanding term loan contains, among other things, financial covenants as to minimum tangible net worth, debt service coverage, the ratio of funded debt to earnings before interest, taxes, depreciation, amortization and maximum capital expenditures. The Company was in compliance with these covenants as of November 30, 2005.

Liquidity, Resources and Capital Expenditures

As of November 30, 2005, the Company had an aggregate \$33.3 million available under its lines of credit including: (a) \$13.7 million available under its revolving credit facility to fund working capital needs, and (b) \$19.6 million available under additional committed lines of credit, to support the issuance of letters of credit. The Company utilizes letters of credit to collateralize its imported inventory purchases and certain insurance arrangements. Outstanding letters of credit amounted to \$1.7 million on November 30, 2005 and \$8.3 million on November 30, 2004. There were no additional borrowings outstanding under the revolving credit line on November 30, 2005. Any principal that becomes outstanding under the credit line is due March 1, 2008.

The Company believes that it has the financial resources (including available cash and cash equivalents, expected cash flow from operations, and lines of credit) needed to meet business requirements for the foreseeable future, including capital expenditures, working capital, dividends on the Company's common stock, repurchases of common stock under the Company's stock repurchase program and repayments of outstanding debt. Cash flow from operations is highly dependent on incoming order rates and the Company's operating performance. The Company expects to spend \$4.7 to \$5.1 million in capital expenditures during 2006 to maintain and enhance its facilities and operating systems.

In March 2005, the Company completed the repayment of Term Loan B. In May 2005, the Company completed the early redemption of industrial revenue bonds for \$4.6 million in cash. Prior to this redemption, scheduled principal payments on these bonds were \$2.4 million in November 2005 and \$2.2 million in November 2006.

Dividends

In January 2006, the Company's Board of Directors declared a quarterly cash dividend of \$0.07 per share, payable on February 28, 2006, to shareholders of record February 15, 2006.

Commitments and Contractual Obligations

As of November 30, 2005, the Company's commitments and contractual obligations were as follows:

| | Payments Due by Period (In thousands) | | | | Total |
|---|---------------------------------------|----------------|----------------|------------------|-----------------|
| | Less than 1 Year | 1-3 Years | 3-5 Years | After 5 Years | |
| Long-term debt..... | <u>\$2,283</u> | <u>\$5,102</u> | <u>\$5,910</u> | | <u>\$13,295</u> |
| Operating leases and agreements..... | <u>2,612</u> | <u>2,957</u> | <u>1,403</u> | <u>\$173</u> | <u>7,145</u> |
| Total contractual cash obligations..... | <u>\$4,895</u> | <u>\$8,059</u> | <u>\$7,313</u> | <u>\$173</u> | <u>\$20,440</u> |

As of November 30, 2005, the Company had an aggregate \$33.3 million available under its lines of credit including: (a) \$13.7 million available under its revolving credit line to fund its working capital needs and (b) \$19.6 million available under additional lines of credit to support the issuance of letters of credit. The Company utilizes letters of credit to collateralize its imported inventory purchases and certain insurance arrangements. Outstanding letters of credit amounted to \$1.7 million on November 30, 2005 and \$8.3 million on November 30, 2004.

Outlook

Hooker Furniture is a company in transition from a product and manufacturing-driven wood furniture company focused on home office, home entertainment and bedroom furniture to a comprehensive provider of collections and furnishings for every room of the house. In 2005, Hooker made significant operational progress in this transition, particularly in the product design process, sourcing, operations, logistics, marketing and customer service.

With increased consumer preference for new furniture features and products, Hooker's product design and market-launch process becomes an even greater competitive advantage, resulting in the introduction of innovative new furnishings. Hooker's strategic advances will rely on leveraging core competencies in product development, manufacturing and sales; and our long-standing business relationships with customers, suppliers and employees.

Historically, the Company has been recognized for its values in stand-alone items such as computer cabinets, leather seating and occasional pieces. The Company has targeted additional opportunities for expanded business by offering multi-piece, whole-home collections. In 2005, Hooker successfully introduced three new collections to its customers. The Company also unveiled a "store within a store" gallery program with the Company's existing dealers through spacious "SmartLiving ShowPlaces" dedicated exclusively to a broad array of furniture and whole-home collections under the Hooker and Bradington-Young brands. The expansion of branded programs will continue to create an enhanced shopping experience for the consumer and retail salesperson, and offer significant opportunity to expand relationships and add incremental sales with and for existing dealers.

Bradington-Young, the Company's leather seating specialist, continued to expand its imported Seven Seas Seating line in 2005, differentiated from the domestic line by styling and price. This lower-priced alternative to the custom-made domestically manufactured products of Bradington-Young has given retailers a lower starting price point in their leather furniture offerings while taking advantage of Bradington-Young styling. As a result, Bradington-Young saw an increase of nearly 9% in their net sales for upholstered furniture over the previous year, driven primarily by increases in shipments of its imported products.

As the Company's mix of imported products has grown to nearly 62% of net sales in 2005 from about 31% in 2001, it has been challenged by the increased complexity of flowing products from a broad network of factories in the Pacific Rim, Central America and Mexico. In 2005, the Company made promising strides in the area of supply chain planning and management. To address the increasingly complex supply chain network, Hooker established a new department of Supply Chain Management, and activated comprehensive logistics software and distribution systems. The Company expects to be better positioned to realize improvements in the timely flow of products and information, inventory management and vendor management in 2006 and beyond. Hooker has established targets for controlling inventory item count and consolidating suppliers. The Company believes that these initiatives will provide opportunities to improve sourcing operations, increase inventory turns, provide logistics efficiency, and position the Company to provide significant enhancements in customer service and inventory availability at lower costs.

The Company is responding to increased demand for imported products and reduced demand for domestic products by:

- mixing imports and domestically produced furniture in exciting new whole-home collections such as Intimate Home;
- fresh product innovations, such as home entertainment "Reversica" hideaway consoles and hutches with dual function as a bookcase and armoire for displaying a plasma TV;

- more closely coordinating wood and upholstered furniture in designing, marketing and selling quality home furnishings;
- adjusting domestic production capacity to demand by closing three wood furniture plants between 2003 and 2005;
- upgrading wood finishes and incorporating additional materials such as brass and other metals, and glass and antiques glass, to provide a more sophisticated look and feel that enhances appeal and value to customers, such as with Kimball Bridge entertainment units;
- utilizing new channels of distribution, such as electronics retailers.

The Company believes that it is in a good position to capitalize on business opportunities because of its strong product development capability, comprehensive product line, longstanding relationships and growing logistics and marketing capabilities. Hooker is making progress in addressing the challenges before it, and continues to have an optimistic long-term outlook. Bradington-Young and imported wood and metal furniture finished 2005 by each achieving record sales performance, and the Company is encouraged by its double-digit (12.0%) net sales increase in imported wood and metal furniture net sales in the 2005 fourth quarter. Hooker expects first quarter sales to be 2% lower to 2% higher than the strong first quarter of 2005. The Company experienced a slight improvement in incoming order rates in the late fall and early winter. That development, along with improved consumer confidence, gives Hooker a cautiously optimistic outlook for the remainder of 2006.

Environmental Matters

Hooker Furniture Corporation is committed to protecting the environment. As a part of its business operations, the Company's manufacturing sites generate non-hazardous and hazardous wastes, the treatment, storage, transportation and disposal of which are subject to various local, state and national laws relating to protecting the environment. The Company is in various stages of investigation, remediation or monitoring of alleged or acknowledged contamination at current or former manufacturing sites for soil and groundwater contamination and visible air emissions, none of which the Company believes is material to its results of operations or financial position. The Company's policy is to record monitoring commitments and environmental liabilities when expenses are probable and can be reasonably estimated. The costs associated with the Company's environmental responsibilities, compliance with federal, state and local laws regulating the discharge of materials into the environment, or costs otherwise relating to the protection of the environment, have not had and are not expected to have a material effect on the Company's financial position, results of operations, capital expenditures or competitive position.

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in "Note 1 – Summary of Significant Accounting Policies" to the consolidated financial statements beginning at page F-1 in this report. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying financial statements and related notes. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. The Company does not believe that actual results will deviate materially from its estimates related to the Company's accounting policies described below. However, because application of these accounting policies involves the exercise of judgment and the use of assumptions as to future uncertainties, actual results could differ from these estimates.

The Company evaluates the adequacy of its allowance for doubtful accounts at the end of each quarter. In performing this evaluation, the Company analyzes the payment history of its significant past due accounts, subsequent cash collections on these accounts and comparative accounts receivable aging statistics. Based on this information, along with consideration of the general strength of the economy, the Company develops what it considers to be a reasonable estimate of the uncollectible amounts included in accounts receivable. This estimate involves significant judgment by the management of the Company and actual uncollectible amounts may differ from the Company's estimate.

The Company values all of its inventories at the lower of cost (using the last-in, first-out ("LIFO") method) or market. LIFO cost for all of the Company's inventories is determined using the dollar-valued, link-chain method. This method allows for the more current cost of inventories to be reported in cost of goods sold, while the ending inventories on the balance sheet consist of the costs of inventories acquired earlier, subject to the application of lower of cost or market. Hence, if prices are rising, the LIFO method will generally lead to higher cost of goods sold and lower profitability as compared to the FIFO method. The Company evaluates its inventory for excess or slow moving items based on recent and projected sales and order patterns. The Company establishes an allowance for those items when the estimated market or net sales value is lower than their recorded cost. This estimate involves significant judgment by management and actual values may differ from the Company's estimate.

Long-lived assets, such as property, plant and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the

use of those assets. When any such impairment exists, the related assets are written down to fair value. Long-lived assets to be disposed of by sale are measured at the lower of their carrying amount or fair value less cost to sell, are no longer depreciated, and are reported separately as "assets held for sale" in the consolidated balance sheets.

The Company's domestic furniture manufacturing operations have suffered from lower demand and significant declines in volume for its bedroom, home office, home entertainment and upholstered leather furniture principally due to competition from lower-priced imported furniture products. These declines led to the closing of the Company's Pleasant Garden, N.C. facility in October 2005, its Maiden, N.C. facility in October 2004 and its Kernersville, N.C. facility in August 2003. As a result of these plant closings, the Company recorded restructuring charges principally consisting of asset impairment charges and severance and related benefits paid to terminated employees affected by the closings. The Company recognizes liabilities for these exit and disposal activities at fair value in the period in which the liability is incurred. Asset impairment charges related to the closure of manufacturing facilities are based on the Company's best estimate of expected sales prices, less related selling expenses, for assets to be sold. The recognition of asset impairment and restructuring charges for exit and disposal activities requires significant judgment and estimates by management. Management reassesses its accrual of restructuring and asset impairment charges each reporting period. Any change in estimated restructuring and related asset impairment charges is recognized in the period of change.

Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 151, "Inventory Costs: an Amendment to ARB No. 43." This statement clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs, such as abnormal amounts of idle facility expense, freight, handling costs and wasted material, associated with operating facilities involved in inventory processing should be expensed or capitalized. The provisions of this statement are effective for fiscal years beginning after June 15, 2005. Consequently, the Company will adopt the standard in the 2006 first quarter. The adoption of SFAS 151 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB revised Statement of Financial Accounting Standards No. 123, "Share-Based Payment" ("SFAS 123R"). This statement, which addresses accounting for transactions in which an entity obtains employee services in share-based payment transactions, is a revision of SFAS 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement requires a public entity to measure the cost of employee and director services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). This statement establishes that the cost will be recognized over the vesting period during which an employee is required to provide services in exchange for the award. The provisions of this statement are effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. Consequently, the Company will adopt the standard in the first quarter of 2006. The adoption of SFAS 123R is not expected to have a material impact on the Company's financial position or results of operations. However, the Company issued restricted stock awards to non-employee members of the Board of Directors in January 2006 and expects to issue restricted stock or other forms of stock-based compensation awards to eligible directors and employees in the future under the Hooker Furniture Corporation 2005 Stock Incentive Plan, which will be accounted for in accordance with SFAS 123R.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The Company's obligations under its lines of credit and term loan bear interest at variable rates. The Company's outstanding long-term debt (including current maturities) as of November 30, 2005 amounted to \$13.3 million under Term Loan A. The Company has entered into an interest rate swap agreement that, in effect, fixes the rate of interest on Term Loan A at 4.1% through 2010. The notional principal value of the swap agreement is substantially equal to the outstanding principal balance of Term Loan A. A fluctuation in market interest rates of one percentage point (or 100 basis points) would not have a material impact on the Company's results of operations or financial condition.

For imported products, the Company generally negotiates firm pricing denominated in U.S. Dollars with its foreign suppliers, for periods typically of up to one year. The Company accepts the exposure to exchange rate movements beyond these negotiated periods without using derivative financial instruments to manage this risk. More of the Company's imports are purchased from China than from any other country. The Chinese currency, formerly pegged to the U.S. Dollar, now floats within a limited range in relation to the U.S. Dollar, resulting in additional exposure to foreign currency exchange rate fluctuations.

Since the Company transacts its imported product purchases in U.S. Dollars, a relative decline in the value of the U.S. Dollar could increase the price the Company pays for imported products beyond the negotiated periods. The Company generally expects to reflect substantially all of the effect of any price increases from suppliers in the prices it charges for imported products. However, these changes could adversely impact sales volume and profit margin during affected periods.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements listed in Item 15(a), and which begin on page F-1, of this report are incorporated herein by reference and are filed as a part of this report.

Certain Non-GAAP Statements

The Company, in its Annual Report to Shareholders (of which this annual report on Form 10-K is a part), under the heading "Financial Highlights," has reported net income and earnings per share both including and excluding the impact of restructuring and asset impairment charges. The net income and earnings per share figures excluding the impact of restructuring and asset impairment charges are "non-GAAP" measures. The Company provides this information because management believes this information is useful to investors in evaluating the Company's ongoing operations.

EBIT and EBITDA Information

Set forth below is the Company's earnings before interest and taxes, or EBIT, and earnings before interest, income taxes, depreciation and amortization, or EBITDA, for each of the last five years ended November 30, 2005. This information has been derived from the Company's consolidated financial statements. For each period presented, EBIT and EBITDA have been reconciled to the Company's net cash provided by operating activities. The Company provides these non-GAAP measures because it believes they are widely accepted financial indicators of the Company's liquidity. This information should be read in conjunction with the consolidated financial statements, including the related Notes, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this annual report on Form 10-K for the year ended November 30, 2005.

| | <u>2005</u> | For the Years Ended November 30, | | | |
|---|------------------------|----------------------------------|-----------------|-----------------|-----------------|
| | | <u>2004</u> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| | | <i>(In thousands)</i> | | | |
| Net cash provided by operating activities..... | \$19,624 | \$ 7,449 | \$42,107 | \$ 5,695 | \$20,460 |
| Depreciation and amortization..... | (6,296) | (7,422) | (8,724) | (8,103) | (7,592) |
| Non-cash ESOP cost..... | (3,225) | (3,784) | (2,910) | (1,794) | (1,514) |
| Restructuring and related asset impairment charge..... | (5,250) | (1,604) | (1,470) | | (881) |
| Gain on disposal of property and equipment..... | 10 | 27 | 85 | 5 | 59 |
| Provision for doubtful accounts..... | (569) | (1,255) | (1,148) | (961) | (711) |
| Deferred tax provision..... | 1,479 | (41) | (2,300) | 634 | 295 |
| Net increase (decrease) in assets and liabilities, net of effects of acquisition..... | <u>6,712</u> | <u>24,834</u> | <u>(10,930)</u> | <u>19,915</u> | <u>(3,606)</u> |
| Net income..... | 12,485 | 18,204 | 14,710 | 15,391 | 6,510 |
| Income taxes..... | 8,024 | 11,720 | 8,690 | 9,394 | 3,640 |
| Interest expense..... | <u>1,209</u> | <u>1,869</u> | <u>2,638</u> | <u>2,094</u> | <u>2,140</u> |
| Earnings before interest and income taxes (EBIT).... | 21,718 | 31,793 | 26,038 | 26,879 | 12,290 |
| Depreciation and amortization..... | <u>6,296</u> | <u>7,422</u> | <u>8,724</u> | <u>8,103</u> | <u>7,592</u> |
| Earnings before interest, income taxes, depreciation and amortization (EBITDA)..... | <u>\$28,014</u> | <u>\$39,215</u> | <u>\$34,762</u> | <u>\$34,982</u> | <u>\$19,882</u> |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on their most recent review, which was made as of the end of the Company's fourth quarter ended November 30, 2005, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission ("SEC") rules and forms.

Management's Report on Internal Control over Financial Reporting

In accordance with Section 404 of the Sarbanes-Oxley Act and SEC rules thereunder, management has conducted an assessment of the Company's internal control over financial reporting as of November 30, 2005. Management's report regarding that assessment is included with the financial statements beginning on page F-1 of this report and is incorporated herein by reference.

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting for the Company's fourth quarter ended November 30, 2005, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Hooker Furniture Corporation
Part III

In accordance with General Instruction G (3) of Form 10-K, the information called for by Items 10, 11, 12, 13 and 14 of Part III is incorporated by reference to the Company's definitive Proxy Statement for its Annual Meeting of Shareholders scheduled to be held March 31, 2006 (the "2006 Proxy Statement"), as set forth below:

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information related to the Company's directors is set forth under the caption "Election of Directors" in the 2006 Proxy Statement and is incorporated herein by reference.

Information relating to compliance with Section 16(a) of the Exchange Act is set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2006 Proxy Statement and is incorporated herein by reference.

Information relating to the Board of Directors' determinations concerning whether a member of the Audit Committee of the Board is a "financial expert" as that term is defined under Item 401(h) of Regulation S-K is set forth under the caption "The Board of Directors and Committees – Audit Committee" in the 2006 Proxy Statement and is incorporated herein by reference.

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

The Company has adopted a Code of Business Conduct and Ethics, which applies to all of the Company's employees and directors, including the Company's principal executive officer, principal financial officer and principal accounting officer. A copy of the Company's Code of Business Conduct and Ethics is available on the Company's website at www.hookerfurniture.com. Amendments of and waivers from the Company's Code of Business Conduct and Ethics will be posted to the Company's website when permitted by applicable SEC and NASDAQ rules and regulations.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to this item is set forth under the captions "Compensation of Executive Officers" and "The Board of Directors and Committees – Compensation of Directors" in the 2006 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to this item is set forth under the captions "Equity Compensation Plan Information" and "Security Ownership of Certain Beneficial Owners and Management" in the 2006 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information relating to this item is set forth under the caption "Certain Relationships and Related Transactions" in the 2006 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to this item is set forth under the caption "Independent Registered Public Accounting Firm" in the 2006 Proxy Statement and is incorporated herein by reference.

Hooker Furniture Corporation
Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) Documents filed as part of this report on Form 10-K:
- (1) The following financial statements are included in this report on Form 10-K:
- Management's Report on Internal Control over Financial Reporting
 - Reports of Independent Registered Public Accounting Firm
 - Consolidated Balance Sheets as of November 30, 2005 and 2004
 - Consolidated Statements of Income for each of the years in the three-year period ended November 30, 2005
 - Consolidated Statements of Cash Flows for each of the years in the three-year period ended November 30, 2005
 - Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended November 30, 2005
 - Notes to Consolidated Financial Statements
- (2) Financial Statement Schedules:
- Financial Statement Schedules have been omitted because the information required has been separately disclosed in the consolidated financial statements or related notes.
- (b) Exhibits:
- 3.1 Amended and Restated Articles of Incorporation of the Company, as amended March 28, 2003 (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 28, 2003)
- 3.2 Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form 10 (SEC File No. 000-25349))
- 4.1 Amended and Restated Articles of Incorporation of the Company (See Exhibit 3.1)
- 4.2 Amended and Restated Bylaws of the Company (See Exhibit 3.2)
- 4.3(a) Credit Agreement, dated April 30, 2003, between Bank of America, N.A., and the Company (incorporated by reference to Exhibit 4.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ending May 31, 2003)
- 4.3(b) First Amendment to Credit Agreement, dated as of February 18, 2005, among the Company, the Lenders party thereto, and Bank of America, N.A., as agent (incorporated by reference to Exhibit 10.2 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ending February 28, 2005).
- Pursuant to Regulation S-K, Item 601(b)(4)(iii), instruments evidencing long-term debt not exceeding 10% of the Company's total assets have been omitted and will be furnished to the Securities and Exchange Commission upon request.
- 10.1(a) Form of Executive Life Insurance Agreement dated December 31, 2003, between the Company and certain of its executive officers (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 29, 2004)*
- 10.1(b) Supplemental Retirement Income Plan effective as of December 1, 2003 (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended February 29, 2004)*
- 10.1(c) Summary of Compensation for Named Executive Officers (filed herewith)*
- 10.1(d) Summary of Director Compensation (filed herewith)*
- 10.1(e) Hooker Furniture Corporation 2005 Stock Incentive Plan (incorporated by reference to Appendix B of the Company's Definitive Proxy Statement dated March 1, 2005 (SEC File No. 000-25349))*

- 10.1(f) Form of Outside Director Restricted Stock Agreement (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K (SEC File No. 000-25349) filed January 17, 2006)*
- 10.2 Commitment Letter, dated May 17, 2004, and related Promissory Note, dated April 30, 2004, between BB&T and the Company, renewing the BB&T Credit Line (incorporated by reference to Exhibit 10.1 of the Company's Form 10-Q (SEC File No. 000-25349) for the quarter ended May 31, 2004)
- 10.3 Credit Agreement, dated September 18, 2000, between the Company and the Hooker Furniture Corporation Employee Stock Ownership Plan Trust (including related Non-Recourse Promissory Note and Stock Pledge Agreement) (incorporated by reference to Exhibit 10.7 of the Company's Form 10-K (SEC File No. 000-25349) for the year ended November 30, 2000)
- 10.4(a) Credit Agreement, dated April 30, 2003, between Bank of America, N.A., and the Company (See Exhibit 4.3(a))
- 10.4(b) First Amendment to Credit Agreement, dated as of February 18, 2005, among the Company, the Lenders party thereto, and Bank of America, N.A., as agent (See Exhibit 4.3(b))
- 21 List of Subsidiaries:
 - Bradington-Young LLC, a Virginia limited liability company
 - Triwood, Inc., a Virginia corporation
- 23 Consent of Independent Registered Public Accounting Firm (filed herewith)
- 31.1 Rule 13a-14(a) Certification of the Company's principal executive officer (filed herewith)
- 31.2 Rule 13a-14(a) Certification of the Company's principal financial officer (filed herewith)
- 32.1 Rule 13a-14(b) Certification of the Company's principal executive officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
- 32.2 Rule 13a-14(b) Certification of the Company's principal financial officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

*Management contract or compensatory plan

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HOOKER FURNITURE CORPORATION

February 27, 2006

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

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

| <u>Signature</u> | <u>Title</u> | <u>Date</u> |
|---|--|-------------------|
| <u>/s/ Paul B. Toms, Jr.</u> Paul B. Toms, Jr. | Chairman, Chief Executive Officer and Director (Principal Executive Officer) | February 27, 2006 |
| <u>/s/ Douglas C. Williams</u> Douglas C. Williams | President, Chief Operating Officer and Director | February 27, 2006 |
| <u>/s/ E. Larry Ryder</u> E. Larry Ryder | Executive Vice President - Finance and Administration (Principal Financial Officer) | February 27, 2006 |
| <u>/s/ R. Gary Armbrister</u> R. Gary Armbrister | Chief Accounting Officer (Principal Accounting Officer) | February 27, 2006 |
| <u>/s/ W. Christopher Beeler, Jr.</u> W. Christopher Beeler, Jr. | Director | February 27, 2006 |
| <u>/s/ Robert M. Cooper, Jr.</u> Robert M. Cooper, Jr. | Director | February 27, 2006 |
| <u>/s/ John L. Gregory, III</u> John L. Gregory, III | Director | February 27, 2006 |
| <u>/s/ Mark F. Schreiber</u> Mark F. Schreiber | Director | February 27, 2006 |
| <u>/s/ L. Dudley Walker</u> L. Dudley Walker | Director | February 27, 2006 |
| <u>/s/ Henry G. Williamson, Jr.</u> Henry G. Williamson, Jr. | Director | February 27, 2006 |

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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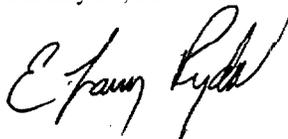
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders of
Hooker Furniture Corporation and Subsidiary
Martinsville, Virginia

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under that framework, management concluded that the Company's internal control over financial reporting was effective as of November 30, 2005. Management's assessment of the effectiveness of internal control over financial reporting as of November 30, 2005 has been audited by KPMG LLP, the Company's independent registered public accounting firm, as stated in their reports which are included herein.



Paul B. Toms, Jr.
Chairman and Chief Executive Officer
February 24, 2006



E. Larry Ryder
Executive Vice President – Finance and Administration
(Principal Financial Officer)
February 24, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Hooker Furniture Corporation:

We have audited the accompanying consolidated balance sheets of Hooker Furniture Corporation and subsidiaries as of November 30, 2005 and 2004, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended November 30, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hooker Furniture Corporation and subsidiaries as of November 30, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Hooker Furniture Corporation's internal control over financial reporting as of November 30, 2005 based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 24, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.



Greensboro, North Carolina
February 24, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Hooker Furniture Corporation:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Hooker Furniture Corporation maintained effective internal control over financial reporting as of November 30, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Hooker Furniture Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Hooker Furniture Corporation maintained effective internal control over financial reporting as of November 30, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Hooker Furniture Corporation maintained, in all material respects, effective internal control over financial reporting as of November 30, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hooker Furniture Corporation and subsidiaries as of November 30, 2005 and 2004, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended November 30, 2005, and our report dated February 24, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Greensboro, North Carolina
February 24, 2006

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands)

| As of November 30, | 2005 | 2004 |
|---|------------------|------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 16,365 | \$ 9,230 |
| Trade accounts receivable, less allowance for doubtful accounts of \$1,352 and \$1,341 on each date | 43,993 | 40,960 |
| Inventories..... | 68,718 | 69,735 |
| Prepaid expenses and other current assets | 4,042 | 3,540 |
| Assets held for sale | <u>1,656</u> | <u>5,376</u> |
| Total current assets | 134,774 | 128,841 |
| Property, plant and equipment, net..... | 37,006 | 44,142 |
| Goodwill | 2,396 | 2,396 |
| Intangible assets..... | 4,590 | 4,765 |
| Cash surrender value of life insurance policies | 9,880 | 8,474 |
| Other assets | <u>406</u> | <u>300</u> |
| Total assets | <u>\$189,052</u> | <u>\$188,918</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | | |
| Trade accounts payable..... | \$ 13,872 | \$ 14,930 |
| Accrued salaries, wages and benefits..... | 6,272 | 7,090 |
| Other accrued expenses..... | 2,628 | 3,011 |
| Current maturities of long-term debt | <u>2,283</u> | <u>6,671</u> |
| Total current liabilities | 25,055 | 31,702 |
| Long-term debt, excluding current maturities | 11,012 | 16,495 |
| Deferred compensation | 3,516 | 2,775 |
| Other long-term liabilities..... | <u>857</u> | <u>1,361</u> |
| Total liabilities | 40,440 | 52,333 |
| Shareholders' equity | | |
| Common stock, no par value, 20,000 shares authorized, 14,425 and 14,475 shares issued and outstanding on each date | 9,516 | 7,385 |
| Unearned ESOP shares, 2,538 and 2,708 shares on each date | (15,861) | (16,927) |
| Retained earnings | 155,183 | 146,886 |
| Accumulated other comprehensive loss | <u>(226)</u> | <u>(759)</u> |
| Total shareholders' equity..... | <u>148,612</u> | <u>136,585</u> |
| Total liabilities and shareholders' equity | <u>\$189,052</u> | <u>\$188,918</u> |

See accompanying Notes to Consolidated Financial Statements.

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

| For The Years Ended November 30, | 2005 | 2004 | 2003 |
|--|------------------|------------------|------------------|
| Net sales | \$341,775 | \$345,944 | \$309,005 |
| Cost of sales | <u>249,873</u> | <u>250,467</u> | <u>226,880</u> |
| Gross profit..... | 91,902 | 95,477 | 82,125 |
| Selling and administrative expenses | 65,497 | 62,707 | 54,903 |
| Restructuring and asset impairment charges | <u>5,250</u> | <u>1,604</u> | <u>1,470</u> |
| Operating income | 21,155 | 31,166 | 25,752 |
| Other income, net..... | <u>563</u> | <u>627</u> | <u>286</u> |
| Income before interest and income taxes | 21,718 | 31,793 | 26,038 |
| Interest expense..... | <u>1,209</u> | <u>1,869</u> | <u>2,638</u> |
| Income before income taxes..... | 20,509 | 29,924 | 23,400 |
| Income taxes | <u>8,024</u> | <u>11,720</u> | <u>8,690</u> |
| Net income | \$ <u>12,485</u> | \$ <u>18,204</u> | \$ <u>14,710</u> |
| Earnings per share: | | | |
| Basic and diluted | \$ <u>1.06</u> | \$ <u>1.56</u> | \$ <u>1.28</u> |
| Weighted average shares outstanding | <u>11,795</u> | <u>11,669</u> | <u>11,474</u> |

See accompanying Notes to Consolidated Financial Statements.

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

| For The Years Ended November 30, | 2005 | 2004 | 2003 |
|--|-------------------------|------------------------|-------------------------|
| Cash flows from operating activities | | | |
| Cash received from customers..... | \$339,041 | \$341,296 | \$309,429 |
| Cash paid to suppliers and employees..... | (308,957) | (320,677) | (255,687) |
| Income taxes paid, net..... | (9,614) | (11,981) | (9,436) |
| Interest paid, net..... | (846) | (1,189) | (2,199) |
| Net cash provided by operating activities..... | <u>19,624</u> | <u>7,449</u> | <u>42,107</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment..... | (3,590) | (3,702) | (3,974) |
| Acquisition of Bradington-Young, net of cash acquired..... | | | (22,083) |
| Proceeds received on notes issued for the sale of property..... | 18 | 900 | |
| Proceeds from the sale of property and equipment..... | 5,208 | 181 | 92 |
| Net cash provided by (used in) investing activities..... | <u>1,636</u> | <u>(2,621)</u> | <u>(25,965)</u> |
| Cash flows from financing activities | | | |
| Proceeds from long-term debt..... | | 2,000 | 77,319 |
| Payments on long-term debt..... | (9,871) | (9,671) | (75,258) |
| Payments to terminate interest rate swap agreements..... | (38) | | (3,205) |
| Cash dividends paid..... | (3,286) | (2,786) | (2,455) |
| Purchase and retirement of common stock..... | (930) | | |
| Net cash used in financing activities..... | <u>(14,125)</u> | <u>(10,457)</u> | <u>(3,599)</u> |
| Net increase (decrease) in cash and cash equivalents..... | 7,135 | (5,629) | 12,543 |
| Cash and cash equivalents at beginning of year..... | 9,230 | 14,859 | 2,316 |
| Cash and cash equivalents at end of year..... | \$ <u>16,365</u> | \$ <u>9,230</u> | \$ <u>14,859</u> |
| Reconciliation of net income to net cash provided by operating activities | | | |
| Net income..... | \$ 12,485 | \$ 18,204 | \$ 14,710 |
| Depreciation and amortization..... | 6,296 | 7,422 | 8,724 |
| Non-cash ESOP cost..... | 3,225 | 3,784 | 2,910 |
| Restructuring and related asset impairment charges..... | 5,250 | 1,604 | 1,470 |
| Gain on disposal of property..... | (10) | (27) | (85) |
| Provision for doubtful accounts..... | 569 | 1,255 | 1,148 |
| Deferred income tax (benefit) provision..... | (1,479) | 41 | 2,300 |
| Changes in assets and liabilities, net of effects of acquisition: | | | |
| Trade accounts receivable..... | (3,602) | (4,614) | 584 |
| Inventories..... | 992 | (27,333) | 18,641 |
| Prepaid expenses and other assets..... | (2,026) | (720) | (1,250) |
| Trade accounts payable..... | (1,058) | 7,985 | (448) |
| Accrued salaries, wages and benefits..... | (2,440) | 647 | (2,596) |
| Accrued income taxes..... | | (308) | (2,861) |
| Other accrued expenses..... | 478 | 1,103 | (1,704) |
| Other long-term liabilities..... | 944 | (1,594) | 564 |
| Net cash provided by operating activities..... | <u>\$ 19,624</u> | <u>\$ 7,449</u> | <u>\$ 42,107</u> |

See accompanying Notes to Consolidated Financial Statements.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands, except per share data)

For the Three Years Ended November 30, 2005

| | <u>Common Stock</u> | | Unearned | Retained | Accumulated | Total |
|---|---------------------|----------------|-------------------|------------------|-----------------|------------------|
| | Shares | Amount | ESOP | | Other | |
| | Shares | Amount | Shares | Earnings | Comprehensive | Equity |
| | | | | | Loss | |
| Balance at November 30, 2002 | 14,475 | \$3,025 | \$(19,261) | \$119,213 | \$(1,933) | \$101,044 |
| Net income | | | | 14,710 | | 14,710 |
| Unrealized gain on interest rate swap | | | | | 55 | <u>55</u> |
| Total comprehensive income | | | | | | <u>14,765</u> |
| Cash dividends (\$0.22 per share) | | | | (2,455) | | (2,455) |
| ESOP cost..... | <u> </u> | <u>1,584</u> | <u>1,326</u> | <u> </u> | <u> </u> | <u>2,910</u> |
| Balance at November 30, 2003..... | <u>14,475</u> | <u>4,609</u> | <u>(17,935)</u> | <u>131,468</u> | <u>(1,878)</u> | <u>116,264</u> |
| Net income | | | | 18,204 | | 18,204 |
| Unrealized gain on interest rate swap | | | | | 1,119 | <u>1,119</u> |
| Total comprehensive income | | | | | | <u>19,323</u> |
| Cash dividends (\$0.24 per share) | | | | (2,786) | | (2,786) |
| ESOP cost..... | <u> </u> | <u>2,776</u> | <u>1,008</u> | <u> </u> | <u> </u> | <u>3,784</u> |
| Balance at November 30, 2004..... | <u>14,475</u> | <u>7,385</u> | <u>(16,927)</u> | <u>146,886</u> | <u>(759)</u> | <u>136,585</u> |
| Net income | | | | 12,485 | | 12,485 |
| Unrealized gain on interest rate swap | | | | | 533 | <u>533</u> |
| Total comprehensive income | | | | | | <u>13,018</u> |
| Cash dividends (\$0.28 per share) | | | | (3,286) | | (3,286) |
| Purchase and retirement of common stock | (50) | (28) | | (902) | | (930) |
| ESOP cost..... | <u> </u> | <u>2,159</u> | <u>1,066</u> | <u> </u> | <u> </u> | <u>3,225</u> |
| Balance at November 30, 2005..... | <u>14,425</u> | <u>\$9,516</u> | <u>\$(15,861)</u> | <u>\$155,183</u> | <u>\$ (226)</u> | <u>\$148,612</u> |

See accompanying Notes to Consolidated Financial Statements.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Hooker Furniture Corporation and subsidiaries (the “Company”) design, import, manufacture and market residential household furniture for sale to wholesale and retail merchandisers located principally in North America.

Consolidation

The consolidated financial statements include the accounts of Hooker Furniture Corporation and its wholly owned subsidiaries, Triwood, Inc., Bradington-Young LLC and Christopher Coleson LLC (a wholly owned subsidiary of Bradington-Young LLC). All material intercompany accounts and transactions have been eliminated in consolidation.

Certain items in the consolidated financial statements and the notes to the consolidated financial statements for periods prior to 2005 have been reclassified to conform to the 2005 method of presentation.

Cash and Cash Equivalents

The Company invests temporarily unused cash balances in liquid investments with maturities of three months or less when purchased. Cash equivalents are stated at cost plus accrued interest, which approximates market.

Trade Accounts Receivable

Substantially all of the Company’s trade accounts receivable are due from retailers and dealers that sell residential home furnishings, which consists of a large number of entities with a broad geographical dispersion. The Company continually performs credit evaluations of its customers and generally does not require collateral. The Company’s upholstered furniture subsidiary factors substantially all of its receivables on a non-recourse basis. Accounts receivable are reported net of allowance for doubtful accounts. The activity in the allowance for doubtful accounts was:

| | For The Years Ended November 30, | | |
|---|----------------------------------|----------------|---------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Balance at beginning of year | \$1,341 | \$ 991 | \$ 800 |
| Allowance for doubtful accounts acquired in the purchase of Bradington-Young | | | 42 |
| Non-cash charges to cost and expenses..... | 569 | 1,255 | 1,148 |
| Less uncollectible receivables written off, net of recoveries | <u>(558)</u> | <u>(905)</u> | <u>(999)</u> |
| Balance at end of year | <u>\$1,352</u> | <u>\$1,341</u> | <u>\$ 991</u> |

Fair Value of Financial Instruments

The carrying value for each of the Company’s financial instruments (consisting of cash and cash equivalents, trade accounts receivable and payable, and accrued liabilities) approximates fair value because of the short-term nature of those instruments. The fair value of the Company’s term loans are estimated based on the quoted market rates for similar debt with a similar remaining maturity. On November 30, 2005 and 2004, the carrying value of the term loans approximated fair value. The fair value of the Company’s interest rate swap agreements are based on values provided by the issuer.

Inventories

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

Property, Plant and Equipment

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

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows from the use of those assets. When any such impairment exists, the related assets are written down to fair value. Long-lived assets to be disposed of by sale are measured at the lower of their carrying amount or fair value less cost to sell, are no longer depreciated, and are reported separately as “assets held for sale” in the consolidated balance sheets.

Capitalized Software Costs

Certain costs incurred in connection with developing or obtaining computer software for internal use that has a useful life of three or more years are capitalized. These costs are amortized over five years or less, and generally over three years. The activity in capitalized software costs was:

| | For The Years Ended November 30, | | |
|---|----------------------------------|----------------|----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Balance beginning of year | \$4,366 | \$6,063 | \$5,901 |
| Software acquired in the purchase of Bradington-Young | | | 1,774 |
| Purchases | 607 | 1,082 | 1,792 |
| Amortization expense | (1,906) | (2,759) | (3,069) |
| Disposals | <u>(106)</u> | <u>(20)</u> | <u>(335)</u> |
| Balance end of year | <u>\$2,961</u> | <u>\$4,366</u> | <u>\$6,063</u> |

Goodwill and Intangible Assets

The Company owns certain intangible assets and goodwill acquired in the purchase of Bradington-Young. The principal intangible assets are trademarks and trade names. Goodwill, trademarks and trade names have indefinite lives and are not amortized but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired.

The fair value of the indefinite-lived intangible assets is determined based on the estimated earnings and cash flow capacity of those assets. The impairment test consists of a comparison of the fair value of the indefinite-lived intangible assets with their carrying amount. If the carrying value of the indefinite-lived intangible assets exceeds their fair value, an impairment loss is recognized in an amount equal to that excess.

Goodwill is tested for impairment by the Company at the reporting unit level and involves two steps. First, the Company determines the fair value of the reporting unit and compares it to the reporting unit’s carrying amount including goodwill. Second, if the carrying amount of the reporting unit exceeds its fair value, an impairment loss is recognized to the extent the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to its assets in a manner similar to a purchase price allocation. The residual fair value resulting from this allocation is the implied fair value of the reporting unit goodwill.

No impairment losses have been recorded for goodwill or intangible assets through November 30, 2005.

Cash Surrender Value of Life Insurance Policies

The Company owns key-man life insurance policies on executives and certain other key employees and also maintains a collateral interest to the extent of premiums paid by the Company with respect to split-dollar life insurance policies on certain executives. Proceeds of the policies are used to fund certain executive life insurance benefits and for other general corporate purposes. The cash surrender value of those life insurance policies amounted to \$9.9 million as of November 30, 2005 and \$8.5 million as of November 30, 2004.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

Derivative Instruments and Hedging Activities

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

In some cases, such as upon the early repayment of a debt instrument, the Company may continue to hold an interest rate swap for a period of time after the related principal has been paid rendering the hedge ineffective. Changes in the ineffective portion of the fair value of the derivative are accounted for through interest expense. The notional principal value of the Company's swap agreement outstanding as of November 30, 2005 is equal to the outstanding principal balance of the corresponding debt instrument.

Revenue Recognition

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

Advertising

The Company has advertising programs under which it may provide signage, catalogs and other marketing support to its customers and may reimburse advertising and other costs incurred by its customers in connection with promoting the Company's products. The cost of these programs does not exceed the fair value of the benefit received. The Company charges the cost of point-of-purchase materials (including signage and catalogs) to selling and administrative expense as incurred. The cost for the Company's other advertising programs are charged against net sales.

Shipping and Handling Costs

Amounts billed to customers that represent shipping and handling are reported as net sales. The Company's shipping and handling costs, which include all costs to warehouse and distribute goods to customers, are classified in selling and administrative expenses and amounted to \$15.2 million in 2005, \$12.4 million in 2004 and \$11.4 million in 2003.

Income Taxes

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

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Unallocated ESOP shares are not considered outstanding for purposes of calculating basic or diluted earnings per share. Diluted earnings per share reflects the potential dilutive effect of securities, if any, that could share in the earnings of the Company. As of November 30, 2005 and 2004, there were no securities that could have a dilutive effect.

Concentrations of Sourcing Risk

The Company sources its imported products from 86 separate factories located in eight countries. Because of the large number and diverse nature of the foreign factories from which the Company can source its imported products, the Company has some flexibility in

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

the placement of products in any particular factory or country. As of November 30, 2005, the Company held \$10.4 million in container direct inventory (5.6% of total assets) outside of the United States, principally in China.

Factories located in China have become an important resource for the Company. In 2005, imported products sourced from China accounted for approximately 67% of import purchases, and the factory in China from which the Company directly sources the most product accounted for approximately 33% of the Company's worldwide purchases of imported product. A sudden disruption in the Company's supply chain from this factory, or from China in general, could significantly impact the Company's ability to fill customer orders for products manufactured at that factory or in that country. If such a disruption were to occur, the Company believes that it would have sufficient inventory to adequately meet demand for a four to five-month period. Also, with the broad spectrum of product the Company offers, the Company believes that, in some cases, buyers could be offered similar product available from alternative sources. The Company believes that it could, most likely at higher cost, source most of the products currently sourced in China from factories in other countries and could produce certain of those products domestically at its own factories. However, supply disruptions and delays on selected items could occur for approximately six months. If the Company were to be unsuccessful in obtaining those products from other sources, then a sudden disruption in the Company's supply chain from its largest import furniture supplier, or from China in general, could have a short-term material adverse effect on the Company's results of operations. Given the capacity available in China and other low-cost producing countries, the Company believes the risks from these potential supply disruptions are manageable.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures regarding contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 151, "Inventory Costs: an Amendment to ARB No. 43" ("SFAS 151"). This statement clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs, such as abnormal amounts of idle facility expense, freight, handling costs and wasted material, associated with operating facilities involved in inventory processing should be expensed or capitalized. The provisions of this statement are effective for fiscal years beginning after June 15, 2005. Consequently, the Company will adopt the standard in the 2006 first quarter. The adoption of SFAS 151 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB revised Statement of Financial Accounting Standards No. 123, "Share-Based Payments" ("SFAS 123R"). This statement, which addresses accounting for transactions in which an entity obtains employee services in share-based payment transactions, is a revision of SFAS 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). The Statement also requires the recognition of compensation expense for the fair value of any unvested stock option awards outstanding at the date of adoption. This statement establishes that the cost will be recognized over the vesting period during which an employee is required to provide services in exchange for the award. The provisions of this statement are effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. Consequently, the Company will adopt the standard in the first quarter of 2006. The adoption of SFAS 123R is not expected to have a material impact on the Company's financial position or results of operations. However, the Company issued restricted stock awards to non-employee members of the Board of Directors in January 2006 and expects to issue restricted stock or other forms of stock-based compensation awards to eligible directors and employees in the future under the Hooker Furniture Corporation 2005 Stock Incentive Plan, which will be accounted for in accordance with SFAS 123R.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

NOTE 2 – INVENTORIES

| | November 30, | |
|-------------------------------|-----------------|-----------------|
| | <u>2005</u> | <u>2004</u> |
| Finished furniture | \$68,985 | \$66,922 |
| Furniture in process | 1,961 | 2,258 |
| Materials and supplies | 9,531 | 11,879 |
| Inventories at FIFO | 80,477 | 81,059 |
| Reduction to LIFO basis | 11,759 | 11,324 |
| Inventories | <u>\$68,718</u> | <u>\$69,735</u> |

If the first-in, first-out (FIFO) method had been used in valuing all inventories, net income would have been \$12.7 million in 2005, \$18.3 million in 2004 and \$15.2 million in 2003.

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

| | | November 30, | |
|--|-------------------------------------|------------------|------------------|
| | <u>Depreciable Lives (In years)</u> | <u>2005</u> | <u>2004</u> |
| Buildings and land improvements | 20 - 30 | \$ 42,413 | \$ 44,948 |
| Machinery and equipment | 10 | 31,539 | 42,313 |
| Furniture and fixtures | 3 - 8 | 25,708 | 24,569 |
| Other | 5 | 3,263 | 3,647 |
| Total depreciable property at cost | | <u>102,923</u> | 115,477 |
| Less accumulated depreciation | | <u>68,631</u> | <u>73,916</u> |
| Total depreciable property, net | | 34,292 | 41,561 |
| Land | | 1,715 | 1,771 |
| Construction in progress | | 999 | 810 |
| Property, plant and equipment, net | | <u>\$ 37,006</u> | <u>\$ 44,142</u> |

During the 2005 first quarter, the Company recorded a one-time charge to depreciation expense of \$520,000 (\$322,000 after tax, or \$0.03 per share) to correct an error in the application of GAAP related to amortizing leasehold improvements (the Company reduced the estimated useful lives of certain leasehold improvements at its High Point, N.C. showroom to correspond with the remaining term of the related lease). The effect of this error was not material to the 2005 results of operations, or to results of operations in any prior period during which the error arose.

NOTE 4 – ACQUISITION

The Company, through a wholly owned subsidiary, acquired substantially all of the assets of Cherryville, N.C.-based leather seating specialist Bradington-Young LLC, on January 2, 2003. The results of Bradington-Young's operations have been included in the consolidated financial statements since that date. The Company acquired the Bradington-Young operation for an aggregate purchase price of \$29.3 million, consisting of \$22.1 million in cash (net of cash acquired), \$6.8 million in assumed liabilities and acquisition-related fees of \$457,000. The acquisition was financed principally with \$25.0 million in bank debt.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(Dollar and share amounts in tables, except per share amounts, in thousands unless otherwise indicated)

The fair value of the assets acquired and liabilities assumed was as follows:

January 2, 2003

| | |
|------------------------------------|-----------------|
| Current assets..... | \$12,277 |
| Property, plant and equipment..... | 9,497 |
| Goodwill..... | 2,396 |
| Intangible assets..... | 5,100 |
| Other assets..... | 30 |
| Total assets acquired..... | <u>29,300</u> |
| Current liabilities..... | 2,682 |
| Long-term debt..... | 4,073 |
| Total liabilities assumed..... | <u>6,755</u> |
| Net assets acquired..... | <u>\$22,545</u> |

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

November 30,

| | <u>2005</u> | <u>2004</u> |
|--|----------------|----------------|
| Goodwill..... | <u>\$2,396</u> | <u>\$2,396</u> |
| Non-amortizable Intangible Assets | | |
| Trademarks and trade names..... | <u>\$4,400</u> | <u>\$4,400</u> |
| Amortizable Intangible Assets | | |
| Non-compete agreements..... | 700 | 700 |
| Less accumulated amortization..... | <u>510</u> | <u>335</u> |
| Net carrying value..... | <u>190</u> | <u>365</u> |
| Intangible assets..... | <u>\$4,590</u> | <u>\$4,765</u> |

The Company acquired goodwill and certain intangible assets when it purchased the assets of Bradington-Young in January 2003. The non-compete agreements are being amortized over four years on a straight line basis for financial reporting purposes. The goodwill, trademarks and trade names have indefinite useful lives and consequently are not subject to amortization for financial reporting purposes but are tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. See “Note 1 – Summary of Significant Accounting Policies: Goodwill and Intangible Assets.” For tax reporting purposes the goodwill and intangible assets are being amortized over 15 years on a straight line basis.

NOTE 6 – SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

For The Year Ended
November 30, 2004

| | |
|--|---------------|
| Note received in connection with the sale of equipment from the Maiden, N.C. facility..... | \$ <u>104</u> |
|--|---------------|

For The Year Ended
November 30, 2003

| | |
|---|-----------------|
| Acquisition of Bradington-Young: | |
| Fair value of assets acquired (including cash of \$462)..... | \$29,300 |
| Cash paid (including fees of \$457)..... | <u>22,545</u> |
| Liabilities assumed (including debt of \$4.1 million)..... | <u>\$ 6,755</u> |
| Note received in connection with the sale of the Kernersville, N.C. facility..... | \$ <u>900</u> |

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

NOTE 7 – LONG-TERM DEBT

| | November 30, | |
|---|-----------------|-----------------|
| | <u>2005</u> | <u>2004</u> |
| Term Loan A | \$13,295 | \$15,416 |
| Term Loan B | | 2,150 |
| Revolving credit facility | | 1,000 |
| Industrial revenue bonds | | <u>4,600</u> |
| Total long-term debt outstanding | <u>13,295</u> | 23,166 |
| Less current maturities | <u>2,283</u> | <u>6,671</u> |
| Long-term debt, less current maturities | <u>\$11,012</u> | <u>\$16,495</u> |

Term Loan A bears interest at a variable rate (4.7% on November 30, 2005 and 2.6% on November 30, 2004) and is unsecured. Principal and interest payments are due quarterly through September 1, 2010. The Company has entered into an interest rate swap agreement that in effect provides for a fixed rate of interest of 4.1% on Term Loan A. See “Note 8 – Derivatives.”

The revolving credit facility is unsecured and provides for borrowings of up to \$15.0 million as of November 30, 2005 at variable interest rates (4.7% on November 30, 2005 and 2.6% on November 30, 2004). Up to \$3.0 million of the revolving credit line may be used for the issuance of letters of credit. Interest is payable monthly. No borrowings were outstanding under the revolving credit line as of November 30, 2005, and borrowings of \$1.0 million were outstanding on November 30, 2004. Outstanding letters of credit under that line amounted to \$1.3 million as of November 30, 2005 and \$1.4 million as of November 30, 2004. Any principal outstanding under the credit line is due March 1, 2008.

The credit agreement for the term loans and the revolving credit facility contains customary representations and warranties, covenants and events of default, including financial covenants as to minimum tangible net worth, debt service coverage, the ratio of funded debt to earnings before interest, taxes, depreciation and amortization, and maximum capital expenditures. The Company was in compliance with these covenants as of November 30, 2005.

In May 2005, the Company completed the early redemption of the industrial revenue bonds for \$4.6 million in cash. Prior to this redemption, scheduled principal payments on these bonds had been \$2.4 million on November 1, 2005, and \$2.2 million on November 1, 2006. In November 2005, the Company terminated a related interest rate swap agreement. See “Note 8 – Derivatives.”

As of November 30, 2005, the Company had an aggregate \$33.3 million available under its lines of credit including: (a) \$13.7 million available under its revolving credit facility to fund its working capital needs and (b) \$19.6 million available under additional lines of credit to support the issuance of letters of credit. The Company utilizes letters of credit to collateralize its imported inventory purchases and certain insurance arrangements. Outstanding letters of credit amounted to \$1.7 million on November 30, 2005 and \$8.3 million on November 30, 2004.

As of November 30, 2005, aggregate future maturities for the Company’s long-term debt were \$2.3 million in 2006, \$2.5 million in 2007, \$2.6 million in 2008, \$2.8 million in 2009 and \$3.1 million in 2010.

NOTE 8 – DERIVATIVES

The Company has used interest rate swap agreements to manage variable interest rate exposures on the majority of its long-term debt. The notional principal values of the Company’s swap agreements are substantially equal to the outstanding principal balance of the corresponding debt instruments. The Company believes that its swap agreements are highly effective in managing the volatility of future cash flows associated with interest payments on its variable rate debt. The Company accounts for its interest rate swap agreements as cash flow hedges.

In February 2003, the Company, in connection with the refinancing of its bank debt, terminated an interest rate swap agreement that in effect provided a fixed interest rate of 7.4% on Term Loan A and entered into a new interest rate swap agreement. The new swap agreement is on substantially the same terms as the terminated agreement, except that it in effect provides for a fixed interest rate of 4.1% through 2010 on Term Loan A. The Company’s \$3.0 million payment to terminate the swap agreement is being amortized as

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

interest expense over the remaining repayment period for Term Loan A, resulting in an effective fixed interest rate of approximately 7.4% on Term Loan A.

In May 2005, the Company completed the early redemption of the industrial revenue bonds for \$4.6 million in cash. Accordingly, the Company reclassified the fair market value of that swap agreement (a pretax loss of \$103,000) to interest expense in May 2005. In November 2005, the Company paid the issuer \$42,000 in cash to terminate that swap agreement.

The aggregate fair market value of the Company's swap agreements decreases when interest rates decline and increases when interest rates rise. While interest rates have increased since the 2003 second quarter through the 2005 third quarter, overall, interest rates have declined since the inception of the Company's swap agreements. The aggregate decrease in the fair market value of the effective portion of the agreements of \$226,000 (\$364,000 pretax) as of November 30, 2005, and \$759,000 (\$1.2 million pretax) as of November 30, 2004, is reflected under the caption "accumulated other comprehensive loss" in the consolidated balance sheets. See "Note 9 – Other Comprehensive Income."

NOTE 9 – OTHER COMPREHENSIVE INCOME

| | For The Years Ended November 30, | | |
|--|----------------------------------|-----------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Net income | <u>\$12,485</u> | <u>\$18,204</u> | <u>\$14,710</u> |
| Gain (loss) on interest rate swaps..... | <u>321</u> | <u>358</u> | <u>(1,575)</u> |
| Less amount of swaps' fair value reclassified to interest expense | <u>539</u> | <u>1,447</u> | <u>1,664</u> |
| Other comprehensive income before tax..... | <u>860</u> | <u>1,805</u> | <u>89</u> |
| Income tax expense | <u>327</u> | <u>686</u> | <u>34</u> |
| Other comprehensive income, net of tax..... | <u>533</u> | <u>1,119</u> | <u>55</u> |
| Comprehensive income | <u>\$13,018</u> | <u>\$19,323</u> | <u>\$14,765</u> |

The amount reclassified to interest expense includes a gain of \$10,000 in 2005, a gain of \$45,000 in 2004 and a loss of \$44,000 in 2003, related to the ineffective portion of the interest rate swap agreements.

NOTE 10 – EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan

The Company sponsors a leveraged employee stock ownership plan (the "ESOP") to provide retirement benefits for eligible employees, allowing them to share on a noncontributory basis in the growth of the Company and accumulate an ownership interest in the common stock of the Company. The ESOP covers substantially all employees.

The ESOP has issued a note to the Company bearing interest at 8%, which has a remaining unpaid principal balance of \$18.3 million and a remaining repayment term of 20 years (the "ESOP Loan") as of November 30, 2005. The proceeds from the ESOP Loan were used to purchase certain shares of the Company's common stock that are held by the plan. The ESOP will repay the ESOP Loan using Company contributions and dividends paid with respect to substantially all allocated and unallocated shares. The shares purchased with the proceeds of the ESOP Loan were initially pledged as collateral for the debt. The Company will release shares to eligible employees over the remaining 20-year term of the ESOP Loan based on the amount of principal and interest paid by the ESOP. Shares pledged as collateral (unallocated shares) are reported as "unearned ESOP shares" in the consolidated balance sheets.

The Company records non-cash ESOP cost for the number of shares that it commits to release to eligible employees at the average closing market price of the Company's common stock during each period. The shares are then treated as outstanding for computing earnings per share. "Unearned ESOP shares" in shareholders' equity is reduced by the Company's aggregate cost basis in the shares committed to be released. Those shares have a cost basis of \$6.25 per share. "Common stock" is increased by the aggregate average market price in excess of the cost basis of those shares.

HOOKE FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

Dividends paid on allocated shares held by the ESOP are charged against retained earnings in the consolidated balance sheets. Dividends paid on unallocated shares are in effect recorded as a reduction of principal and interest on the ESOP Loan. The cost of the ESOP amounted to:

| | For The Years Ended November 30, | | |
|---|----------------------------------|-----------------|-----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Average fair market value per share | \$ 18,902 | \$ 23,471 | \$ 13,714 |
| Number of shares committed to be released (in whole shares) | <u>170,628</u> | <u>161,222</u> | <u>212,224</u> |
| Non-cash ESOP cost | 3,225 | 3,784 | 2,910 |
| Administrative cost | <u>159</u> | <u>150</u> | <u>65</u> |
| Total ESOP cost | <u>\$ 3,384</u> | <u>\$ 3,934</u> | <u>\$ 2,975</u> |

Shares held by the ESOP and the fair value of unreleased shares were:

| | November 30, | |
|--|-----------------|-----------------|
| | <u>2005</u> | <u>2004</u> |
| Allocated shares | 1,030 | 1,117 |
| Shares released or committed to be released for allocation | 171 | 161 |
| Unreleased shares | <u>2,538</u> | <u>2,708</u> |
| Total shares held by the ESOP | <u>3,739</u> | <u>3,986</u> |
| Fair value of unreleased shares | <u>\$39,385</u> | <u>\$63,240</u> |

The Company may, but is not obligated to, repurchase shares from ESOP participants. Currently, benefits are generally distributed from the ESOP in the form of shares of the Company's common stock. However, benefits under a minimum share limit are distributed in the form of cash. Prospectively, the Company does not expect to repurchase shares distributed to ESOP participants.

Employee Savings Plans

The Company sponsors two tax-qualified 401(k) plans which, in the aggregate, cover substantially all employees. These plans assist employees in meeting their savings and retirement planning goals through employee salary deferrals and discretionary matching contributions made by the Company. The Company made contributions to the plans amounting to \$555,000 in 2005, \$681,000 in 2004 and \$704,000 in 2003.

Executive Benefits

The Company maintains a salary continuation program for certain management employees. The program consists of individual agreements with participants that specify the amount of benefits to be paid upon retirement, death or disability. These agreements are unfunded. All benefits are paid solely from the general assets of the Company. The total accrued liabilities relating to this program approximated \$2.4 million as of November 30, 2004 and 2005. These amounts are included in "accrued salaries, wages and benefits" and "other long-term liabilities" in the consolidated balance sheets. The cost of the program amounted to \$262,000 in 2005, \$110,000 in 2004 and \$284,000 in 2003. The Company also provides certain eligible executives with life insurance benefits during their working life and paid up insurance at their retirement through split dollar life insurance policies. The Company retains a collateral interest in each of these policies to the extent of premiums paid by the Company.

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

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

The life insurance program provides death benefit protection for certain executives of the Company during employment. Coverage under the program automatically terminates when the executive terminates employment with the Company for any reason, other than death, or when the executive attains age 65, whichever occurs first. The life insurance policies funding this life insurance program are owned by the Company.

The supplemental executive retirement plan provides a monthly supplemental retirement benefit for certain executives of the Company based on the executive's final average monthly compensation as defined in the plan. The benefit is payable for a 15-year period following the executive's termination of employment, subject to a vesting schedule that may vary for each participant in the plan. In addition, the monthly retirement benefit for each participant in the plan, regardless of age, becomes fully vested and the present value of all plan benefits is paid to participants in a lump sum upon a change in control of the Company (as defined in the plan). Benefits are payable from the general assets of the Company. The Company accounts for its obligation to each participant on the accrual basis. The aggregate liability for all participants under the supplemental executive retirement plan amounted to \$1.3 million as of November 30, 2005 and \$597,000 as of November 30, 2004. The cost of the program amounted to \$684,000 in 2005 and \$597,000 in 2004.

NOTE 11 – INCOME TAXES

The provision for income taxes:

| | For The Years Ended November 30, | | |
|--|----------------------------------|-----------------|----------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Current expense | | | |
| Federal | \$8,829 | \$10,600 | \$5,885 |
| State | <u>674</u> | <u>1,079</u> | <u>505</u> |
| Total current expense | <u>9,503</u> | <u>11,679</u> | <u>6,390</u> |
| Deferred (benefit) expense | | | |
| Federal | (1,303) | (7) | 2,244 |
| State | <u>(176)</u> | <u>48</u> | <u>56</u> |
| Total deferred (benefit) expense | <u>(1,479)</u> | <u>41</u> | <u>2,300</u> |
| Income tax expense | <u>\$8,024</u> | <u>\$11,720</u> | <u>\$8,690</u> |

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

| | For The Years Ended November 30, | | |
|---|----------------------------------|--------------|--------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Income taxes at statutory rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) in tax rate resulting from: | | | |
| State taxes, net of federal benefit | 1.6 | 2.4 | 1.6 |
| Employee stock ownership plan (ESOP) | 2.1 | 2.3 | 1.0 |
| Captive insurance assessments | 0.9 | | |
| Other | <u>(0.5)</u> | <u>(0.5)</u> | <u>(0.5)</u> |
| Effective income tax rate | <u>39.1%</u> | <u>39.2%</u> | <u>37.1%</u> |

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(Dollar and share amounts in tables, except per share amounts, in thousands unless otherwise indicated)

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

| | November 30, | |
|--------------------------------------|-------------------|-------------------|
| | <u>2005</u> | <u>2004</u> |
| Assets | | |
| Deferred compensation | \$1,414 | \$1,133 |
| Interest rate swaps | 253 | 570 |
| Allowance for bad debts | 514 | 509 |
| State income taxes | 82 | 132 |
| Restructuring | 1,526 | 330 |
| Other | <u>77</u> | <u> </u> |
| Total deferred tax assets | <u>3,866</u> | <u>2,674</u> |
| Liabilities | | |
| Property | 1,679 | 2,270 |
| Inventory | 1,578 | 1,153 |
| Intangible assets | 353 | 229 |
| Employee benefits | 900 | 809 |
| Other | <u> </u> | <u>9</u> |
| Total deferred tax liabilities | <u>4,510</u> | <u>4,470</u> |
| Net deferred tax liability | <u>\$ 644</u> | <u>\$1,796</u> |

As of November 30, 2005, \$466,000 of the deferred income taxes was classified as “other long-term liabilities” and \$178,000 was classified as “other accrued expenses” in the consolidated balance sheets. As of November 30, 2004, \$1.2 million of the deferred income taxes has been classified as “other long-term liabilities” and \$623,000 has been classified as “other accrued expenses” in the consolidated balance sheets. The Company expects to fully utilize its deferred tax assets in future periods when the amounts become deductible, consequently no valuation allowance was recorded as of November 30, 2005 or November 30, 2004.

A portion of the change in the net deferred income tax liability relates to unrealized gains and losses on interest rate swaps that are included in shareholders’ equity. The related deferred tax expense amounted to \$327,000 in 2005, \$686,000 in 2004 and \$34,000 in 2003 and was recorded directly to shareholders’ equity as a component of accumulated other comprehensive loss.

NOTE 12 – RESTRUCTURING CHARGES AND ASSETS HELD FOR SALE

The Company incurred significant restructuring charges in connection with the closing of wood furniture manufacturing plants in each of the past three years. These charges included severance and related benefits for terminated employees, asset impairment charges to write down real and personal property to fair market value (as determined based on market prices for similar assets in similar condition) less selling costs, factory disassembly and other related costs to prepare each facility for sale. Pretax restructuring charges reduced operating income by 1.5% of net sales in 2005 and by 0.5% of net sales in each of 2004 and 2003.

During 2005, the Company recorded aggregate restructuring charges of \$5.3 million (\$3.3 million after tax or \$0.28 per share) principally related to:

- the October 2005 closing of its Pleasant Garden, N.C. plant (\$4.3 million) and the September 2005 consolidation of related plywood production at its Martinsville, Va. manufacturing facility (\$406,000), which included \$1.5 million in severance and related benefits for approximately 300 hourly and salaried employees, \$2.9 million in related asset impairment charges and \$258,000 for other costs to prepare the Pleasant Garden property for sale;
- additional costs of \$586,000 related to its Maiden, N.C. facility (which closed in 2004) and its Kernersville, N.C. facility (which closed in 2003), consisting of :

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

- \$322,000 principally for additional asset impairment and health care expenses incurred in connection with the sale of the Maiden real property; and
- \$264,000 of additional costs principally for environmental monitoring related to the closing of the Kernersville facility.

In connection with the closing of the Pleasant Garden facility, the Company transferred related plywood production from a facility located in Martinsville, Va. to its main Martinsville manufacturing facility. The Company completed this transfer in the 2005 fourth quarter and expects to complete the conversion of this separate facility into a finished goods warehouse during the 2006 first quarter.

The Company reclassified to “assets held for sale” the real and personal property at the Pleasant Garden facility and certain plywood production equipment located at the Martinsville plywood facility, with an aggregate carrying value of \$1.7 million net of anticipated selling expenses. These assets are included in “current assets” on the consolidated balance sheet as of November 30, 2005. In December 2005, the Company sold the majority of the machinery and equipment, having a carrying value of \$907,000, for an aggregate consideration of \$932,000 in cash, net of selling expense. The Company is actively marketing the remaining real and personal property and anticipates that they will be sold within the next twelve months. The Company anticipates recording \$200,000 to \$300,000 of additional restructuring charges, as incurred during 2006, in connection with the sale of the Pleasant Garden real property.

The 2004 restructuring and asset impairment charges totaled \$1.6 million (\$1.0 million after tax or \$0.09 per share) and included:

- costs related to the October 2004 closing of its Maiden, N.C. manufacturing facility (\$1.5 million), which included \$872,000 in severance and related benefits for approximately 280 hourly and salaried employees and approximately \$637,000 in related asset impairment and other costs to prepare the facility for sale; and
- additional health care costs (\$95,000) related to its Kernersville, N.C. facility, which closed in 2003.

The Maiden, N.C. real property, machinery and equipment, with a carrying value of \$5.4 million as of November 30, 2004, were reclassified to “assets held for sale.” All of these assets were sold during the 2005 first half for an aggregate consideration of \$5.3 million in cash, net of selling expense, and a note receivable of \$104,000.

In 2003, the Company recorded \$1.5 million pretax (\$911,000 after tax, or \$0.08 per share) in restructuring charges related to the August 2003 closing of its Kernersville, N.C. wood furniture plant, which included \$1.1 million in severance and related benefits for approximately 290 hourly and salaried employees and \$366,000 in related asset impairment and other costs to prepare the property for sale. During the fourth quarter of 2003, the Company sold the Kernersville plant and some of its equipment for an aggregate consideration of \$1.1 million (\$164,000 in cash and a \$900,000 note receivable), net of selling expenses. The property had an aggregate carrying value of \$827,000. The Company received cash on the \$900,000 note in 2004.

The Company has moved the production of a majority of the patterns and wood furniture products manufactured at the Pleasant Garden, Maiden and Kernersville, N.C. plants to other Company facilities, and has discontinued certain products.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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

The following table sets forth the significant components of and activity related to the accrued restructuring and asset impairment charges for 2003, 2004 and 2005. Accrued restructuring charges are included in “accrued salaries, wages and benefits,” “other accrued expenses” and “other long-term liabilities” in the consolidated balance sheets. The expenses are included in “restructuring charges” in the consolidated statements of income:

| | <u>Severance and Related Benefits</u> | <u>Asset Impairment</u> | <u>Other</u> | <u>Pretax Amount</u> | <u>After-Tax Amount</u> |
|--|---|-----------------------------|---------------|--------------------------|-----------------------------|
| Restructuring charges accrued during 2003 for the | | | | | |
| Kernersville, N.C. facility | \$1,104 | \$ 45 | \$ 321 | \$1,470 | \$911 |
| Non-cash charges | | (45) | | (45) | |
| Cash payments | (1,061) | — | (271) | (1,332) | |
| Accrued balance at November 30, 2003 | 43 | | 50 | 93 | |
| Restructuring charges accrued during 2004 for the: | | | | | |
| Maiden, N.C. facility | 872 | 347 | 290 | 1,509 | |
| Kernersville, N.C. facility | 95 | | | 95 | |
| Total | 967 | 347 | 290 | 1,604 | 994 |
| Non-cash charges | | (347) | | (347) | |
| Cash payments | (642) | — | (115) | (757) | |
| Accrued balance at November 30, 2004 | 368 | | 225 | 593 | |
| Restructuring charges accrued during 2005 for the: | | | | | |
| Pleasant Garden, N.C. and Martinsville, VA plywood facilities | 1,464 | 2,942 | 258 | 4,664 | |
| Maiden, N.C. facility | 157 | 180 | (15) | 322 | |
| Kernersville, N.C. facility | 1 | | 263 | 264 | |
| Total | 1,622 | 3,122 | 506 | 5,250 | 3,255 |
| Non-cash charges | | (3,122) | | (3,122) | |
| Cash payments | (1,201) | — | (513) | (1,714) | |
| Accrued balance at November 30, 2005 | <u>\$ 789</u> | <u>\$ —</u> | <u>\$ 218</u> | <u>\$1,007</u> | |

NOTE 13 – QUARTERLY DATA (Unaudited)

| | Fiscal Quarter | | | |
|--|----------------|---------------|--------------|---------------|
| | <u>First</u> | <u>Second</u> | <u>Third</u> | <u>Fourth</u> |
| <u>2005</u> | | | | |
| Net sales | \$80,526 | \$88,698 | \$82,398 | \$90,153 |
| Gross profit | 20,931 | 24,239 | 21,233 | 25,499 |
| Net income | 2,950 | 4,859 | 664 | 4,012 |
| Basic and diluted earnings per share | \$ 0.25 | \$ 0.41 | \$ 0.06 | \$ 0.34 |
| <u>2004</u> | | | | |
| Net sales | \$78,222 | \$91,490 | \$84,309 | \$91,923 |
| Gross profit | 20,412 | 25,486 | 23,140 | 26,439 |
| Net income | 4,040 | 5,514 | 3,203 | 5,447 |
| Basic and diluted earnings per share | \$ 0.35 | \$ 0.47 | \$ 0.27 | \$ 0.46 |

Earnings per share for each quarter is derived using the weighted average number of shares outstanding during that quarter. Unallocated ESOP shares are not considered outstanding for purposes of calculating earnings per share. Earnings per share for the year is derived using the weighted average number of shares outstanding on an annual basis. Consequently, the sum of earnings per share for the quarters may not equal earnings per share for the full year.

HOOKER FURNITURE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued
(Dollar and share amounts in tables, except per share amounts, in thousands unless otherwise indicated)

NOTE 14 – COMMON STOCK

In June 2001, the Company announced that its Board of Directors had authorized the repurchase of up to \$3.0 million of the Company's common stock and announced an increase in that authorization of \$2.2 million in October 2001, for an aggregate authorization of \$5.2 million. There is no expiration date for this authorization. Repurchases may be made from time to time in the open market, or in privately negotiated transactions, at prevailing market prices that the Company deems appropriate. During 2005, the Company repurchased 50,000 shares of common stock for \$930,000 in cash, or \$18.60 per share. No shares of common stock were repurchased by or on behalf of the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) during fiscal 2004. Through November 30, 2005, the Company had repurchased approximately 634,000 shares at a total cost of \$3.44 million or an average of \$5.42 per share. Based on the market value of the common stock as of November 30, 2005, the remaining \$1.72 million of the authorization would allow the Company to repurchase approximately 111,000 shares, or 0.8%, of the 14.4 million shares outstanding, or 1.0% of the Company's outstanding shares excluding the 3.7 million shares held by the ESOP.

NOTE 15 – SEGMENT INFORMATION

The Company is organized and reports its results of operations in one operating segment that imports, manufactures and markets residential furniture products, principally in North America. The nature of the products, production processes, distribution methods, types of customers and regulatory environment are similar for substantially all of the Company's products.

NOTE 16 – COMMITMENTS, CONTINGENCIES AND OFF BALANCE SHEET ARRANGEMENTS

The Company leases warehousing facilities, showroom space, an upholstery frame plant and certain manufacturing, office and computer equipment under leases expiring over the next five years. Rent expense was \$2.3 million in 2005, \$2.4 million in 2004 and \$2.4 million in 2003. Future minimum annual commitments under leases and operating agreements amount to \$2.6 million in 2006, \$1.9 million in 2007, \$1.1 million in 2008, \$898,000 in 2009 and \$505,000 in 2010 and \$173,000 thereafter.

The Company had letters of credit outstanding totaling \$1.7 million on November 30, 2005 and \$8.3 million on November 30, 2004. The Company utilizes letters of credit to collateralize its imported inventory purchases and certain insurance arrangements.

In the ordinary course of its business, the Company may become involved in legal proceedings involving contractual and employment relationships, product liability claims, intellectual property rights and a variety of other matters. The Company does not believe that any pending legal proceedings will have a material impact on the Company's financial position or results of operations.

NOTE 17 – SUBSEQUENT EVENTS

Of the \$1.7 million in carrying value of "assets held for sale" as of November 30, 2005, the Company sold the majority of the machinery and equipment in December 2005, having a carrying value of \$907,000, for an aggregate consideration of \$932,000 in cash, net of selling expense. The Company is actively marketing the remaining real and personal property and anticipates that they will be sold within the next twelve months. See "Note 12 – Restructuring."

On January 13, 2006, awards totaling 4,851 shares of restricted common stock were granted to six non-employee members of the Board of Directors. Each award is subject to vesting requirements and other limitations in accordance with the Hooker Furniture 2005 Stock Incentive Plan approved by shareholders at the 2005 annual shareholders meeting.



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JOHN L. GREGORY, III



MARK F. SCHREIBER



L. DUDLEY WALKER



HENRY G. WILLIAMSON, JR.

Directors and Officers of Hooker Furniture:

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*Director, Chief Executive Officer
and Chairman of the Board*

DOUGLAS C. WILLIAMS
Director, President and Chief Operating Officer

W. CHRISTOPHER BEELER, JR.
*Director, Chairman, President and Chief Executive Officer -
Virginia Mirror Company and Virginia Glass Products*

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*Director, President and Chief Executive Officer -
The Uttermost Company*

JOHN L. GREGORY, III
*Director, Shareholder, Officer and Director -
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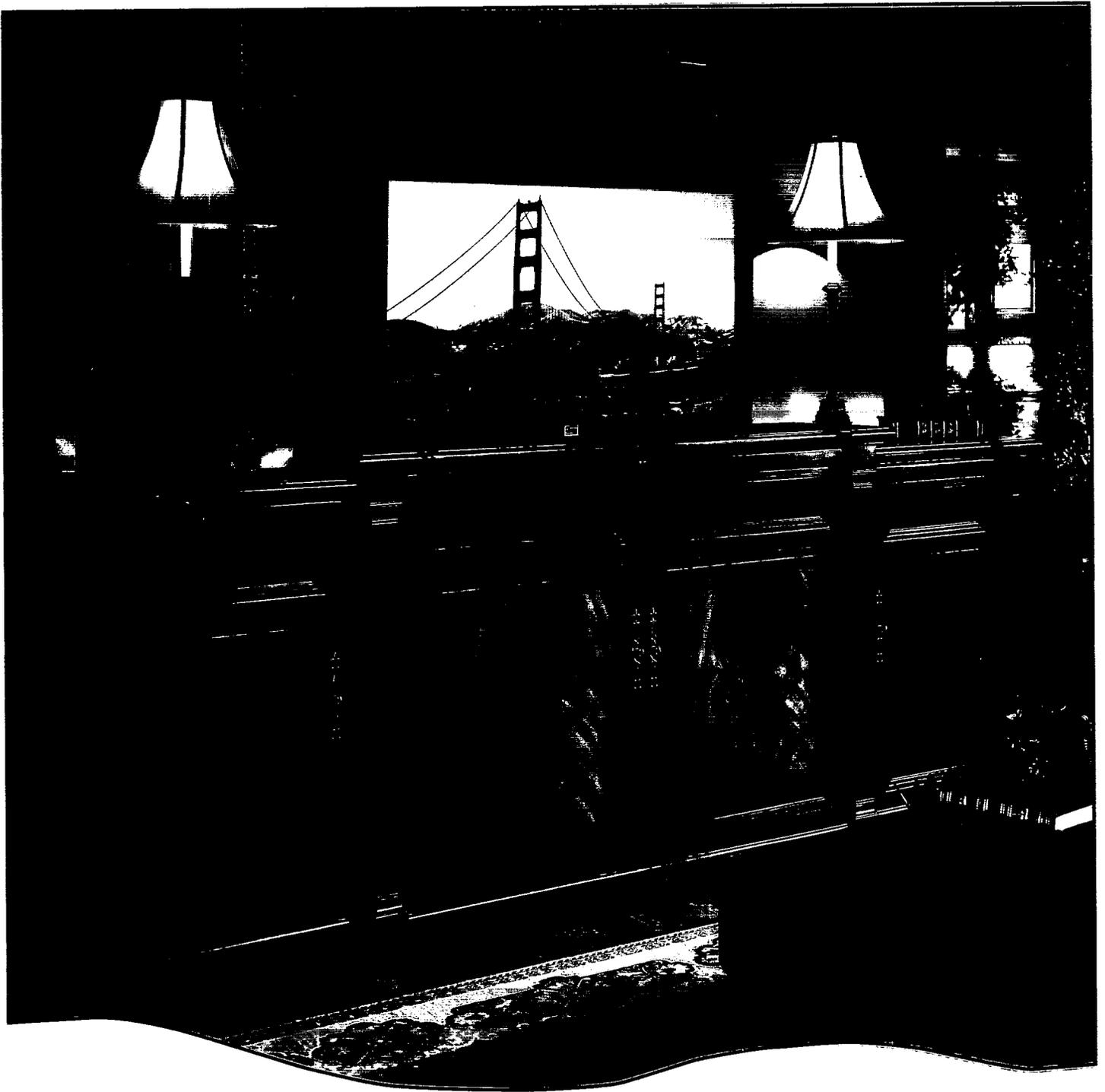
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