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Hooker Furniture drops employee stock plan

A company official said the change reflects the decrease in the manufacturing work force.

By Duncan Adams

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Hooker Furniture Corp. will soon have few U.S. workers with a role in manufacturing furniture. That's one reason, the company said, it has dropped its employee stock ownership program.

Paul Toms, Hooker's top executive, said the move "will significantly reduce our benefits expense going forward and position Hooker to be more competitive in our marketplace."

Hooker, founded as a manufacturer in 1924, is now essentially an importer, marketer and distributor of imported furniture, a business model it has moved to adopt in recent years.

The company announced last month plans to close in March its last U.S. factory, in Martinsville, where products have been wood furniture. It had previously closed other plants, including one in Roanoke.

A subsidiary, Bradington-Young, still manufactures upholstered furniture domestically. And Hooker will still employ about 750 people after the Martinsville plant closes, a total that includes employees in the Martinsville corporate office and a warehouse and a distribution center there, as well as at Bradington-Young.

When Hooker released its year-end numbers Thursday, it attributed increased profitability in fiscal 2006 to the company's lines of imported wood and upholstered furniture. Imports have long boosted Hooker's sales and profits while U.S.-built furniture has dragged earnings down.

According to the company, Hooker Furniture had record net sales of $350 million for its year ended Nov. 30, an increase of 2.4 percent from 2005. Profit for 2006 was $14.1 million, or $1.18 per share, an increase of nearly 13 percent from fiscal 2005, when profit was about $12.5 million, or $1.06 a share.

Fourth-quarter sales also increased. But the quarter's profit of $3.5 million, or 29 cents per share, decreased about 13 percent from $4 million, or 34 cents per share, in 2005, a drop Hooker linked to charges related to the impending closing of its Martinsville plant.

Hooker's ESOP program began in the 1980s, according to Larry Ryder, executive vice president and chief financial officer.

Typically, companies hope ESOPs will boost motivation, promote initiative and increase productivity because employees have a financial stake in the company and can participate in its management.

The Hooker ESOP program received a big boost in 2000, when the ESOP purchased, using a loan from Hooker, 3.6 million shares of the company's outstanding stock. The ESOP became Hooker's largest shareholder.

But in the years that followed, the company transformed its business model and turned to imports as its focus. Since 2000, the work force has dropped from about 2,000 to the 750 who will remain after the Martinsville plant shuts down. Meanwhile, Hooker's stock price has increased, causing the annual expense of the ESOP to rise.

Ryder said the company will allocate about 1.2 million shares to employees, who can choose to roll them over into the company's 401(k), an individual retirement account or sell their stock. Sellers younger than $59\frac{1}{2}$ could face a 10 percent excise tax for early distribution of shares.

David Binns, an associate director of the Beyster Institute, Rady School of Management, has studied employee stock programs.

Binns said Hooker's decision to drop its ESOP "is clearly a mixed bag for employees," who "would have been better off to stay in for the long haul" for the allocation of additional shares. On the other hand, he said, without financial and business restructuring, Hooker might have lost ground to the competition and suffered reduced sales and earnings.

He said the number of ESOP programs for publicly traded companies has been dropping, partly because of an increasing regulatory burden. Hooker stands to benefit from discontinuing the ESOP, he said.

Ending the program will result in an $18.4 million charge to earnings in January, the company reported.

On Friday, the price of Hooker's Nasdaq-traded stock jumped nearly 17 percent to $18.30, a strong rise Ryder said could be attributed to dropping the ESOP program and positive earnings for 2006.