

## Risk Factors Comparison 2024-01-25 to 2023-01-24 Form: 10-K

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The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. The risk factors below represent what we believe are the known material risk factors with respect to us and our business. Any of the following risks could materially adversely affect our business, operations, industry, financial position or future financial results.

~~Risks Related to the Coronavirus Pandemic The coronavirus global pandemic which caused a significant disruption in non-essential retail commerce may continue to have a material adverse impact upon our financial condition and results of operations. On March 11, 2020, the World Health Organization declared the current coronavirus (“COVID-19”) outbreak to be a global pandemic. In response to this declaration and the rapid spread of COVID-19 within the United States, federal, state and local governments throughout the country imposed varying degrees of restriction on social and commercial activity to promote social distancing in an effort to slow the spread of the illness. These measures had a significant adverse impact upon many sectors of the economy, including non-essential retail commerce. As a result of these circumstances, we temporarily closed our dedicated stores, our manufacturing locations and many of our warehouses. In addition, many of our office personnel were working remotely. By the end of June 2020, we had reopened all of our retail stores that had been temporarily closed. However, continuing logistical challenges faced by the entire home furnishings industry resulting from COVID-related labor shortages and supply chain disruptions created significant delays in order fulfillment and increasing backlogs as we were not able to produce and ship at the incoming rate of wholesale and retail orders. Gradual decreases in wholesale and retail backlogs over the course of 2022 were driven by a lower rate of incoming orders coupled with gradual easing of supply chain constraints. By the end of fiscal 2022, these issues have been substantially resolved. However, we cannot anticipate the impact of any future resurgence of COVID-19 upon our business, which could include, among other things, reductions in customer traffic to our retail stores, increased labor shortages and renewed supply chain disruptions. Should these conditions resume, this may have a material adverse impact on our ultimate financial condition and liquidity.~~

**Risks Related to Our Retail Operations** We face a volatile retail environment and changing economic conditions that may further adversely affect consumer demand and spending. Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Should current economic conditions weaken, the current rate of housing starts decline, or rising inflation persist, consumer confidence and demand for home furnishings could deteriorate which could adversely affect our business through its impact on the performance of our Company-owned stores, as well as our licensees and the ability of a number of them to meet their obligations to us. Our retail stores face significant competition from national, regional and local retailers of home furnishings, including increasing on-line competition via the internet. The retail market for home furnishings is highly fragmented and intensely competitive. We currently compete against a diverse group of retailers, including national department stores, regional or independent specialty stores, and dedicated franchises of furniture manufacturers. National mass merchants such as Costco also have limited product offerings. We also compete with retailers that market products through store catalogs and the internet. In addition, there are few barriers to entry into our current and contemplated markets, and new competitors may enter our current or future markets at any time. We have also seen increasing competition from retailers offering consumers the ability to purchase home furnishings via the internet for home delivery, and this trend is expected to continue. Our existing competitors or new entrants into our industry may use a number of different strategies to compete against us, including aggressive advertising, pricing and marketing, extension of credit to customers on terms more favorable than we offer, and expansion into markets where we currently operate. Competition from any of these sources could cause us to lose market share, revenues and customers, increase expenditures or reduce prices, any of which could have a material adverse effect on our results of operations. Our licensee-owned stores may not be able to meet their obligations to us. We have a significant amount of accounts receivable attributable to our network of licensee-owned stores. We also guarantee **two** a limited number of leases of **some one** of our licensees. If these stores do not generate the necessary level of sales and profits, the licensees may not be able to fulfill their obligations to us resulting in additional bad debt expenses and real estate related losses. We may incur significant future losses due to our recent acquisition of Noa Home If expected growth trends in Noa Home’s revenue fail to materialize, we may be unable to recover our investment in Noa Home, including any additional financial support we may find necessary to provide. This may result in significant operating losses from Noa Home which could have an adverse impact on our future cash flows and results of operations ~~, including significant charges for the impairment of certain acquired assets including goodwill.~~

**Risks Related to Our Brand and Product Offerings** Failure to successfully anticipate or respond to changes in consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition. Sales of our furniture are dependent upon consumer acceptance of our designs, styles, quality and price. As with all retailers, our business is susceptible to changes in consumer tastes and trends. We attempt to monitor changes in consumer tastes and home design trends through attendance at international industry events and fashion shows, internal marketing research, and communication with our retailers and design consultants who provide valuable input on consumer tendencies. However, such tastes and trends can change rapidly and any delay or failure to anticipate or respond to changing consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition. In addition, certain suppliers may require extensive advance notice of our requirements in order to produce products in the quantities we desire. This long lead time may require us to place orders far in advance of the time when certain products will be offered for sale, thereby exposing us to risks relating to shifts in consumer demand and trends, and any downturn in the U. S. economy. Our success depends upon our brand, marketing

and advertising efforts and pricing strategies, and if we are not able to maintain and enhance our brand, or if we are not successful in these efforts and strategies, our business and operating results could be adversely affected. Maintaining and enhancing our brand is critical to our ability to expand our base of customers and drive increased traffic at both Company-owned and licensee-owned stores and to our website. Digital advertising and outreach continue to dominate our marketing expenditures. We ~~are also investing~~ **invested** heavily in our website and e-commerce ~~– We plan to debut a new website in the second quarter of 2023 which will include improved navigation and on-line order capabilities designed to drive additional on-line sales.~~ We cannot provide assurance that our marketing, advertising and other efforts to promote and maintain awareness of our brand will not require us to incur substantial costs. If these efforts are unsuccessful or we incur substantial costs in connection with these efforts, our business, operating results and financial condition could be adversely affected.

**Risks Related to Material Sourcing and Supply** Our use of foreign sources of production for a portion of our products exposes us to certain additional risks associated with international operations. Our use of foreign sources for the supply of certain of our products exposes us to risks associated with overseas sourcing. These risks are related to government regulation, volatile ocean freight costs, delays in shipments, extended lead time in ordering ~~and, more recently, disruptions in supply due to plant shut-downs and shipping delays resulting from surges in COVID infections in other parts of the world.~~ Governments in the foreign countries where we source our products may change their laws, regulations and policies, including those related to tariffs and trade barriers, investments, taxation and exchange controls which could make it more difficult to service our customers resulting in an adverse effect on our earnings. Fluctuations in the price, availability and quality of raw materials could result in increased costs or cause production delays which might result in a decline in sales, either of which could adversely impact our earnings. We use various types of wood, foam, fibers, fabrics, leathers, and other raw materials in manufacturing our furniture. Certain of our raw materials, including fabrics, are purchased both abroad and domestically. Fluctuations in the price, availability and quality of raw materials could result in increased costs or a delay in manufacturing our products, which in turn could result in a delay in delivering products to our customers. For example, lumber prices fluctuate over time based on factors such as weather and demand, which in turn impact availability ~~– More recently, general price inflation brought on by labor and supply shortages have forced us to implement several general price increases in 2022 and 2021.~~ There is no guarantee that we will be able to successfully pass along additional cost increases as they arise and rising inflation could have an adverse impact upon consumer demand for discretionary items such as home furnishings. Production delays or upward trends in raw material prices could result in lower sales or margins, thereby adversely impacting our earnings.

**Risks Related to Electronic Data Processing and Digital Information** We rely extensively on computer systems to process transactions, summarize results and manage our business. Disruptions in both our primary and back-up systems could adversely affect our business and operating results. Our primary and back-up computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, natural disasters and errors by employees. Though losses arising from some of these issues would be covered by insurance, interruptions of our critical business computer systems or failure of our back-up systems could reduce our sales or result in longer production times. If our critical business computer systems or back-up systems are damaged or cease to function properly, we may have to make a significant investment to repair or replace them. We ~~have previously and~~ **may continue in the future to** incur costs ~~and reputational harm~~ resulting from security risks we face in connection with our electronic processing, storage and transmission of confidential information **whether on computer systems maintained on our internal network or by third parties that may host certain of our systems. We may also incur reputational harm resulting from these security risks.** We accept electronic payment cards in our stores and also gather certain personal identifiable information in the processing of our retail sales transactions. **Certain of these transactions were processed through our e-commerce site that was hosted and maintained by a third party that was subject to at least one data breach. We have subsequently moved our e-commerce site to another provider that we believe provides greater overall security.** We also store and process confidential information pertaining to our employees and other third parties on our networks. We ~~have and~~ **may** in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information. In addition, if there were a disclosure of confidential information provided by, or concerning, our employees, customers or other third parties, including through inadvertent disclosure, unapproved dissemination, or unauthorized access, our reputation could be harmed, and we could be subject to civil or criminal liability and regulatory actions. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal and state regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects. ITEM 1B. UNRESOLVED STAFF COMMENTS