Risk Factors Comparison 2024-04-12 to 2023-04-14 Form: 10-K

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Our business is subject to a variety of risks. The risk factors discussed below should be considered in conjunction with the other information contained in this annual report on Form 10- K. If any of these risks actually materialize, our business, results of operations, financial condition or future prospects could be negatively impacted. These risks are not the only ones we face. There may be additional risks that are presently unknown to us or that we currently believe to be immaterial that could affect us. ~~» Risks related~~ **Economic downturns could result in decreased sales, earnings and liquidity. The furniture industry is particularly sensitive** to **cyclical variations in the general economy and the current macro- economic uncertainties, including the economic downturn caused by pandemics such as COVID- 19, persistent inflation and higher interest rates, and slow housing market. Home furnishings are generally considered a postponable purchase by most consumers. Economic downturns could affect consumer spending habits by decreasing the overall demand for home furnishings. Changes in interest rates, consumer confidence, new housing starts, existing home sales, the availability of consumer credit and broader national or geopolitical factors have particularly significant effects on** our business **. We have seen negative effects on all of these measures due to the COVID- 19 pandemic. A recovery in our sales could lag significantly behind a general recovery in the economy after** ~~and~~ - **an** ~~industry could also impact retailers,who are our primary customers,possibly adversely affecting our sales,earnings,financial condition and liquidity.~~ The implementation of our Enterprise Resource Planning (“ ERP ”) system could disrupt our business.We are in the process of implementing a common ERP system across all divisions.The ERP system went live at Sunset West in ~~December~~ **the fourth quarter of fiscal** ~~2022~~ **2023 ,** and **is expected to go- live** in ~~the~~ **our** legacy Hooker divisions ~~and for consolidated reporting~~ in **fiscal** ~~early September 2023~~ **2024 ,with** ~~.We expect the ERP system to go live in the~~ Home Meridian segment **following thereafter** ~~during fiscal 2026~~ .Although we currently expect the ERP implementation to increase efficiencies by leveraging a common,cloud- based system throughout all divisions and standardizing processes and reporting,our ERP system implementation may not result in improvements that outweigh its costs and may disrupt our operations.Our inability to mitigate existing and future disruptions could adversely affect our sales,earnings,financial condition and liquidity. **For example,** ~~When~~ **when** the ERP system went live at Sunset West **in December 2022** ~~and legacy Hooker divisions~~ ,the conversion process significantly impacted **its** shipping activities and negatively impacted **its** sales and profitability in the ~~respective periods,~~ **fiscal 2023 fourth quarter** due to longer than expected post- implementation stabilization **.We expect these issues to be resolved in the first quarter of fiscal 2024** .The ERP system implementation subjects us to substantial costs and inherent risks associated with migrating from our legacy systems.These costs and risks could include,but are not limited to:● Significant capital and operating expenditures;● Disruptions to our domestic and international supply chains;● Inability to fill customer orders accurately and on a timely basis,or at all;● Inability to process payments to suppliers,vendors and associates accurately and in a timely manner;● Disruption to our system of internal controls;● Inability to fulfill our SEC or other governmental reporting requirements in a timely or accurate manner;● Inability to fulfill international,federal,state or local tax filing requirements in a timely or accurate manner;and ● Increased demands on management and staff time **to the detriment of other corporate initiatives.** We rely on offshore sourcing from Vietnam ~~and China~~ for most of our sales. Consequently: ■ A disruption in supply from Vietnam ~~or China~~ or from our most significant suppliers in Asia could adversely affect our ability to timely fill customer orders for these products and decrease our sales, earnings and liquidity. In fiscal ~~2023~~ **2024** , imported products sourced from Vietnam ~~and China~~ accounted for ~~91~~ **88** % of our import purchases and our top five suppliers in Vietnam ~~and China~~ accounted for ~~50~~ **60** % of our fiscal ~~2023~~ **2024** import purchases. Our supply chain could be adversely impacted by the uncertainties of health concerns **such as COVID- 19 or similar pandemics** and governmental restrictions. A disruption in our supply chain, or from Vietnam ~~or China~~ in general, such as the COVID- 19 related lockdown in certain parts of Asia in the Summer of calendar 2021, could significantly impact our ability to fill customer orders for products manufactured in those countries. In some cases, we **believe we would have sufficient** ~~were able to provide substitutions using~~ inventory on hand ~~,~~ **and** in- transit ~~and~~ **or be able to provide substitutions** from our domestic warehouses ~~,~~ but **may** not **be** enough to entirely mitigate the lost sales. Supply disruptions and delays on selected items could occur for six months or longer before the impact of remedial measures would be reflected in our results. If we are unsuccessful in obtaining those products from other sources or at comparable cost, a disruption in our supply chain from our largest import furniture suppliers, or from Vietnam ~~or China~~ in general, could adversely affect our sales, earnings, financial condition and liquidity. ■ Our inability to accurately forecast demand for our imported products could cause us to purchase too much, too little or the wrong mix of inventory. Manufacturing and delivery lead times for our imported products necessitate that we make forecasts and assumptions regarding current and future demand for these products. If our forecasts and assumptions are inaccurate, we may purchase excess or insufficient amounts of inventory. If we purchase too much or the wrong mix of inventory, we may be forced to sell it at lower margins, which could adversely affect our sales, earnings, financial condition and liquidity. If we purchase too little or the wrong mix of inventory, we may not be able to fill customer orders and may lose market share and weaken or damage customer relationships, which also could adversely affect our sales, earnings, financial condition and liquidity. ■ Increased transportation costs, including freight costs on imported products could decrease earnings and liquidity. Transportation costs on our imported products are affected by a myriad of factors including the global economy, petroleum prices and ocean freight carrier capacity. In the recent past, especially ~~during fiscal 2022~~ **after the COVID- 19 pandemic** , transportation costs, including ocean freight costs and domestic trucking costs, on imported products represented a significant portion of the cost of those products. We saw a significant spike in these costs during that time and our profitability was materially impacted. To mitigate the increased costs, we implemented price increases and surcharges; however, there can be no assurance that we will be successful in increasing prices or receiving freight surcharges in the future or that we can do it quickly enough to offset increased costs. Increased transportation costs, both domestically and internationally, in the future would likely adversely affect earnings, financial condition and liquidity. ■ Our dependence on suppliers could, over time, adversely affect our ability to service customers. We rely heavily on suppliers we do not own or control, including a large number of non- U. S. suppliers. All of our suppliers may not provide goods that meet our quality, design or other specifications in a timely manner and at a competitive price. If our suppliers do not meet our specifications, we may need to find alternative suppliers, potentially at a higher cost, or may be forced to discontinue products. Also, delivery of goods from non- U. S. suppliers may be delayed for reasons not typically encountered for domestically manufactured furniture, such as shipment delays caused by customs issues, labor issues, port- related issues such as weather, congestion or port equipment, decreased availability of shipping containers and / or the inability to secure space aboard shipping vessels to transport our products. Our failure to timely fill customer orders due to an extended business interruption for a major supplier, or due to transportation issues, could negatively impact existing customer relationships and adversely affect our sales, earnings, financial condition and liquidity. ■ Potential future increases in tariffs ~~on manufactured goods imported from China~~ or new tariffs imposed on other countries from which we source, including Vietnam, could adversely affect our business. New tariffs could be imposed on manufactured goods from other countries from which we source, including Vietnam. Inability to reduce product costs, pass through price increases or find other suitable manufacturing sources ~~outside of China~~ may have a material adverse impact on sales volume, earnings and liquidity. In addition, the tariffs, and our responses to the tariffs, may cause our products to become less competitive due to price increases or less profitable due to lower margins. Our inability to effectively manage the negative impacts of changing U. S. and foreign trade policies could adversely affect our business and financial results. ■ We are subject to changes in U. S. and foreign government regulations and in the political, social and economic climates of the countries from which we source our products. Changes in political, economic and social conditions, as well as in the laws and regulations in the foreign countries from which we source our products could adversely affect our sales, earnings, financial condition and liquidity. These changes could make it more difficult to provide products and service to our customers or could increase the cost of those products. International trade regulations and policies of the United States and the countries from which we source finished products could adversely affect us. Imposition of trade sanctions relating to imports, taxes, import duties and other charges on imports affecting our products could increase our costs and decrease our earnings. ~~For example, the U. S. Department of Commerce imposes tariffs on wooden bedroom furniture coming into the United States from China. In this case, none of the rates imposed have been of sufficient magnitude to alter our import strategy in any meaningful way; however, these and other tariffs are subject to review and could be increased or new tariffs implemented in the future.~~ ■ Changes in the value of the U. S. Dollar compared to the currencies for the countries from which we obtain our imported products could adversely affect our sales, earnings, financial condition and liquidity. For imported products, we generally negotiate firm pricing with our foreign suppliers in U. S. Dollars, typically for periods of at least one year. We accept the exposure to exchange rate movements during these negotiated periods. We do not use derivative financial instruments to manage this risk but could choose to do so in the future. Since we transact our imported product purchases in U. S. Dollars, a relative decline in the value of the U. S. Dollar could increase the price we must pay for imported products beyond the negotiated periods. These price changes could decrease our sales, earnings, financial condition and liquidity during **the** affected periods. ■ Supplier transitions, including cost or quality issues, could result in longer lead times and shipping delays. In the past, inflation concerns, and to a lesser extent quality and supplier viability concerns, affecting some of our imported product suppliers located in China prompted us to source more of our products from lower cost suppliers located in other countries, such as Vietnam. **Additionally** ~~As discussed above~~ , ~~during fiscal 2020 and fiscal 2021~~ we transitioned a significant portion of our imported product purchases from China to Vietnam due to the imposition of tariffs on most furniture and component parts imported from China. As conditions dictate, we could be forced to make similar transitions in the future. When undertaken, transitions of this type involve significant planning and coordination by and between us and our new suppliers in these countries. Despite our best efforts and those of our new sourcing partners, these transition efforts are likely to result in longer lead times and shipping delays over the short term. Risks associated with product defects, including higher than expected costs associated with product quality and safety, and regulatory compliance costs related to the sale of consumer products and costs related to defective or non- compliant products, including product liability claims and costs to recall defective products. One or a combination of these issues could adversely affect our sales, earnings, financial condition and liquidity. A disruption affecting our domestic facilities could disrupt our business. The facilities in which we store our inventory in Virginia, North Carolina, Georgia and California are critical to our success. Our corporate and divisional headquarters, which house our administration, sourcing, sales, finance, merchandising, customer service and logistics functions for our imported and domestic products are located in Virginia, North Carolina and California. **Additionally, our primary showrooms are located in North Carolina.** Our domestic upholstery manufacturing facilities are located in Virginia, North Carolina and California. Furniture manufacturing creates large amounts of highly flammable wood dust and **may** ~~utilizes~~ **utilize** other highly flammable materials such as varnishes and solvents in its manufacturing processes and is therefore subject to the risk of losses arising from explosions and fires. Additionally, our domestic operations could be negatively affected by public health events, such as the COVID- 19 pandemic. Any disruption affecting our domestic facilities, for even a relatively short period of time, could adversely affect our ability to ship our furniture products and disrupt our business, which could adversely affect our sales, earnings, financial condition and liquidity . Labor shortages and rising labor costs...... and liquidity could again be adversely affected . Fluctuations in the price, availability or quality of raw materials for our domestically manufactured upholstered furniture could cause manufacturing delays, adversely affect our ability to provide goods to our customers or increase our costs. We use various types of wood, leather, fabric, foam and other filling material, high carbon spring steel, bar and wire stock and other raw materials in manufacturing upholstered furniture. We depend on outside suppliers for raw materials and must obtain sufficient quantities of quality raw materials from these suppliers at acceptable prices and in a timely manner. We do not have long- term supply contracts with our suppliers. Unfavorable fluctuations in the price, quality or availability of required raw materials could negatively affect our ability to meet the demands of our customers. We may not always be able to pass price increases on raw materials through to our customers due to competition and other market pressures. In addition, the price increases are frequently implemented on future orders instead of existing order backlogs. Considering our lead times **during periods** of **high demand** ~~five to six months~~, the benefits of new pricing could be offset by continued price increases from our suppliers that could impact us before we realize the benefit from our price increases. The inability to meet customers' demands or recover higher costs could adversely affect our sales, earnings, financial condition and liquidity. If demand for our domestically manufactured upholstered furniture declines, we may respond by realigning manufacturing **or need to implement cost- saving measures**. Our domestic manufacturing operations make only upholstered furniture. A decline in demand for our domestically produced upholstered furniture could result in the realignment of our domestic manufacturing operations and capabilities and the implementation of cost- saving measures. These programs could include the consolidation and integration of facilities, functions, systems and procedures. We may decide to source certain products from other suppliers instead of continuing to manufacture them. These realignments and cost- saving measures typically involve initial upfront costs and could result in decreases in our near- term earnings before the expected cost savings are realized, if they are realized at all. We may not always accomplish these actions as quickly as anticipated and may not achieve the expected cost savings, which could adversely affect our sales, earnings, financial condition and liquidity. We may **not be able to maintain, raise prices, or raise prices in a timely manner in response to inflation and increasing costs. Competitive and market forces could prohibit or delay future successful price increases for our products in order to offset increased costs of labor, finished goods, raw materials, freight and other product- related costs on a timely basis, which could adversely affect our sales, earnings, financial condition and liquidity. We may** experience impairment of our long- lived assets, which would decrease our earnings and net worth. At January ~~29~~ **28**, ~~2023~~ **2024**, we had $ ~~73~~ **72**. ~~7~~ **8** million in net long- lived assets, consisting primarily of property, plant and equipment, trademarks, trade names and goodwill. Our goodwill, some trademarks and tradenames 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. ~~As an example, COVID- 19 had a material impact on our financial performance in the fiscal 2021 first quarter and on the market valuations, discount rates and other inputs used in our intangibles valuation analysis. We determined that an immediate intangible asset valuation was necessary given our performance and changing market dynamics. As a result of the intangible asset valuation analysis, in the fiscal 2021 first quarter, we recorded $ 44. 3 million in non- cash impairment charges to write down goodwill and certain tradenames in the Home Meridian segment and goodwill in the Shenandoah division of its Domestic Upholstery segment. In fiscal 2023, we wrote off $ 12, 500 representing the remaining value of the Right2Home trade name in the Home Meridian segment due to the decision to exit the ACH business unit in the fourth quarter of fiscal 2023.~~ Our definite- lived assets consist of property, plant and equipment and certain intangible assets related to our recent acquisitions and are tested for impairment whenever events or circumstances indicate that the carrying amount of the asset may not be recoverable. The outcome of impairment testing could result in the write- down of all or a portion of the value of these assets. A write- down of our assets would, in turn, reduce our earnings and net worth. See ~~Note~~ **Notes 8 and** 10 to our Consolidated Financial Statements for additional information. Our sales and operating results could be adversely affected by product safety concerns. If our product offerings do not meet applicable safety standards or consumers' expectations regarding safety, we could experience decreased sales, increased costs and / or be exposed to legal and reputational risk. Events that give rise to actual, potential or perceived product safety concerns could expose us to regulatory enforcement action and / or private litigation. While we carry general and umbrella liability insurance for such events, settlements or jury awards could exceed our policy limits. Reputational damage caused by real or perceived product safety concerns or failure to prevail in private litigation against us could adversely affect our business, sales, earnings, financial condition and liquidity. The implementation of our Enterprise Resource Planning...... the detriment of other corporate initiatives. A material part of our sales and accounts receivable are concentrated in a few customers. The loss of several large customers through business consolidations or otherwise, the loss of a major customer or significant sales programs with major customers, failures or other reasons, including economic downturn and the adverse economic effects of **a future** ~~the COVID- 19~~ pandemic or similar events, could adversely affect our business. One customer accounted for approximately 6 % of our consolidated sales in fiscal ~~2023~~ **2024**, **and** our top five customers accounted for about 22 % of our fiscal ~~2023~~ **2024** consolidated sales. Approximately ~~20~~ **16** % of our consolidated accounts receivable is concentrated in our top five customers. Should any one of these receivables become uncollectible, it would have an immediate and material adverse impact on our financial condition and liquidity. The loss of any one or more of these customers could adversely affect our sales, earnings, financial condition and liquidity. The loss of several of our major customers through business consolidations, the loss of major product placements, failures or otherwise, could adversely affect our sales, earnings, financial condition and liquidity and the resulting loss in sales may be difficult or impossible to replace. Amounts owed to us by a customer whose business fails, or is failing, may become uncollectible (in whole or in part), and we could lose future sales, any of which could adversely affect our sales, earnings, financial condition and liquidity. We may not be able to collect amounts owed to us. We grant payment terms to most customers ranging from 30 to 60 days and do not generally require collateral. However, in some instances we provide longer payment terms. We purchase credit insurance on certain customers' receivables and factor certain other customer accounts. Some of our customers have experienced, and may in the future experience, credit- related issues. Were the **economic downturn,** COVID- 19 or a similar pandemic or another major, unexpected event with negative economic effects occur, we may not be able to collect amounts owed to us or such payment may only occur after significant delay. While we perform credit evaluations of our customers, those evaluations may not prevent uncollectible trade accounts receivable. Credit evaluations involve significant management diligence and judgment, especially in the current environment. We may be unable to obtain sufficient credit insurance on certain customers' receivable balances. Should more customers than we anticipate experience liquidity issues, if payment is not received on a timely basis, or if a customer declares bankruptcy or closes stores, we may have difficulty collecting amounts owed to us by these customers, which could adversely affect our sales, earnings, financial condition and liquidity. **Labor shortages and rising** labor costs could disrupt operations at our domestic warehousing and manufacturing facilities **.At times,especially during** ~~We observed a strong labor market after~~ the **post** COVID- 19 ~~pandemic.We continue to~~ **demand surge,we have** ~~experience~~ **experienced** difficulties in recruiting skilled labor into our domestic upholstery plants and warehouses and in some skilled or professional positions.Lack of qualified workers and high turnover in a variety of positions caused increased training costs and adversely affected our production schedules and the ability to ship our furniture products.Furthermore,we experienced higher labor costs and ~~ongoing~~ **persistent** inflationary pressure.Should these issues ~~persist~~ **re- occur** or increase due to ~~the COVID- 19 pandemic,similar~~ future pandemics or for other reasons,our sales,earnings,financial condition and liquidity could again be adversely affected **.** We may engage in acquisitions and investments in companies, form strategic alliances and pursue new business lines. These activities could disrupt our business, divert management attention from our current business, pose integration concerns **or difficulties** , dilute our earnings per share, decrease the value of our common stock and decrease our earnings and liquidity. ~~Our growth~~ **Growth** ~~strategy includes growth~~ by acquisition ~~, which~~ is highly dependent upon finding attractive targets and there can be no assurance those targets will be found. We may acquire or invest in businesses such as those that offer complementary products or that we believe offer competitive advantages. However, we may fail to identify significant liabilities or risks that could negatively affect us or result in our paying more for the acquired company or assets than they are worth. We may also have difficulty assimilating and integrating the operations and personnel of an acquired business into our current operations. Acquisitions **or strategic alliances** may disrupt or distract management from our ongoing business. We may pay for future acquisitions using cash, stock, the assumption of debt or a combination of these. Future acquisitions could result in dilution to existing shareholders and to earnings per share and decrease the value of our common stock. We may pursue new business lines in which we have limited or no prior experience or expertise. These pursuits may require substantial investment of capital, personnel and management attention. New business initiatives may fail outright or fail to produce an adequate return, which could adversely affect our ~~earnings, financial condition and liquidity. We may fail to realize all of the anticipated benefits of the Sunset Acquisition. We incurred significant debt, acquisition and acquisition- related costs in connection with the Sunset Acquisition, but we may fail to realize all the anticipated benefits of the Sunset Acquisition or they may take longer to realize than expected. While we believe the Sunset Acquisition will be accretive to our earnings per share, this expectation is based on preliminary estimates which may materially change. Although we do not expect to merge operations or change customer- facing services, the success of this acquisition will depend, in part, on our ability to improve each business by sharing best practices in order to lower costs, improve efficiencies and grow sales. We have based our expectations in part on the historical results and trends in Sunset West' s business; however there can be no assurance regarding when or the extent to which we will be able to realize these benefits. Achieving the anticipated benefits is subject to a number of uncertainties, including whether the business acquired can be operated in the manner we intend. Events outside of our control could also adversely affect our ability to realize the anticipated benefits from the acquisition. Thus, the integration of Sunset West' s business may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired business will perform in accordance with our expectations, or that our expectations with respect to integration or benefits as a result of the contemplated acquisition will materialize. The integration process in on- going and could result in the diversion of management attention to the detriment of other areas, the loss of key employees, the disruption of ongoing businesses or inconsistencies in standards, controls, procedures and policies. If the integration is not completed as planned, our ongoing business and financial results may be adversely affected, which could adversely affect our sales, earnings, financial condition and liquidity. We may fail to realize the benefits of HMI segment restructuring and cost- savings efforts. During the fourth quarter of fiscal 2023, management approved a plan to exit the Accentries Home (ACH) e- commerce brand of the HMI segment along with repositioning the Prime Resources International (PRI) brand as a direct- container only business model. We recorded a $ 24. 4 million charge in the fiscal 2023 fourth quarter to write- down certain segment inventories to market and also recorded severance expenses. We expect to reduce the physical footprints at our Savannah, GA warehouse and High Point, NC administrative office over the course of the current 2024 fiscal year with a concurrent reduction in lease, warehouse, and related expenses. We expect these actions will return the HMI segment to profitability sometime in fiscal 2024. However, we may be unable to realize these cost savings in a timely manner or at all. If these efforts are unsuccessful, in whole or in part, our ongoing business and financial results may be adversely affected, which could adversely affect our sales,~~ earnings, financial condition and liquidity. We may lose market share due to furniture retailers by- passing us and sourcing directly from non- U. S. furnishings sources. Some large furniture retailers are sourcing directly from non- U. S. furniture factories. Over time, this practice may expand to smaller retailers. As a result, we are continually subject to the risk of losing market share to these non- U. S. furnishings sources, which could adversely affect our sales, earnings, financial condition and liquidity. Failure to anticipate or timely respond to changes in fashion and consumer tastes could adversely impact our business. Furniture is a styled product and is subject to rapidly changing fashion trends and consumer tastes, as well as to increasingly shorter product life cycles. If we fail to anticipate or promptly respond to these changes, we may lose market share or be faced with the decision of whether to sell excess inventory at reduced prices. This could adversely affect our sales, earnings, financial condition and liquidity. Our results of operations for any quarter are not necessarily indicative of our results of operations for a full year. Home furnishings sales fluctuate from quarter to quarter due to factors such as changes in economic and competitive conditions, seasonality, weather conditions, availability of raw materials and finished inventory and changes in consumer order patterns. From time to time, we have experienced, and may continue to experience, volatility with respect to availability of and demand for our home furnishing products. Accordingly, our results of operations for any quarter are not necessarily indicative of the results of operations to be expected for a full year or the next quarter ~~. » Other general risk factors applicable to us and our business We may not be able to maintain, raise prices, or raise prices in a timely manner in response to inflation and increasing costs. Competitive and market forces could prohibit or delay future successful price increases for our products in order to offset on a timely basis increased costs of labor, finished goods, raw materials, freight and other product- related costs, which could adversely affect our sales, earnings, financial condition and liquidity. Economic downturns could result in decreased sales, earnings and liquidity. The furniture industry is particularly sensitive to cyclical variations in the general economy and to uncertainty regarding future economic prospects, including those caused by pandemics such as COVID- 19. Home furnishings are generally considered a postponable purchase by most consumers. Economic downturns could affect consumer spending habits by decreasing the overall demand for home furnishings. Changes in interest rates, consumer confidence, new housing starts, existing home sales, the availability of consumer credit and broader national or geopolitical factors have particularly significant effects on our business. We have seen negative effects on all of these measures due to the COVID- 19 pandemic. A recovery in our sales could lag significantly behind a general recovery in the economy after an economic downturn, due to, among other things, the postponable nature and relatively significant cost of home furnishings purchases or scarcity of transportation and Asian manufacturing capacity during times of increased demand. These events could also impact retailers, who are our primary customers, possibly adversely affecting our sales, earnings, financial condition and liquidity. The impact of future pandemics could adversely affect our business, results of operations, financial condition, liquidity and stock price. At the initial height of the COVID- 19 pandemic, home furnishings purchases are largely postponable and heavily influenced by consumer confidence and most of our customers' businesses are classified as non- essential. Consequently, traffic to our customers' stores and demand for our products significantly decreased, our sales deteriorated and our earnings were negatively impacted. COVID- 19 also impacted our Asian supply chain, particularly as a result of mandatory shutdowns in locations where our products are manufactured in the Summer of calendar 2021, and we experienced out- of- stocks and lost sales as a result. Additionally, the demand surge that occurred after the initial height of the pandemic caused supplier capacity constraints, shipping container and steamship space shortages. These logistics issues increased costs, led to out- of- stocks and adversely affected our sales and earnings. The extent of the continued impact of a pandemic or other global health crisis on our business and financial results depends on future developments, including the emergence of new and different strains of the virus and the effectiveness of vaccinations and other public health measures and could result in similar or worse public health outcomes compared to the Covid- 19 pandemic. The sweeping nature of pandemics makes it extremely difficult to predict how our business and operations could be affected in the longer run. Any of the foregoing factors, or other cascading effects of this or other pandemics, could materially increase our costs, negatively impact our sales and damage the Company' s results of operations and its liquidity, possibly to a significant degree. The duration of any such impacts also cannot be predicted~~. The interruption, inadequacy or security failure of our information systems or information technology infrastructure or the internet or inadequate levels of cyber- insurance could adversely impact our business, sales, earnings, financial condition and liquidity. Our information systems (software) and information technology (hardware) infrastructure platforms and those of third parties who provide these services to us, including internet service providers and third parties who store data for us on their servers (" the cloud "), facilitate and support every facet of our business, including the sourcing of raw materials and finished goods, planning, manufacturing, warehousing, customer service, shipping, accounting, payroll and human resources. Our systems, and those of third parties who provide services to us, are vulnerable to disruption or damage caused by a variety of factors including, but not limited to: power disruptions or outages; natural disasters or other so- called " Acts of God "; computer system or network failures; viruses or malware; physical or electronic break- ins; the theft of computers, tablets and smart phones utilized by our employees or contractors; unauthorized access, phishing and cyber- attacks. The risk of cyberattacks also includes attempted breaches of contractors, business partners, vendors and other third parties. We have a cybersecurity program designed to protect and preserve the integrity of our information systems. Additionally, we implemented a multi- factor authentication process in order to enhance the security of our remote work environment. We have experienced and expect to continue to experience actual or attempted cyber- attacks of our information systems or networks; however, none of these actual or attempted cyber- attacks had a material impact on our operations or financial condition. Additionally, while we carry cyber insurance, including insurance for social engineering fraud, the amounts of insurance we carry may be inadequate due either to inadequate limits available from the insurance markets or inadequate coverage purchased. Because cyber threat scenarios are inherently difficult to predict and can take many forms, cyber insurance may not cover certain risks. Further, legislative or regulatory action in these areas is evolving, and we may be unable to adapt our information systems or to manage the information systems of third parties to accommodate these changes. If these information systems or technologies are interrupted or fail, or we are unable to adapt our systems or those of third parties as a result of legislative or regulatory actions, our operations and reputation may be adversely affected, we may be subject to legal proceedings, including regulatory investigations and actions, which could diminish investor and customer confidence which could adversely affect our sales, earnings, financial condition and liquidity. Unauthorized disclosure of confidential information provided to us by our customers, employees, or third parties could harm our business. We rely on the internet and other electronic methods to transmit confidential information and we store confidential information on our networks. If there was a disclosure of confidential information by our employees or contractors, including accidental loss, inadvertent disclosure or unapproved dissemination of information, or if a third party were to gain access to the confidential information we possess, our reputation could be harmed, and we could be subject to civil or criminal liability and regulatory actions. A claim that is brought against us, successful or unsuccessful, that is uninsured or under- insured could harm our business, result in substantial costs, divert management attention and adversely affect our sales, earnings, financial condition and liquidity.