

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2019

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number: 0-14938

HG HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

54-1272589
(I.R.S. Employer Identification No.)

2115 E. 7th Street, Suite 101, Charlotte, NC 28204
(Address of principal executive offices, Zip Code)

252-355-4610
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	NA	NA

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes (X) No ()

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

Large accelerated filer () Accelerated filer () Non-accelerated filer ()
Smaller reporting company (X) Emerging growth company ()

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ()

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

As of November 7, 2019, 14,946,839 shares of common stock of HG Holdings, Inc., par value \$.02 per share, were outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

HG HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	September 30, 2019 (unaudited)	December 31, 2018
ASSETS		
Current assets:		
Cash	\$ 2,015	\$ 6,057
Restricted cash	232	404
Interest and dividend receivables	115	-
Prepaid expenses and other current assets	199	273
Income tax receivable	735	488
Total current assets	<u>3,296</u>	<u>7,222</u>
Property, plant and equipment, net	8	9
Investment in affiliate	4,603	-
Subordinated notes receivable	3,907	5,882
Loan to affiliate	2,000	-
Other assets	495	480
Deferred tax assets	247	494
Total assets	<u>\$ 14,556</u>	<u>\$ 14,087</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 1	\$ 29
Accrued salaries, wages and benefits	4	17
Other accrued expenses	183	110
Total current liabilities	<u>188</u>	<u>156</u>
Other long-term liabilities	255	287
Total liabilities	<u>443</u>	<u>443</u>
STOCKHOLDERS' EQUITY		
Common stock, \$0.02 par value, 35,000,000 and 25,000,000 shares authorized 14,946,839 and 14,712,377 shares issued and outstanding on each respective date	294	294
Capital in excess of par value	17,349	17,285
Retained deficit	(3,530)	(3,935)
Total stockholders' equity	<u>14,113</u>	<u>13,644</u>
Total liabilities and stockholders' equity	<u>\$ 14,556</u>	<u>\$ 14,087</u>

The accompanying notes are an integral part of the consolidated financial statements.

HG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	<u>Sept. 30, 2019</u>	<u>Sept. 30, 2018</u>	<u>Sept. 30, 2019</u>	<u>Sept. 30, 2018</u>
Operating Expenses				
General and administrative expenses	\$ (229)	\$ (204)	\$ (761)	\$ (776)
Other income/expenses				
Interest income	252	302	795	618
Dividend income	50	-	107	-
Product financing interest income	-	125	-	125
Gain on sale of closely held stock	-	-	120	-
Income from Continued Dumping and Subsidy Offset Act	-	-	1,230	-
Gain on extinguishment of subordinated note receivable	-	448	-	448
Loss from affiliate	(132)	-	(273)	-
Impairment loss	-	(168)	(897)	(168)
Income (loss) from continuing operations before income taxes	(59)	503	321	247
Income tax benefit	-	990	84	1,202
Income (loss) from continuing operations	(59)	1,493	405	1,449
Discontinued operations				
Loss from discontinued operations (including loss on sale of assets of \$865)	\$ -	\$ -	\$ -	\$ (3,011)
Net income (loss)	<u>\$ (59)</u>	<u>\$ 1,493</u>	<u>\$ 405</u>	<u>\$ (1,562)</u>
Basic and diluted income (loss) per share:				
Income (loss) from continuing operations	\$ (.00)	\$.10	\$.03	\$.10
Loss from discontinued operations	-	-	-	(.21)
Net income (loss)	<u>\$ (.00)</u>	<u>\$.10</u>	<u>\$.03</u>	<u>\$ (.11)</u>
Weighted average shares outstanding:				
Basic	<u>14,510</u>	<u>14,508</u>	<u>14,504</u>	<u>14,538</u>
Diluted	<u>14,510</u>	<u>14,551</u>	<u>14,934</u>	<u>14,581</u>

The accompanying notes are an integral part of the consolidated financial statements.

HG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	<u>Sept. 30, 2019</u>	<u>Sept. 30, 2018</u>	<u>Sept. 30, 2019</u>	<u>Sept. 30, 2018</u>
Net income (loss)	\$ (59)	\$ 1,493	\$ 405	\$ (1,562)
Settlement of employee benefit obligations directly related to the disposal transaction	-	-	-	2,422
Comprehensive income (loss)	<u>\$ (59)</u>	<u>\$ 1,493</u>	<u>\$ 405</u>	<u>\$ 860</u>

The accompanying notes are an integral part of the consolidated financial statements.

HG HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Nine Months Ended	
	Sept. 30,	
	2019	2018
Net income from continuing operations	\$ 405	\$ 1,449
Adjustments to reconcile net income from operations to net cash flows from operating activities:		
Depreciation expense	1	-
Accretion income on notes receivable	(181)	(223)
Stock compensation expense	64	36
Paid in kind interest on subordinated note receivable	-	(293)
Gain on extinguishment of subordinated note receivable		(448)
Gain on sale of closely held stock	(120)	-
Impairment loss on subordinated note receivable	897	-
Dividends on HC Realty common stock	82	-
Loss from affiliate	273	-
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(247)	(720)
Deferred tax assets and other assets	232	(509)
Accounts payable	(28)	26
Other accrued expenses	60	2
Other long-term liabilities	(31)	(276)
Net cash provided by (used in) continuing operations	1,407	(956)
Cash flows from investing activities:		
Purchase of property, plant, and equipment	-	(9)
Investment in affiliate	(5,000)	-
New advances on loan receivable to affiliate	(2,000)	-
Principal payments received on subordinated secured notes receivable	1,259	-
Proceeds from sale of closely held stock	120	-
Net cash used by investing activities	(5,621)	(9)
Cash flows from financing activities:		
Repurchase and retirement of common stock	-	(133)
Stock purchase and retirement for tax withholdings on vesting of restricted award	-	(30)
Net cash used by financing activities	-	(163)
Cash flows from discontinued operations:		
Cash used by discontinued operations	-	(3,501)
Cash provided by investing activities	-	9,228
Cash provided by financing activities	-	1,209
Net cash provided by discontinued operations	-	6,936
Net (decrease) increase in cash and restricted cash	(4,214)	5,808
Cash and restricted cash at beginning of period	6,461	631
Cash and restricted cash at end of period	\$ 2,247	\$ 6,439
Cash	\$ 2,015	\$ 6,037
Restricted cash	232	402
Cash and restricted cash	\$ 2,247	\$ 6,439
Supplemental Non-Cash Disclosures:		
Payments made on line of credit from proceeds of the sale	\$ -	\$ (1,348)
Dividends on investment in affiliate	\$ 100	\$ -

The accompanying notes are an integral part of the consolidated financial statements

HG HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Preparation of Interim Unaudited Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, these statements include all adjustments necessary for a fair presentation of the results of all interim periods reported herein. All such adjustments are of a normal recurring nature. Certain information and footnote disclosures prepared in accordance with generally accepted accounting principles in the United States have been either condensed or omitted pursuant to SEC rules and regulations. However, we believe that the disclosures made are adequate for a fair presentation of results of operations and financial position. Operating results for the interim periods reported herein may not be indicative of the results expected for the year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our latest Annual Report on Form 10-K.

On March 2, 2018, HG Holdings, Inc. (the “Company”) sold substantially all of its assets (the “Asset Sale”) to Stanley Furniture Company LLC, formerly Churchill Downs LLC (“Buyer”), pursuant to the terms of the Asset Purchase Agreement, dated as of November 20, 2017, as amended by the First Amendment thereto dated January 22, 2017 (the “Asset Purchase Agreement”). Operations of the furniture business from January 1, 2018 through March 2, 2018 are reflected as discontinued operations pursuant to the provisions of Accounting Standards Codification (“ASC”) 2015-20, *Presentation of Financial Statements – Discontinued Operations* for all periods presented. As a result of the sale, the Company no longer has a wholly owned subsidiary.

Results of discontinued operations are excluded from the accompanying notes to the consolidated financial statement for all periods presented, unless otherwise noted.

On September 6, 2018, as previously reported on Form 8-K filed by the Company with the Securities and Exchange Commission on September 12, 2018, Buyer sold certain of its assets, including certain inventory of the Stone & Leigh tradename (the “S&L Asset Sale”), to Stone & Leigh, LLC (“S&L”), a newly formed limited liability company owned by a group which includes Matthew W. Smith, the Company’s former interim Chief Executive Officer. As a part of the S&L Asset Sale, Buyer assigned to S&L certain of its rights and obligations under the subordinated secured promissory note payable to the Company (“Original Note”).

As a result of both the Asset Sale and the S&L Asset Sale, we have a variable interest in two entities that have been determined to be variable interest entities (“VIE”). If we conclude that we are the primary beneficiary of a VIE, we are required to consolidate it. To determine if we are the primary beneficiary, we evaluate whether we have the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our evaluation includes identification of significant activities and an assessment of our ability to direct those activities based on governance provisions and arrangements to provide or receive product and process technology, product supply, operations services, equity funding, financing, and other applicable agreements and circumstances. Our assessments of whether we are the primary beneficiary of our VIE requires significant assumptions and judgments. We have concluded that we are not the primary beneficiary of the two VIEs as we do not have the power to direct the activities that most significantly impact the VIEs’ economic performance and therefore are not required to consolidate these entities.

On March 19, 2019, we entered into subscription agreements with HC Government Realty Trust, Inc., a Maryland corporation (“HC Realty”), pursuant to which we purchased (i) 200,000 shares of HC Realty’s 10.00% Series B Cumulative Convertible Preferred Stock (the “Series B Stock”) for an aggregate purchase price of \$2,000,000 and (ii) 300,000 shares of HC Realty’s common stock for an aggregate purchase price of \$3,000,000. Certain investors affiliated with Hale Partnership Capital Management, LLC (the “HPCM”) purchased an additional 850,000 shares of Series B Stock for an aggregate purchase price of \$8,500,000. While some of these investors have other investments with HPCM, each of these investors made a separate and direct investment in HC Realty and HPCM does not receive management fees, performance fees, or any other economic benefits with respect to these investors’ investment in HC Realty’s Series B Stock.

On March 19, 2019, the Company and certain entities affiliated with HPCM (the “Lenders”) also entered into a loan agreement with HC Realty’s operating partnership (the “Operating Partnership”), pursuant to which the Lenders provided the Operating Partnership with a \$10,500,000 senior secured term loan, of which \$2,000,000 was provided by the Company. While some of these entities have other investments with HPCM, each of these entities made the loan separate and direct to HC Realty and HPCM does not receive management fees, performance fees, or any other economic benefits with respect to the loan agreement.

As of September 30, 2019, HC Realty owned and operated a portfolio of 17 single-tenant properties leased entirely to the United States of America for occupancy by federal agencies including the Federal Bureau of Investigation, the Drug Enforcement Administration, the Social Security Administration and the Department of Transportation.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The amendments in ASU 2016-13 require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for public entities for annual reporting periods beginning after December 15, 2019, however early application is permitted for reporting periods beginning after December 15, 2018. The Company does not anticipate the adoption of ASU 2016-13 to have a material impact to the consolidated financial statements.

In February 2016, the FASB issued its final lease accounting standard, ASC, *Leases (Topic 842)* (“ASU 2016-02”), which requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). The Company adopted the standard effective January 1, 2019. As of June 30, 2019, we do not have any long-term leases. We will evaluate the effect that ASU 2016-02 will have on our consolidated financial statements and related disclosures at such time a long-term lease is executed. Our only lease as of June 30, 2019 relates to a real estate lease for the corporate office space. The adoption did not have material impact to the consolidated financial statements.

2. Discontinued Operations

On March 2, 2018, we sold substantially all of our assets (the “Asset Sale”) to Churchill Downs LLC (“Buyer”), pursuant to the terms of the Asset Purchase Agreement, dated as of November 20, 2017, as amended by the First Amendment thereto dated January 22, 2017 (the “Asset Purchase Agreement”). Operations of the furniture business from January 1, 2018 through March 2, 2018 are reflected as discontinued operation pursuant to the provisions of Accounting Standards Codification 2015-20, *Presentation of Financial Statements – Discontinued Operations* for all periods presented.

Loss from discontinued operations, net of taxes, comprised the following for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
Net sales	\$ -	\$ -	\$ -	\$ 6,787
Cost of sales	-	-	-	(6,485)
Selling, general and administrative expenses	-	-	-	(2,438)
Interest expense, net	-	-	-	(10)
Loss on sale of assets	-	-	-	(865)
Loss from discontinued operations before income taxes	-	-	-	(3,011)
Income tax (benefit) expense	-	-	-	-
Loss from discontinued operation, net of taxes	\$ -	\$ -	\$ -	\$ (3,011)

Included in selling, general and administrative expenses incurred for the nine months ended September 30, 2018 were certain transaction costs including investment banking fees, legal fees, and other transaction costs directly attributable to the Asset Sale.

As a result of the Asset Sale, the Company had no revenue-generating operations. Beginning March 19, 2019, our sources of income include dividends on HC Realty Series B Stock, interest paid on the loan we made to HC Realty's operating partnership, and interest paid on cash and subordinated secured promissory notes. The Company believes that the revenue generating from these sources in addition to the cash on hand is sufficient to fund operating expenses for at least 12 months from the date of these consolidated financial statements. As disclosed in previous filings, the Company may consider a rights offering of the Company's common stock to existing stockholders to raise additional cash for acquisitions. A rights offering could provide the Company greater resources and flexibility in acquiring additional non-furniture assets, which may include purchasing additional HC Realty Series B Stock or HC Realty common stock.

3. Subordinated Notes Receivable

The Company received a \$7.4 million subordinated secured promissory note (the "Original Note") from the Buyer as partial consideration for the sale of substantially all of our assets during the first quarter of 2018. On September 6, 2018, the Buyer sold certain of its assets, including certain inventory and the Stone & Leigh tradename (the "S&L Asset Sale") to Stone & Leigh, LLC ("S&L"), which is owned by a group which includes Matthew W. Smith, the Company's former interim Chief Executive Officer. As a part of the S&L Asset Sale, the Buyer assigned to S&L certain of its rights and obligations under the original \$7.4 million subordinated secured promissory note. In connection with the assignment, the Company entered into an Amended and Restated Subordinated Secured promissory note with the Buyer (the "A&R Note") and a new Subordinated Secured Promissory Note with S&L (the "S&L Note"). The A&R Note has a principal amount as of the assignment date of \$3.3 million.

On February 7, 2019, the Company, Buyer and related parties entered into a Consent, Reaffirmation, and Joinder (the "Consent") in connection with a new senior credit facility that Buyer expected to enter into with Alterna Capital Solutions, LLC ("Alterna"). Pursuant to the Consent, Buyer delivered a Seconded Amended and Restated Subordinated Secured Promissory Note (the "Second A&R Note") in favor of the Company. The Second A&R Note has a principal amount of \$3.2 million and remains payable no later than March 2, 2023, at which time the total principal amount is due. Interest on the principal balance of the note continues to accrue daily at an annual fixed rate of 6%. The other terms of the Second A&R Note are substantially the same as those of the A&R Note. The Second A&R Note also remains guaranteed by Stanley Intermediate Holdings LLC, formerly Churchill Downs Intermediate Holdings LLC. Pursuant to the Consent, Buyer's British Virgin Island parent company has also guaranteed the Second A&R Note.

On February 25, 2019, Buyer closed and funded its new senior credit facility with Alterna. Pursuant to the Consent, the Company entered into an Intercreditor and Debt Subordination Agreement, dated February 25, 2019 (the "Subordination Agreement"), with Alterna. The Subordination Agreement with Alterna is generally on the same terms as the subordination agreement the Company previously entered into with North Mill Capital, LLC in connection with the original subordinated secured promissory note dated March 2, 2018 from Buyer in favor of the Company, except that principal payments on the Second A&R Note, before satisfaction of the of indebtedness to Alterna and termination of the Subordination Agreement, are conditioned upon (1) no event of default under the new senior credit facility existing or resulting from the payment, (2) availability under the new senior credit facility to make the payment, (3) all tax and debt obligations of Stanley Furniture Company, LLC ("SFC") being current and within their terms, and (4) there being no delinquency in payables or other obligations of SFC to specified critical vendors. Cash interest payments of \$48,000 and \$96,000 were received during the three and nine months ending September 30, 2019, respectively.

Despite Buyer paying interest on the Second A&R Note current during both the three months ended June 30, 2019 and September 30, 2019, the Company concluded, based on current information and events in the Buyer's business, that the Company did not believe it would be able to collect the amount due according to the Second A&R Note and determined that the note was other than temporarily impaired. The evaluation was generally based on an assessment of the borrower's financial condition and the adequacy of the collateral securing the Second A&R Note. Given the facts and circumstances, the Company recorded an impairment loss of \$897,000 in the second quarter resulting in the carrying value of the A&R Note decreasing to \$1.3 million as of June 30, 2019. On August 21, 2019, the Company delivered a notice of default to Buyer under the Second A&R Note. The Company delivered this notice after receiving information from Alterna that Buyer was presently in default under its credit facility with Alterna. In view of the impairment loss recorded in the second quarter, the Company did not record any additional impairment loss in the third quarter and the carrying value of the Second A&R Note remained \$1.3 million as of September 30, 2019.

The S&L Note had a principal amount of \$4.4 million as of the assignment date. The S&L Note also matures on March 2, 2023, at which time the total principal amount is due. Interest on the S&L Note accrues at a fixed rate of 10% per annum. Cash interest payments of \$87,000 and \$273,000 were received during the three and nine months ending September 30, 2019, respectively. During the three and nine months ending September 30, 2019, the Company received \$208,000 and \$1,011,000 of principal payments on the S&L Note, respectively.

At the assignment date, the Company evaluated the fair value of the S&L Note. The Company recorded accreted interest income on the fair value adjustment of the S&L Note of \$37,000 and \$127,000 for three and nine months ending September 30, 2019, respectively. Resulting from the accretion of the fair value discount and the principal payments, the carrying amount of the S&L Note was \$2.6 million as of September 30, 2019.

4. Loan to Affiliate

On March 19, 2019, the Company, together with certain other Lenders, entered into a loan agreement (the "Loan Agreement") with HC Realty's operating partnership, and HCM Agency, LLC, as collateral agent (the "Agent"), pursuant to which the Lenders provided HC Realty's operating partnership with a \$10,500,000 senior secured term loan (the "Initial Term Loan"), of which \$2,000,000 was provided by the Company.

The Loan Agreement matures on March 19, 2022. Interest on the Loan Agreement accrues at a rate of 14% per annum. Interest earned for the three and nine months ending September 30, 2019 was \$72,000 and \$152,000, respectively.

5. Investment in Affiliate

On March 19, 2019, the Company entered into subscription agreements with HC Realty, pursuant to which it purchased (i) 200,000 shares of HC Realty's 10.00% Series B Cumulative Convertible Preferred Stock (the "Series B Stock") for an aggregate purchase price of \$2,000,000 and (ii) 300,000 shares of HC Realty's common stock for an aggregate purchase price of \$3,000,000. Certain investors affiliated with HPCM purchased an additional 850,000 shares of Series B Stock for an aggregate purchase price of \$8,500,000. While some of these investors have other investments with HPCM, each of these investors made a separate and direct investment in HC Realty and HPCM does not receive management fees, performance fees, or any other economic benefits with respect to these investors' investment in HC Realty's Series B Stock.

The Series B Stock is not deemed to be in-substance common stock and is accounted for using the measurement alternative for equity investments with no readily determinable fair value. The Series B Stock will be reported at cost, adjusted for impairments or any observable price changes in ordinary transactions with identical or similar investments issued by HC Realty.

The following table summarizes the Company's investment in HC Realty as of September 30, 2019 and December 31, 2018 (in thousands):

	Ownership %		Investment in Affiliate Balance		Loss recorded in the Consolidated Statements of Operations (b)			
	Sept. 30, 2019	December 31, 2018	Sept. 30, 2019	December 31, 2018	For the Three Months Ended Sept. 30,		For the Nine Months Ended Sept. 30,	
					2019	2018	2019	2018
HC Realty Series B Stock (a)	7.9%	0.0%	\$ 2,000	-	\$ -	-	\$ -	-
HC Realty common stock	8.5%	0.0%	2,603	-	(132)	-	(273)	-
Total	16.4%	0.0%	\$ 4,603	-	\$ (132)	-	\$ (273)	-

- (a) Represents investments in shares of HC Realty preferred stock with a basis of \$2 million. Each share of preferred stock can be converted into one share of HC Realty common stock at a conversion price equal to the lesser of \$9.10 per share or the fair market value per share of HC Realty common stock, subject to adjustment upon the occurrence of certain events.
- (b) Loss from these investments is included in "Loss from affiliate" in the consolidated statement of operations. Since HC Realty is a Real Estate Investment Trust and not a taxable entity, the loss is not reported net of taxes.

The Company's investment in HC Realty common stock is accounted for under the equity method of accounting. The company determined that accounting for under the equity method was appropriate even though the Company owns less than 20% of the fully diluted shares outstanding because the Company holds significant influence of HC Realty.

6. Income taxes

During the nine months ended September 30, 2019, the Company recorded a non-cash reversal to its valuation allowance of \$15,000 decreasing its valuation allowance against deferred tax assets to \$8.5 million at September 30, 2019. The primary assets covered by this valuation allowance are net operating losses, which are approximately \$33.7 million at September 30, 2019. The Company did not make any cash payments for income tax in the three and nine month periods ended September 30, 2019 and 2018 due to its net operating loss.

The Company maintains a valuation allowance against deferred tax assets that currently exceed our deferred tax liabilities. The primary assets covered by this valuation allowance are net operating loss carry-forwards. The valuation allowance was calculated in accordance with the provisions of ASC 740, *Income Taxes*, which requires an assessment of both positive and negative evidence when measuring the need for a valuation allowance. The Company's results over the most recent four-year period were heavily affected by business restructuring activities. The Company's cumulative loss represented sufficient negative evidence to require a valuation allowance. The Company intends to maintain a valuation allowance until sufficient positive evidence exists to support its reversal, resulting in no deferred tax asset balance being recognized. Should the Company determine that it will not be able to realize all or part of its deferred tax asset in the future, an adjustment to the deferred tax asset will be charged to income in the period such determination is made.

As of September 30, 2019 and December 31, 2018, the Company's deferred tax asset balance is \$247,000 and \$494,000, respectively.

The Company's effective tax rate for the current and prior year three and nine month periods were effectively 0% due to net operating loss carryforwards.

7. Stockholders' Equity

Basic earnings per common share are based upon the weighted average shares outstanding. Outstanding stock options and restricted stock are treated as potential common stock for purposes of computing diluted earnings per share. Basic and diluted earnings per share are calculated using the following share data (in thousands):

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
Weighted average shares outstanding for basic calculation	14,510	14,508	14,504	14,538
Add: Effect of dilutive stock awards	-	43	430	43
Weighted average shares outstanding, adjusted for diluted calculation	14,510	14,551	14,934	14,581

For the three month period ended September 30, 2019, approximately 460,000 stock awards were excluded from the diluted per share calculation as they would be anti-dilutive. For the prior year three and nine month period ended September 30, 2018, the dilutive effect of stock options and restricted awards was not recognized since the Company had net losses. For the nine month period ending September 30, 2019, approximately 430,000 shares of stock options were not included in the diluted per share calculation because they were anti-dilutive.

The Company will repurchase common shares from time to time that are tendered by recipients of restricted stock awards to satisfy tax withholding obligations on vested restricted stock. There were no such repurchased shares during the current three month period.

In July 2012, the Board authorized the purchase of up to \$5.0 million of our common stock. These repurchases may be made from time to time in the open market, in privately negotiated transactions, or otherwise, at prices the Company deems appropriate. In the three and nine months ending September 30, 2019, no shares were repurchased. While in the prior year three month period ended September 30, 2018, the Company did not repurchase any of its common shares, total repurchases for the nine month period ended September 30, 2018 were 221,121 shares for \$133,000. The Company's board does not intend to repurchase additional shares of common stock under this authorization.

A reconciliation of the activity in Stockholders' Equity accounts for the three and nine months ending September 30, 2019 is as follows (in thousands):

	Common Stock	Capital in Excess of Par Value	Retained Deficit	Accumulated Other Comprehensive Loss
Balance at January 1, 2019	\$ 294	\$ 17,285	\$ (3,935)	\$ -
Net income	-	-	1,366	-
Stock-based compensation expense	-	21	-	-
Balance at March 31, 2019	\$ 294	\$ 17,306	\$ (2,569)	\$ -
Net loss	-	-	(902)	-
Stock-based compensation expense	-	22	-	-
Balance at June 30, 2019	\$ 294	\$ 17,328	\$ (3,471)	\$ -
Net loss	-	-	(59)	-
Stock-based compensation expense	-	21	-	-
Balance at September 30, 2019	\$ 294	\$ 17,349	\$ (3,530)	\$ -

A reconciliation of the activity in Stockholders' Equity accounts for the three and nine months ending September 30, 2018 is as follows (in thousands):

	Common Stock	Capital in Excess of Par Value	Retained Deficit	Accumulated Other Comprehensive Loss
Balance at January 1, 2018	\$ 298	\$ 17,104	\$ (2,495)	\$ (2,422)
Net loss	-	-	(3,367)	-
Settlement of employee benefit obligations directly related to the disposal transaction	-	-	-	2,422
Stock repurchase	(3)	(100)	-	-
Stock-based compensation expense	-	391	-	-
Dividends	-	(139)	-	-
Balance at March 31, 2018	\$ 295	\$ 17,253	\$ (5,862)	\$ -
Net income	-	-	313	-
Stock repurchase	(1)	(29)	-	-
Stock-based compensation expense	-	14	-	-
Balance at June 30, 2018	\$ 294	\$ 17,241	\$ (5,549)	\$ -
Net income	-	-	1,492	-
Stock repurchase	-	-	-	-
Stock-based compensation expense	-	22	-	-
Balance at September 30, 2018	\$ 294	\$ 17,263	\$ (4,057)	\$ -

All of the stock compensation expense of \$391,000 for the quarter ended March 31, 2018 was related to discontinued operations.

8. Subsequent Events

Subsequent to September 30, 2019, the Company entered into a Forbearance Agreement (the "Forbearance Agreement") with Stanley Furniture Company, LLC and certain affiliates (the "Loan Parties") pursuant to which the Company has agreed to forbear from exercising its rights and remedies under the Second A&R Note until February 24, 2020 or earlier in the event of (i) a default occurring under the Note other than previous defaults acknowledged in the Forbearance Agreement or (ii) a breach of the Forbearance Agreement by the Loan Parties.

The Forbearance Agreement became effective on November 1, 2019 (the "Effective Date") when the Borrower paid the Company \$220,000 and certain other conditions were satisfied. Under the Forbearance Agreement, the Borrower has also agreed to pay the Company \$200,000 on or before the 30th day following the Effective Date, \$150,000 on or before the 60th day following the Effective Date, and \$130,000 on or before the 90th day following the Effective Date. The payment made on November 1, 2019 and each of the following payments are referred to as a Forbearance Period Payment and will be applied to the outstanding principal balance of the Note.

During the period the forbearance is in effect, the Borrower has agreed to maintain a minimum collateral value of not less than \$2 million. The Borrower has certain cure rights in the event the minimum collateral value is not met.

The Company has also agreed to accept the following discounted payments in satisfaction of the Note if the forbearance period has not been terminated: (i) on or before the 90th day after the Effective Date, \$2,230,000 less the sum of all Forbearance Period Payments and payments made to cure a minimum collateral value shortfall and (ii) after the 90th day following the Effective Date, \$2,530,000 less Forbearance Period Payments and payments made to cure a minimum collateral value shortfall.

The Forbearance Agreement also includes customary representations and warranties of the Borrower Parties and certain releases by the Borrower Parties.

As of the date hereof, all amounts outstanding under the Ledgered Asset Based Lending Agreement between Alterna Capital Solutions, LLC ("Alterna") and the Borrower have been paid in full and the Intercreditor and Debt Subordination Agreement, dated February 25, 2019, executed by the Company in favor of Alterna is no longer effective.

In view of the impairment loss recorded by the Company in the second quarter of 2019 with respect to the Note, the Company does not anticipate recording any additional impairment charges at this time as a result of the Event of Default or the Forbearance Agreement. As of October 31, 2019, the outstanding principal amount of the Note was \$3.1 million and the carrying value of the Note was \$1.3 million.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

On March 2, 2018, we sold substantially all of our assets (the "Asset Sale") to Churchill Downs LLC ("Buyer"), pursuant to the terms of the Asset Purchase Agreement, dated as of November 20, 2017, as amended by the First Amendment thereto dated January 22, 2017 (the "Asset Purchase Agreement"). Operations of the furniture business from January 1, 2018 through March 2, 2018 are reflected as discontinued operation pursuant to the provisions of Accounting Standards Codification 2015-20, *Presentation of Financial Statements – Discontinued Operations* for all periods presented.

Loss from discontinued operations, net of taxes, comprised the following for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2019	Sept. 30, 2018	Sept. 30, 2019	Sept. 30, 2018
Net sales	\$ -	\$ -	\$ -	\$ 6,787
Cost of sales	-	-	-	(6,485)
Selling, general and administrative expenses	-	-	-	(2,438)
Interest expense, net	-	-	-	(10)
Loss on sale of assets	-	-	-	(865)
Loss from discontinued operations before income taxes	-	-	-	(3,011)
Income tax (benefit) expense	-	-	-	-
Loss from discontinued operation, net of taxes	\$ -	\$ -	\$ -	\$ (3,011)

Included in selling, general and administrative expenses incurred for the nine months ended September 30, 2018 were certain transaction costs including investment banking fees, legal fees, and other transaction costs directly attributable to the Asset Sale.

As a result of the Asset Sale, the Company had no revenue-generating operations. Beginning March 19, 2019, our sources of income include dividends on HC Realty Series B Stock, interest paid on the loan we made to HC Realty's operating partnership, and interest paid on cash and subordinated secured promissory notes. The Company believes that the revenue generating from these sources, dividends paid on HC Realty Common Stock, and cash on hand is sufficient to fund operating expenses for at least 12 months from the date of these consolidated financial statements. As disclosed in previous filings, the Company may consider a rights offering of the Company's common stock to existing stockholders to raise additional cash for acquisitions. A rights offering could provide the Company greater resources and flexibility in acquiring additional non-furniture assets, which may include purchasing additional HC Realty Series B Stock or HC Realty common stock.

On September 6, 2018, the Buyer sold certain of its assets, including certain inventory and the Stone & Leigh tradename (the "S&L Asset Sale") to Stone & Leigh, LLC ("S&L"), which is owned by a group which includes Matthew W. Smith, the Company's former interim Chief Executive Officer. As a part of the S&L Asset Sale, the Buyer assigned to S&L certain of its rights and obligations under the original \$7.4 million subordinated secured promissory note issued (the "Original Note") to the Company in March 2018 as partial consideration for the Asset Sale. In connection with the assignment, the Company entered into an Amended and Restated Subordinated Secured promissory note with the Buyer (the "A&R Note") with a principal amount as of the assignment date of \$3.3 million and a new Subordinated Secured Promissory Note with S&L (the "S&L Note") a principal amount of \$4.4 million as of the assignment date. For further information on the A&R Note and S&L Note, see Note 3 of the Notes to Consolidated Financial Statements in Item 1.

Results from Continuing Operations

Three and Nine Months Ended September 30, 2019

Interest income of \$252,000 and \$795,000 for the three and nine month periods ending September 30, 2019, consisted of \$8,000 and \$45,000 of cash interest income on our cash deposits, \$48,000 and \$144,000 of cash interest income on the Second A&R Note from Buyer, \$87,000 and \$273,000 of cash interest on the S&L Note from S&L, \$72,000 and \$152,000 of cash interest on the Loan to Affiliate, and \$37,000 and \$181,000 of accreted interest income on the fair value adjustment to the subordinated secured promissory notes, respectively. The Company's A&R Note from Buyer and S&L Note from S&L was paid cash interest current for the three and nine month periods ending September 30, 2019. Dividend income from HC Realty's Series B Stock was \$50,000 and \$107,000 for the three and nine month periods ending September 30, 2019, respectively. During the nine month period ending September 30, 2019, the Company received a distribution of its share of escrowed funds from Continued Dumping and Subsidy Offset Act ("CDSOA") of approximately \$1.2 million. The Company does not expect any future disbursements related to these escrow funds. The Company also sold its shares in Buyer's parent for a gain of \$120,000 during the nine month period ending September 30, 2019.

General and administrative expenses of \$229,000 and \$761,000 for the three and nine month periods ending September 30, 2019 consisted of \$73,000 and \$308,000 of professional fees, \$63,000 and \$155,000 of wages, \$16,000 and \$38,000 of fees and expenses primarily related to proxy and annual meeting voting, \$20,000 and \$77,000 of insurance expense, \$21,000 and \$64,000 of stock based compensation expense, and \$36,000 and \$120,000 of other operating expenses, respectively.

During the nine month period ending September 30, 2019, we recognized an impairment loss on the Second A&R Note from Buyer for \$897,000.

Our effective tax rate for the period is effectively 0% due to our net operating loss carryforwards.

Financial Condition, Liquidity and Capital Resources

Sources of liquidity include cash on hand and cash interest earned on our cash on hand and the S&L Note. We expect cash on hand to be adequate for ongoing operational expenditures for at least 12 months from the date of these financial statements. At September 30, 2019, we had \$2.0 million in cash and \$232,000 in restricted cash. A portion of our unrestricted and restricted cash is currently held in savings accounts earning approximately 1.6%. We are being paid current interest on the A&R Note, the S&L Note with Stone & Leigh, LLC, and under the Loan Agreement with HC Realty. We also received quarterly dividends on our HC Realty common and Series B Stock of 5.5% and 10% annual rates, respectively.

Cash provided by continuing operations for the nine month period ended September 30, 2019 of \$1.4 million consisted of \$645,000 of cash interest income received, \$1.2 million of CDSOA escrow distributions, and \$59,000 of dividends on our HC Realty Series B Stock offset by \$526,000 of payments to employees and suppliers. The payments to employees and suppliers primarily consisted of \$155,000 of wages to current management, \$218,000 of legal and professional fees, and \$24,000 of insurance premiums.

Cash used by investing activities for the nine months ended September 30, 2019 included the Company's investment in HC Realty's common stock and Series B Stock of \$3 million and \$2 million, respectively. The Company also provided HC Realty's operating partnership \$2 million under the Loan Agreement. During the nine months ended September 30, 2019, the Company received \$120,000 of proceeds from the sale of our shares in Buyer's parent company and received cash principal payments on the subordinated secured promissory notes of approximately \$1.3 million.

Continued Dumping and Subsidy Offset Act

The CDSOA provides for distribution of monies collected by U.S. Customs and Border Protection ("Customs") for imports covered by antidumping duty orders entering the United States through September 30, 2007 to eligible domestic producers that supported a successful antidumping petition ("Supporting Producers") for wooden bedroom furniture imported from China. Antidumping duties for merchandise entering the U.S. after September 30, 2007 have remained with the U.S. Treasury.

In November 2018, Customs distributed \$66,000 in collected duties that were available for distribution in 2018. Our portion of these distributions was \$26,000, representing 39.9% of the balance available for distribution in 2018. As a result of revisions to our percentage allocation, the Company does not expect any material future distributions for collected duties.

As the CDSOA distributed monies collected by Customs to eligible domestic producers that supported a successful antidumping petition ("Supporting Producers"), a portion of the proceeds were retained and held in an escrow account in order to fund future expenses (such as professional fees) related to the petition. During the first quarter of 2019, the Supporting Producers group decided, based on the current facts and circumstances of the petition, to disburse the portion of those funds related to the 2013, 2014, and first half of 2015 distributions. The Company's share of the escrow release was approximately \$1.2 million, which we received on March 15, 2019. The group of Supporting Producers expect that any remaining funds held in escrow will be used for future expenses related to the petition. The Company does not expect any future disbursements related to these escrow funds.

Due to the uncertainty of the administrative processes, we cannot provide assurances as to future amounts of additional CDSOA funds that ultimately will be received, if any, and we cannot predict when we may receive any additional CDSOA funds.

Critical Accounting Policies

Our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our 2018 Annual Report on Form 10-K. We believe that some of our critical accounting policies have changed as a result of the Investment in affiliate.

Equity Method Investments - Long-term investments consist of investments in equity securities where our ownership is less than 50% and the Company has the ability to exercise influence, but not control, over the investee. These investments are classified in "Investment in affiliate" on the consolidated balance sheets. The Company records the investment at costs and subsequently increases or decreases the investment by its proportionate share of the net income or loss and other comprehensive income or loss of the investee. If the Company believes a decline in market value below cost is other than temporary, a loss is charged to earnings, which establishes a new cost basis for the security. The Company determination of whether an equity method investment is other than temporarily impaired incorporates both quantitative and qualitative information. The Company considers a number of factors including, but not limited to, the length of time and the extent to which the fair value has been less than cost, the length of time expected for recovery, the financial condition of the investee, the reason for decline in fair value, the ability and intent to hold the investment to maturity, and other factors specific to the individual investment.

Forward-Looking Statements

Certain statements made in this report are not based on historical facts but are forward-looking statements. These statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "expects," "may," "will," "should," "could," or "anticipates," or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy. These statements reflect our reasonable judgment with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Such risks and uncertainties include the occurrence of events that negatively impact the business or assets of HC Realty reducing the value of our investment in HC Realty, or that negatively impact our liquidity in such a way as to limit or eliminate our ability to use proceeds from the Asset Sale to fund acquisitions, or an inability on our part to identify a suitable business to acquire or develop with the proceeds of the Asset Sale. Any forward-looking statement speaks only as of the date of this filing and we undertake no obligation to update or revise any forward-looking statements, whether as a result of new developments or otherwise.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not required to be provided by a smaller reporting company.

ITEM 4. Controls and Procedures

- (a) Evaluation of disclosure controls and procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

- (b) Changes in internal controls over financial reporting. There were no changes in our internal control over financial reporting that occurred during the first quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company has received a letter from counsel for Graham County (the “County”), North Carolina asserting certain claims against the Company arising out of the conveyance from the Company to the County of approximately 36 acres (the “Property”) in November 2014, including that (i) the Company’s failure to disclose the presence of environmental contamination on the property constituted a breach of contract and (ii) the indemnity agreements entered into in connection with the conveyance were void. The County seeks reimbursement of costs incurred to date with respect to the environmental contamination and future costs of assessing and remediating the environmental contamination as well as resumption by the Company of the ownership of the Property. Pursuant to the Asset Purchase Agreement, the Buyer agreed to assume and indemnify the Company against certain pre-closing liabilities including those relating to the conveyance of the Property. We believe the claims asserted with respect to the Property are without merit and will not result in a material adverse effect on our consolidated financial statements.

ITEM 6. Exhibits

- 3.1 [Restated Certificate of Incorporation of the Registrant \(incorporated by reference to Exhibit 3.1 to the Registrant’s Form 10-Q \(commission File No. 0-14939\) for the quarter ended June 30, 2019\).](#)
- 3.2 [By-laws of the Registrant as amended \(incorporated by reference to Exhibit 3.1 to the Registrant’s Form 8-K \(Commission File No. 0-14938\) filed November 20, 2017\).](#)
- 31.1 [Certification by Steven A. Hale II, our Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \(1\)](#)
- 31.2 [Certification by Brad G. Garner, our Principal Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. \(1\)](#)
- 32.1 [Certification of Steven A. Hale II, our Chief Executive Officer, pursuant to 18 U. S. C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. \(1\)](#)
- 32.2 [Certification of Brad G. Garner, our Principal Financial Officer, pursuant to 18 U. S. C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. \(1\)](#)
- 101 The following financial statements from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, formatted in Extensible Business Reporting Language (“XBRL”): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) condensed consolidated statements of comprehensive (loss) income, (iv) condensed consolidated statements of cash flows, (v) the notes to the consolidated financial statements, and (vi) document and entity information. (1)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 8, 2019

HG HOLDINGS, INC.

By: /s/ Brad G. Garner

Brad G. Garner

Principal Financial and Accounting Officer

I, Steven A. Hale II, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HG Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

By: /s/ Steven A. Hale II
Steven A. Hale II
Chairman and Chief Executive Officer

I, Brad G. Garner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of HG Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

By: /s/ Brad G. Garner
Brad G. Garner
Principal Financial and Accounting Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the HG Holdings, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven A. Hale II, Chief Executive Officer of the Company certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2019

By: /s/ Steven A. Hale II
Steven A. Hale II
Chairman and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the HG Holdings, Inc. (the "Company") Quarterly Report on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brad G. Garner, Principal Financial and Accounting Officer of the Company certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2019

By: /s/ Brad G. Garner
Brad G. Garner
Principal Financial and Accounting Officer