BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
April 03, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended March 1, 2014**

OR

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________________________ to ________________________

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of Registrant as specified in its charter)

| Virginia | 54-0135270 |
| --- | --- |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

3525 Fairystone Park Highway

Bassett, Virginia 24055

(Address of principal executive offices)

(Zip Code)

(276) 629-6000

(Registrant's telephone number, including area code)

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, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No ____

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

| Large Accelerated Filer | Accelerated Filer | Non-accelerated Filer | Smaller Reporting Company |
| --- | --- | --- | --- |
| ____ | X | ____ | ____ |

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

At March 21, 2014, 10,844,633 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE PERIODS ENDED MARCH 1, 2014 AND MARCH 2, 2013 – UNAUDITED

(In thousands except per share data)

| | Quarter Ended | |
|---|---|---|
| | **March 1, 2014** | **March 2, 2013** |
| Net sales | $75,647 | $79,849 |
| Cost of sales | 35,394 | 38,489 |
| Gross profit | 40,253 | 41,360 |
| | | |
| Selling, general and administrative expenses excluding new store pre-opening costs | 38,580 | 38,834 |
| New store pre-opening costs | 587 | 162 |
| Income from operations | 1,086 | 2,364 |
| | | |
| Other income (loss), net | 285 | (668) |
| Income before income taxes | 1,371 | 1,696 |
| | | |
| Income tax expense | 528 | 716 |
| Net income | $843 | $980 |
| | | |
| Retained earnings-beginning of period | 104,526 | 104,319 |
| Cash dividends | (656) | (542) |
| Retained earnings-end of period | $104,713 | $104,757 |
| | | |
| Basic earnings per share | $0.08 | $0.09 |
| | | |
| Diluted earnings per share | $0.08 | $0.09 |
| | | |
| Dividends per share | $0.06 | $0.05 |

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE PERIODS ENDED MARCH 1, 2014 AND MARCH 2, 2013 – UNAUDITED

(In thousands)

| | **Quarter Ended** | |
|---|---|---|
| | **March 1, 2014** | **March 2, 2013** |
| Net income | $ 843 | $ 980 |
| Other comprehensive income: | | |
| Amortization associated with supplemental executive retirement defined benefit plan (SERP) | 41 | 31 |
| Income taxes related to SERP | (16 ) | (12 ) |
| Other comprehensive income, net of tax | 25 | 19 |
| Total comprehensive income | $ 868 | $ 999 |

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

MARCH 1, 2014 AND NOVEMBER 30, 2013

(In thousands)

| | **(Unaudited) March 1, 2014** | **November 30, 2013** |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 14,526 | $ 12,733 |
| Short-term investments | 23,125 | 28,125 |
| Accounts receivable, net | 14,598 | 16,080 |
| Inventories | 53,845 | 53,069 |
| Deferred income taxes | 4,449 | 4,418 |
| Other current assets | 11,280 | 11,949 |
| Total current assets | 121,823 | 126,374 |
| | | |
| Property and equipment, net | 69,297 | 64,271 |
| | | |
| Retail real estate | 10,325 | 10,435 |
| Deferred income taxes | 10,691 | 10,734 |
| Other | 13,901 | 14,035 |
| Total long-term assets | 34,917 | 35,204 |
| **Total assets** | $ 226,037 | $ 225,849 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 18,638 | $ 19,892 |
| Accrued compensation and benefits | 6,973 | 6,503 |
| Customer deposits | 19,110 | 16,214 |
| Dividends payable | - | 2,172 |
| Other accrued liabilities | 7,022 | 6,660 |
| Total current liabilities | 51,743 | 51,441 |
| | | |
| **Long-term liabilities** | | |
| Post employment benefit obligations | 10,732 | 11,146 |
| Real estate notes payable | 2,394 | 2,467 |
| Other long-term liabilities | 3,489 | 3,386 |

| | | |
|---|---|---|
| Total long-term liabilities | 16,615 | 16,999 |
| | | |
| **Stockholders' equity** | | |
| Common stock | 54,225 | 54,297 |
| Retained earnings | 104,713 | 104,526 |
| Additional paid-in capital | 129 | - |
| Accumulated other comprehensive loss | (1,388 ) | (1,414 ) |
| Total stockholders' equity | 157,679 | 157,409 |
| **Total liabilities and stockholders' equity** | $ 226,037 | $ 225,849 |

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

PART I – FINANCIAL INFORMATION – CONTINUED

ITEM 1. FINANCIAL STATEMENTS

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED MARCH 1, 2014 AND MARCH 2, 2013 – UNAUDITED

(In thousands)

| | Quarter Ended | |
|---|---|---|
| | **March 1, 2014** | **March 2, 2013** |
| **Operating activities:** | | |
| Net income | $843 | $980 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,692 | 1,434 |
| Equity in undistributed income of investments and unconsolidated affiliated companies | (65) | (114) |
| Deferred income taxes | 12 | 171 |
| Other, net | (699) | (102) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,450 | 860 |
| Inventories | (776) | 109 |
| Other current assets | 14 | (1,120) |
| Customer deposits | 2,896 | 3,702 |
| Accounts payable and accrued liabilities | (29) | (3,952) |
| **Net cash provided by operating activities** | 5,338 | 1,968 |
| | | |
| **Investing activities:** | | |
| Purchases of property and equipment | (6,899) | (2,621) |
| Proceeds from sales of property and equipment | 1,407 | 955 |
| Proceeds from sale of interest in affiliate | - | 2,348 |
| Proceeds from maturity of short-term investments | 5,000 | - |
| Other | 48 | 2 |
| **Net cash provided by (used in) investing activities** | (444) | 684 |
| | | |
| **Financing activities:** | | |
| Cash dividends | (2,828) | (1,084) |
| Issuance of common stock | 82 | 320 |
| Repurchases of common stock | (287) | (236) |
| Repayments of real estate notes payable | (68) | (59) |
| **Net cash used in financing activities** | (3,101) | (1,059) |
| **Change in cash and cash equivalents** | 1,793 | 1,593 |
| **Cash and cash equivalents - beginning of period** | 12,733 | 45,566 |

| | | |
|---|---|---|
| **Cash and cash equivalents - end of period** | $14,526 | $47,159 |

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“GAAP”) for complete financial statements. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

References to “ASC” included hereinafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board as the source of authoritative GAAP.

The condensed consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated (“Bassett”, “we”, “our”, or the “Company”) and our wholly-owned subsidiaries of which we have operating control. The equity method of accounting is used for our investments in affiliated companies in which we exercise significant influence but do not maintain control. In accordance with ASC Topic 810, we have evaluated our licensees and certain other entities to determine whether they are variable interest entities (“VIEs”) of which we are the primary beneficiary and thus would require consolidation in our financial statements. To date we have concluded that none of our licensees nor any other of our counterparties represent VIEs.

Our fiscal year, which ends on the last Saturday of November, periodically results in a 53-week year instead of the normal 52 weeks. The prior fiscal year ending November 30, 2013 was a 53-week year, with the additional week being included in the first fiscal quarter. Accordingly, the information presented below includes 13 weeks of operations for the quarter ended March 1, 2014 as compared with 14 weeks included in the quarter ended March 2, 2013.

**2. Interim Financial Presentation**

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the three months ended March 1, 2014 are not necessarily indicative of results for the full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 30, 2013.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rates for the quarters ended March 1, 2014 and March 2, 2013 differ from the federal statutory rate primarily due to the effects of state income taxes and permanent differences resulting from non-deductible expenses.

**3. Accounts Receivable**

Accounts receivable consists of the following:

| | March 1, 2014 | November 30, 2013 |
|---|---|---|
| Gross accounts receivable | $16,149 | $ 17,687 |
| Allowance for doubtful accounts | (1,551 ) | (1,607 ) |
| Accounts receivable, net | $14,598 | $ 16,080 |

At March 1, 2014 and November 30, 2013 approximately 52% and 50%, respectively, of gross accounts receivable, and approximately 66% and 64%, respectively, of the allowance for doubtful accounts were attributable to amounts owed to us by our licensees. Our remaining receivables are primarily due from national account customers and traditional distribution channel customers.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

Activity in the allowance for doubtful accounts was as follows:

| | 2014 |
|---|---|
| Balance at November 30, 2013 | $1,607 |
| Additions charged to expense | 32 |
| Write-offs and other deductions | (88 ) |
| Balance at March 1, 2014 | $1,551 |

We believe that the carrying value of our net accounts receivable approximates fair value. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 10.

**4. Inventories**

Inventories are valued at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out (LIFO) method. The costs for imported inventories are determined using the first-in, first-out (FIFO) method.

Inventories were comprised of the following:

| | March 1, | November 30, |
|---|---|---|

| | 2014 | 2013 |
|---|---|---|
| Wholesale finished goods | $27,665 | $ 28,450 |
| Work in process | 333 | 277 |
| Raw materials and supplies | 8,155 | 8,029 |
| Retail merchandise | 26,531 | 25,167 |
| Total inventories on first-in, first-out method | 62,684 | 61,923 |
| LIFO adjustment | (7,488 ) | (7,561 ) |
| Reserve for excess and obsolete inventory | (1,351 ) | (1,293 ) |
| | $53,845 | $ 53,069 |

We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand, market conditions and the respective valuations at LIFO. The need for these reserves is primarily driven by the normal product life cycle. As products mature and sales volumes decline, we rationalize our product offerings to respond to consumer tastes and keep our product lines fresh. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required. In determining reserves, we calculate separate reserves on our wholesale and retail inventories. Our wholesale inventories tend to carry the majority of the reserves for excess quantities and obsolete inventory due to the nature of our distribution model. These wholesale reserves primarily represent design and/or style obsolescence. Typically, product is not shipped to our retail warehouses until a consumer has ordered and paid a deposit for the product. We do not typically hold retail inventory for stock purposes. Consequently, floor sample inventory and inventory for delivery to customers account for the majority of our inventory at retail. Retail reserves are based on accessory and clearance floor sample inventory in our stores and any inventory that is not associated with a specific customer order in our retail warehouses.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

Activity in the reserves for excess quantities and obsolete inventory by segment are as follows:

| | Wholesale Segment | Retail Segment | Total |
|---|---|---|---|
| Balance at November 30, 2013 | $ 1,001 | $ 292 | $ 1,293 |
| Additions charged to expense | 407 | 93 | 500 |
| Write-offs | (389 ) | (53 ) | (442 ) |
| Balance at March 1, 2014 | $ 1,019 | $ 332 | $ 1,351 |

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2014 and do not anticipate that our methodology is likely to change in the future.

**5. Unconsolidated Affiliated Companies**

We own 49% of Zenith Freight Lines, LLC, ("Zenith") which provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors and also provides home delivery services to furniture retailers. We have contracted with Zenith to provide for substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for several of our Company-owned retail stores. Our investment in Zenith was $7,318 and $7,254 at March 1, 2014 and November 30, 2013, respectively. At March 1, 2014 and November 30, 2013, we owed Zenith $2,025 and $2,580, respectively, for services rendered to us. We believe the transactions with Zenith are at current market rates. We recorded the following income from Zenith in other income (loss), net, in our condensed consolidated statements of income:

Quarter
Ended

| | March 1, 2014 | March 2, 2013 |
|---|---|---|
| Earnings recognized | $65 | $ 114 |

In connection with the sale of our interest in IHFC on May 2, 2011, $2,348 remained held in escrow at both March 1, 2014 and November 30, 2013, representing the second half of the amount originally placed in escrow to indemnify the purchaser with respect to various contingencies. The first half of this escrow was released to us during the first quarter of fiscal 2013, with the remainder, provided it is not used for contingencies, being due for release to us during 2014 following the third anniversary of the sale. The escrow receivable from the sale of IHFC is included in other current assets in our condensed consolidated balance sheets.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

**6. Real Estate Notes Payable and Bank Credit Facility**

*Real Estate Notes Payable*

The real estate notes payable are summarized as follows:

| | March 1, 2014 | November 30, 2013 |
|---|---|---|
| Real estate notes payable | $2,678 | $ 2,746 |
| Less: | | |
| Current portion of real estate notes payable | (284 ) | (279 ) |
| | $2,394 | $ 2,467 |

Certain of our retail real estate properties have been financed through commercial mortgages with interest rates of 6.73%. These mortgages are collateralized by the respective properties with net book values totaling approximately $6,228 and $6,262 at March 1, 2014 and November 30, 2013, respectively. The portion of these mortgages due within one year, $284 and $279 as of March 1, 2014 and November 30, 2013, respectively, is included in other current liabilities in the accompanying condensed consolidated balance sheets. The long-term portion, $2,394 and $2,467 as of March 1, 2014 and November 30, 2013, respectively, is presented as real estate notes payable in the condensed consolidated balance sheets.

The fair value of these mortgages was $2,616 and $2,684 at March 1, 2014 and November 30, 2013, respectively. In determining the fair value, we utilized current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See

Note 10.

*Bank Credit Facility*

Our credit facility with our bank provides for a line of credit of up to $15,000 and is secured by our accounts receivable and inventory. The facility contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future.

At March 1, 2014, we had $1,366 outstanding under standby letters of credit, leaving availability under our credit line of $13,634.

**7. Contingencies**

We are involved in various legal and environmental matters, which arise in the normal course of business. Although the final outcome of these matters cannot be determined, based on the facts presently known, we believe that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations.

During fiscal 2012, the U.S. Customs and Border Protection (“Customs”) made a distribution to us of $9,010 representing our share of the final distribution of duties that have been withheld by Customs under the Continued Dumping and Subsidy Offset Act of 2000 (“CDSOA”). We have received annual distributions in past years under the CDSOA as a result of our support of an antidumping petition on imports of wooden bedroom furniture from China. Certain manufacturers who did not support the antidumping petition (“Non-Supporting Producers”) filed actions in the United States Court of International Trade challenging the CDSOA's “support requirement” and seeking to share in the distributions. As a result, Customs held back a portion of those distributions (“the Holdback”) pending resolution of the Non-Supporting Producers' claims. The Court of International Trade dismissed all of the actions of the Non-Supporting Producers, who appealed to the United States Court of Appeals for the Federal Circuit (“the Court of Appeals”). The Court of Appeals denied the Non-Supporting Producers’ request for an injunction to block the final distribution of the Holdback and allowed Customs to distribute the funds in April of 2012. The Court of Appeals held oral arguments on March 8, 2013 concerning the appeals, and on August 19, 2013 a three-judge panel ruled against the appellants in a two-to-one decision. The Non-Supporting Producers’ request for an en banc rehearing by the full Court of Appeals was denied. The Non-Supporting Producers have until April 4, 2014 to file a petition for a writ of certiorari with the U.S. Supreme Court. If the Supreme Court were to accept such petitions for certiorari review and thereafter to reverse the decisions of the Federal Circuit and determine that the Non-Supporting Producers were entitled to CDSOA distributions, it is possible that Customs may seek to have us return all or a portion of our share of the distribution. However, we believe that the chance Customs will seek and be entitled to obtain a return is remote.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores. We had obligations of $100,947 and $96,421 at March 1, 2014 and November 30, 2013, respectively, for future minimum lease payments under non-cancelable operating leases having initial terms in excess of one year.

We also have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of $3,578 and $3,698 at March 1, 2014 and November 30, 2013, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at March 1, 2014 and November 30, 2013 was not material.

**8. Post Employment Benefit Obligations**

We have an unfunded Supplemental Retirement Income Plan (the “Supplemental Plan”) that covers one current and certain former executives. The liability for this plan was $9,516 and $9,775 as of March 1, 2014 and November 30, 2013, respectively, and is recorded as follows in the condensed consolidated balance sheets:

| | March 1, | November 30, |
|---|---|---|

| | 2014 | 2013 |
|---|---|---|
| Accrued compensation and benefits | $810 | $ 810 |
| Post employment benefit obligations | 8,706 | 8,965 |
| Total pension liability | $9,516 | $ 9,775 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

Components of net periodic pension costs are as follows:

| | Quarter Ended | |
|---|---|---|
| | March 1, 2014 | March 2, 2013 |
| Service cost | $20 | $ 18 |
| Interest cost | 93 | 87 |
| Amortization of transition obligation | 11 | 11 |
| Amortization of loss | 30 | 20 |
| Net periodic pension cost | $154 | $ 136 |

We have an unfunded Deferred Compensation Plan that covers one current executive and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. We recognized expense of $72 for each of the quarters ended March 1, 2014 and March 2, 2013. Our liability under this plan was $2,549 and $2,555 as of March 1, 2014 and November 30, 2013, respectively, and is recorded as follows in the condensed consolidated balance sheets:

| | March 1, 2014 | November 30, 2013 |
|---|---|---|
| Accrued compensation and benefits | $523 | $ 373 |
| Post employment benefit obligations | 2,026 | 2,182 |
| Total pension liability | $2,549 | $ 2,555 |

**9. Earnings Per Share**

The following reconciles basic and diluted earnings per share:

| | Net Income | Weighted Average Shares | Net Income Per Share |
|---|---|---|---|
| For the quarter ended March 1, 2014: | | | |
| Basic earnings per share | $ 843 | 10,691,646 | $ 0.08 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 151,157 | - |
| Diluted earnings per share | $ 843 | 10,842,803 | $ 0.08 |
| For the quarter ended March 2, 2013: | | | |
| Basic earnings per share | $ 980 | 10,698,626 | $ 0.09 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 157,259 | - |
| Diluted earnings per share | $ 980 | 10,855,885 | $ 0.09 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

For the three months ended March 1, 2014 and March 2, 2013, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

| | Quarter Ended | |
|---|---|---|
| | March 1, 2014 | March 2, 2013 |
| Stock options | 207,500 | 472,500 |
| Unvested performance shares | 54,000 | - |
| Total anti-dilutive securities | 261,500 | 472,500 |

**10. Financial Instruments and Fair Value Measurements**

*Financial Instruments*

Our financial instruments include cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, cost and equity method investments, accounts payable and long-term debt. Because of their short maturities, the carrying amounts of cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, and accounts payable approximate fair value. Our cost and equity method investments generally involve entities for which it is not practical to determine fair values.

*Investments*

Our short-term investments of $23,125 and $28,125 at March 1, 2014 and November 30, 2013, respectfully, consisted of certificates of deposit (CDs) with original terms generally ranging from six to twelve months, bearing interest at rates ranging from 0.12% to 1.00%. At March 1, 2014, the weighted average remaining time to maturity of the CDs was approximately four months and the weighted average yield of the CDs was approximately 0.252%. Each CD is placed with a Federally insured financial institution and all deposits are within Federal deposit insurance limits. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at March 1, 2014 and November 30, 2013 approximates their fair value.

We hold an investment in the Fortress Value Recovery Fund I, LLC ("Fortress"). Due to significant declines in net asset values during the first quarter of fiscal 2012, the highly illiquid nature of the investment, and the high degree of uncertainty regarding our ability to recover our investment in the foreseeable future, we fully impaired the carrying amount of this investment during the year ended November 24, 2012. During the quarter ended March 1, 2014, we recognized a $140 gain resulting from the partial liquidation of Fortress which is included in other income, net in our consolidated statement of income. The timing and amount of future receipts, if any, from the liquidation of Fortress, remain uncertain, and will be recognized as gains in other income if and when notification of a distribution is received.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

MARCH 1, 2014

(Dollars in thousands except share and per share data)

*Fair Value Measurement*

The Company accounts for items measured at fair value in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC 820's valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect our market assumptions. ASC 820 classifies these inputs into the following hierarchy:

*Level 1 Inputs*– Quoted prices for identical instruments in active markets.

*Level 2 Inputs*– Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

*Level 3 Inputs*– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our mortgages payable for disclosure purposes (see Note 6) involves Level 3 inputs.

**11. Accrued Lease Exit Costs**

The following table summarizes the activity related to our accrued lease exit costs:

| | |
|---|---|
| **Balance at November 30, 2013** | $907 |
| Payments on unexpired leases | (264) |
| Accretion of interest on obligations and other | 15 |
| **Balance at March 1, 2014** | $658 |
| Current portion included in other accrued liabilities | $260 |
| Long-term portion included in other long-term liabilities | 398 |
| | $658 |

**12. Recent Accounting Pronouncements**

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 (ASU 2013-11), which updated the guidance in ASC Topic 740, *Income Taxes.* The amendments in ASU 2013-11 generally provide guidance for the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. This guidance will become effective for us as of the beginning of our 2015 fiscal year and is consistent with our present practice.

PART I-FINANCIAL INFORMATION-CONTINUED

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**13. Segment Information**

We have strategically aligned our business into three reportable segments as defined in ASC 280, *Segment Reporting*, and as described below:

**Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned stores retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores.
**Retail – Company-owned stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities (including real estate) and capital expenditures directly related to these stores.
**Investments and real estate.** Our investments and real estate segment consists of our short-term investments, our holdings of real estate leased or previously leased as licensee stores, and our equity investment in Zenith. We also hold an investment in Fortress, which we fully reserved during fiscal 2012. Although this segment does not have operating earnings, income or loss from the segment is included in other income (loss), net, in our consolidated statements of income.

Inter-company net sales elimination represents the elimination of wholesale sales to our Company-owned stores. Inter-company income elimination includes the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is delivered to the retail consumer. The inter-company income elimination also includes rent paid by our retail stores occupying Company-owned real estate.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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The following table presents our segment information:

| | Quarter Ended | |
|---|---|---|
| | March 1, 2014 | March 2, 2013 |
| **Net Sales** | | |
| Wholesale | $51,086 | $53,960 |
| Retail - Company-owned stores | 47,124 | 49,957 |
| Inter-company elimination | (22,563) | (24,068) |
| Consolidated | $75,647 | $79,849 |
| | | |
| **Income (loss) from Operations** | | |
| Wholesale | $2,348 | $3,001 |
| Retail - Company-owned stores | (1,772) | (571) |
| Inter-company elimination | 510 | (66) |
| Consolidated | $1,086 | $2,364 |
| | | |
| **Depreciation and Amortization** | | |
| Wholesale | $325 | $341 |
| Retail - Company-owned stores | 1,257 | 967 |
| Investments and real estate | 110 | 126 |
| Consolidated | $1,692 | $1,434 |
| | | |
| **Capital Expenditures** | | |
| Wholesale | $1,437 | $648 |
| Retail - Company-owned stores | 5,462 | 1,973 |
| Investments and real estate | - | - |
| Consolidated | $6,899 | $2,621 |

| | As of March 1, 2014 | As of November 30, 2013 |
|---|---|---|

| | | |
|---|---|---|
| **Identifiable Assets** | | |
| Wholesale | $107,957 | $109,958 |
| Retail - Company-owned stores | 84,630 | 77,331 |
| Investments and real estate | 33,450 | 38,560 |
| Consolidated | $226,037 | $225,849 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

MARCH 1, 2014

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## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 112-year history has instilled the principles of quality, value, and integrity in everything that we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and to meet the demands of a global economy.

With 93 BHF stores at March 1, 2014, we have leveraged our strong brand name in furniture into a network of corporate and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. We created our store program in 1997 to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. The store features custom order furniture ready for delivery in less than 30 days, more than 1,000 upholstery fabrics, free in-home design visits, and coordinated decorating accessories. We believe that our capabilities in custom furniture have become unmatched in recent years. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its delivery. The selling philosophy in the stores is based on building strong long term relationships with each customer. Sales people are referred to as Design Consultants and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. We continue to strengthen the sales and design talent within our Company-owned retail stores. Our Design Consultants undergo extensive Design Certification training. This training has strengthened their skills related to our house call and design business, and is intended to increase business with our most valuable customers.

In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We use a network of over 25 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

In September of 2011, we announced the formation of a strategic partnership with HGTV (Home and Garden Television), a division of Scripps Networks, LLC, which combines our 112 year heritage in the furniture industry with the penetration of 99 million households in the United States that HGTV enjoys today. As part of this alliance, the in-store design centers have been co-branded with HGTV to more forcefully market the concept of a “home makeover”, an important point of differentiation for our stores that also mirrors much of the programming content on the HGTV network. We believe the new co-branded design centers coupled with the targeted national advertising on HGTV have played a key role in our improved comparable store sales since their introduction following the third quarter of 2012.

PART I-FINANCIAL INFORMATION-CONTINUED

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The following table summarizes the changes in store count during the three months ended March 1, 2014:

| | November 30, 2013 | Openings | Closed | March 1, 2014 |
|---|---|---|---|---|
| Company-owned stores | 55 | 4 | - | 59 |
| Licensese-owned stores | 34 | - | - | 34 |
| Total | 89 | 4 | - | 93 |

*Does not include openings and closures due to relocation of existing stores within a market.

In fiscal 2013, we began a program to increase the Company-owned retail store count and relocate a number of first generation stores to better locations. This program includes opening nine new stores and relocating six existing stores in 2013 and 2014. As a result, we spent $5,462 in capital expenditures for new and relocated stores in the first quarter of fiscal 2014 and expect to spend an additional amount of approximately $5,500 during the remainder of the year. During the three months ended March 1, 2014, stores in the following locations were opened:

**New Stores**

Forth Worth, Texas
Westport, Connecticut
Annapolis, Maryland
Burlington, Massachusetts

During the remainder of 2014, we expect to open or relocate stores in the following locations:

**New Stores** **Store Relocations**

| | |
|---|---|
| Hartsdale, New York | Boston, Massachusetts |
| Rockville, Maryland | Little Rock, Arkansas |
| | San Antonio, Texas |
| | Southlake, Texas |

As with any retail operation, prior to opening a new store we incur such expenses as rent, training costs and other payroll related costs. These costs generally range between $100 to $200 per store depending on the overall rent costs for the location and the period between the time when we take possession of the physical store space and the time of the store opening. Generally, rent payments between time of possession and opening of a new store are deferred and therefore rent costs recognized during that time do not require cash. Inherent in our retail business model, we also incur significant losses in the first two to three months of operation following a new store opening. Similar to other furniture retailers, we do not recognize a sale in the income statement until the furniture is delivered to our customer. Because our retail business model does not involve maintaining a stock of retail inventory that would result in quick delivery, and because of the custom nature of our furniture offerings, delivery to our customers usually does not occur until 30 days after an order is placed. We generally require a deposit at the time of order and collect the remaining balance when the furniture is delivered at which time the sale is recorded in the income statement. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from $300 to $400 per store. While this expansion is initially costly to our operating results, we believe our site selection and new store presentation will generally result in locations that operate at or above a retail break-even level within 12 months of their opening. Even as these stores ramp up to break-even, we are realizing additional wholesale sales volume that will leverage the fixed costs in our wholesale business. We expect to continue opening and relocating stores at a slower pace after 2014.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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Our wholesale operations include an upholstery plant in Newton, North Carolina that produces a wide range of upholstered furniture. We believe that we are an industry leader with our quick-ship custom upholstery offerings. We also operate a custom dining manufacturing facility in Martinsville, Virginia. Most of our wood furniture and certain of our upholstery offerings are sourced through several foreign plants, primarily in Vietnam, Indonesia and China. We define imported product as fully finished product that is sourced internationally. For the three months ended March 1, 2014, approximately 45% of our wholesale sales were of imported product compared to 48% for the three months ended March 2, 2013.

**Results of Operations – Quarter ended March 1, 2014 compared with quarter ended March 2, 2013:**

Net sales, gross profit, selling, general and administrative (SG&A) expense, and income (loss) from operations were as follows for the periods ended March 1, 2014 and March 2, 2013:

| Quarter Ended* | |
|---|---|
| March 1, 2014 | March 2, 2013 |