

**Bassett®**

ANNUAL REPORT

'16







**Bassett**

315

Bassett

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FIRE LANE

Sterling, VA



# TO OUR SHAREHOLDERS

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2016 was another year of successful execution of the strategic template that our team has been refining for the past several years. We began new initiatives and invested in every aspect of our business; our retail stores, technology, manufacturing, and logistics. In the process, we grew operating income by 8% to \$28.2 million, generated \$39.1 million of cash flow from operations, and produced a 6% increase in net income after non-recurring items to \$15.7 million. Consolidated revenue grew slightly to \$432 million. Although our total annual revenue has grown for seven consecutive years, I would describe the general environment for home furnishings in 2016 as inconsistent. We are proud of our track record of generating positive comparable same store sales for six straight years. Only a very strong last few months of the year allowed us to keep that record intact, however. Nevertheless, consumers across the country continue to respond positively to our store experience and product assortment. In that regard, we believe that our ongoing focus on new merchandising programs and a considerable amount of potential new markets for our stores provide us a runway to grow Bassett for many years to come.

2017 will mark our 20th year in the retail furniture business, still a relatively short amount of time for a company that will celebrate its 115th birthday this year. Today we own 59 corporate stores and license our concept to another 20 individuals that operate 31 stores across the country – a total of 90 Bassett Home Furnishings stores today.

Originally, our concept was a strategy to create a market for our manufactured products that were facing an onslaught of imports that were hitting the market with unfair cost advantages and severely damaging our business. To combat this trend, we developed the Bassett store strategy and opened our first location in 1997. Last year, 67% of the wholesale goods that we shipped were sold through our retail channel. Since inception, our stores have been and remain our primary growth vehicle. Although we believe that a market exists for many more Bassett stores, we continue to

methodically assess each new store opportunity to secure the best real estate possible. Unfortunately, this process takes time and can be frustratingly slow; but we understand the responsibility that comes with long term leases and we will not compromise our standards to haphazardly bring on new storefronts.

In 2016 we opened new stores in Sterling, Virginia and Hunt Valley, Maryland. Both stores are well staffed and off to strong starts. We also repositioned our Newport News, Virginia location into better real estate and closed three older stores that we acquired from former licensees years ago. Coupled with the closure of two licensee operated stores, these moves resulted in our year end 2016 store count of 90 locations. In 2017, we will open at least five new stores – four corporate and one licensed. We will also reposition our Scottsdale, Arizona store. One additional corporate store will close and another licensee location will as well, meaning we should end the year with at least 93 locations.

We have evolved beyond regarding the stores as a sales channel for our wholesale segment to the realization of retail being a profit center in its own right. Although store closing inventory reductions, additional pre-opening costs, and a sub-par year in the energy related market of Houston reduced our overall retail income this year, we did record our second best year ever in retail with an operating profit of \$4.3 million. While we face a challenge in 2017 with an additional \$2 million of pre-opening costs and post-opening losses, we are committed to continuing our comparable store sales improvement record to maintain profitability. New initiatives such as our three phased new product rollout taking place in January, March, and August are designed to keep the sales pace going. We are also optimistic about other new programs including a more robust lighting and mirror assortment to integrate with our in home design strategy and an image building direct mail campaign that will coincide with key selling periods throughout the year.



HGTV HOME™ Design Studio by Bassett



Our wholesale segment suffered a sales decline in 2016 after several years of strong growth. All of the loss in volume came from customers outside the Bassett store network. Interestingly, this channel has driven much of the aforementioned recent wholesale growth but the discontinuation of business with a major wholesale customer and a weaker sales environment slowed our sales momentum. We remain committed to selling strong independent furniture retailers in areas of the country that do not conflict with our stores.



## DESIGN STUDIO by Bassett®

The primary vehicle to accomplish this goal is our HGTV HOME™ Design Studio by Bassett galleries that are featured in 82 retail operations across the United States. Our five year relationship with the HGTV network has been fruitful in differentiating our store concept from competition and in communicating our design capabilities. HGTV at Bassett is now proving to be a sales driver in the general furniture store marketplace as well. The attraction to the association with the #1 cable television network for upscale women helped us plant the HGTV/Bassett flag in 20 new retail locations in 2016. To further support the sales effort in the open market, we remodeled our wholesale showroom in High Point, North Carolina and renewed our lease at the World Market Center in Las Vegas in 2016.

On the operations side of the wholesale segment, we continued to improve and grow our domestic footprint. In fact, over 70% of our total wholesale shipments last year were produced or assembled domestically. To plan for future growth, we opened a new upholstery manufacturing cell in Texas last February. We attained profitability within 90 days in our new facility and we plan to expand the operation in early 2017. Speed to market with our custom upholstery product line has been a catalyst for our growth and the new Texas effort will allow us to scale this core competency to new heights. Meanwhile, our Bench Made product



Bench-Made



assortment recently turned two years old and continues to gain importance in our overall sales effort. In fact, we doubled the capacity of the Bench Made facility last year to keep up with the sales growth. The “Made in America” solid wood dining, occasional, and bedroom furniture story coupled with innovative product designs and wood finishes has allowed Bench Made to carve a unique niche in a crowded marketplace. Our merchandising teams are buoyed by this success and are hard at work on the next generation of this exciting product range.

The long term potential of the 2015 acquisition of Zenith Freight Lines becomes more apparent each year. The stakes have been rising in the long haul U. S. furniture industry freight business as government mandated electronic record keeping limits rolling stock asset deployment and driver

behind the wheel time on the road. In the historically Mom ‘n Pop driven furniture freight trucking world, the cost associated with these federal mandates can be crippling. The early investment that Zenith made in compliant technology is now being realized and we are very enthused about the market share leverage that this foresight affords us. Building on this vision, the national distribution center platform that Zenith has architected gives us the ability to shorten the trip time for our drivers and reduces the lead time for our customers. And at the end of the line, Zenith’s burgeoning final mile capabilities enable Bassett to provide an internally controlled end to end best of class service proposition to our customers. The consumer’s doorstep is often referred to in furniture parlance as “the one yard line”. With Zenith’s home delivery capabilities, Bassett now scores by satisfying our customers on every step of the furniture transaction.





Peninsula







American Casual



Custom Upholstered Bed



Custom Upholstered Sofa

The components of our model have been created and perfected through trial and error over the past 20 years. Very often, there were difficulties that arose that required either persistence or an abrupt change of course. Fundamentally, however, a belief in our long term vision was required to carry the day. I can unequivocally say that Bassett could not have made it through the valley that claimed so many of our former competitors had it not been for the wisdom and confidence displayed by our Board of Directors. 2016 cast a pall on the Bassett Furniture family with the deaths of two of our beloved Directors; Dr. Peter Brown and Mr. Howard Haworth. These gentlemen loyally served the Bassett shareholders for 23 and 20 years respectively. Their unbending belief in the virtue of our strategy was a matter of corporate life and death during the darkest days of the import invasion and The Great Recession. For them, I am forever grateful. In the very same light, I salute Mr. Dale Pond, a 13 year Bassett board member who is not standing for election this year due to a debilitating illness. Dale's high powered career leading the marketing effort at Lowe's Corporation gave us "big time" insight into

the home improvement consumer and its parallels to our business model. His formative contributions to our forays into the realm of consumer research were transformational. And, like Peter and Howard, Dale's support through very tough times will never be forgotten. On a happier note, we welcomed Mr. John Belk to the Bassett board this fall. Johnny spent his entire career at Belk Stores, Inc. retiring as President in early 2016. His vast knowledge of all aspects of retailing and his extensive public company board experience will be invaluable in the years ahead.

I close the book on 2016 with gratitude for the contributions and support of our associates, our Board of Directors, and our shareholders.

*Rob Spilman*

Robert H. Spilman, Jr.  
Chairman & CEO

# FINANCIAL SUMMARY

Fiscal Years Ended November

	2016	2015	2014	2013	2012
<b>INCOME STATEMENT DATA</b>					
Net Sales	\$432,038	\$430,927	\$340,738	\$321,286	\$269,672
Income From Operations	28,193	25,989	15,131	10,005	5,080
Net Income	15,829	20,433	9,299	5,096	26,713
<b>PER SHARE DATA</b>					
Diluted Income	\$ 1.46	\$ 1.88	\$ 0.87	\$ 0.47	\$ 2.41
Adjusted Diluted Income	1.46	1.36	0.87	0.47	0.27
Cash Dividends	0.68	0.54	0.48	0.42	1.45
Book Value	16.85	16.25	14.95	14.50	14.51
<b>BALANCE SHEET DATA</b>					
Cash & Cash Equivalents	\$ 35,144	\$ 36,268	\$ 26,673	\$ 12,733	\$ 45,566
Investments	23,125	23,125	23,125	28,125	-
Total Assets	278,267	282,543	240,746	225,849	227,180
Long-Term Debt	3,821	8,500	1,902	2,467	3,053
Stockholders' Equity	180,705	177,366	156,832	157,409	157,280

Dollars in thousands except per share amounts



## Management's Discussion and Analysis of Financial Condition and Results of Operations

(Amounts in thousands except share and per share data)

### 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. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 114-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 90 BHF stores at November 26, 2016, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed 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. 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. 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.

The BHF stores feature custom order furniture ready for delivery in less than 30 days, free in-home design visits ("home makeovers"), and coordinated decorating accessories. Our philosophy 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. Until a rigorous training and design certification program is completed, Design Consultants are not authorized to perform in-home design services for our customers.

We have factories in Newton, North Carolina and Grand Prairie, Texas that manufacture upholstered furniture, a factory in Martinsville, Virginia that primarily assembles and finishes our custom casual dining offerings and a factory in Bassett, Virginia that assembles and finishes our recently introduced "Bench Made" line of furniture. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its process, with custom pieces often manufactured within two weeks of taking the order in our stores. Our logistics team then promptly ships the product to one of our home delivery hubs or to a location specified by our licensees in a timeframe to meet the 30 day promise. In addition to the furniture that we manufacture domestically, we source most of our formal bedroom and dining room furniture and certain upholstery offerings from several foreign plants, primarily in Vietnam and China. Over 65% of the products we currently sell are manufactured in the United States.

"Bench Made" is a selection of American dining furniture that first appeared in retail showrooms during the second quarter of 2015. Partnering with nearby hardwood component manufacturers, we are preparing, distressing, finishing, and assembling an assortment of solid maple tables and chairs in our newly renovated facility in Bassett, Virginia. Due to its strong reception, we have expanded "Bench Made" offerings to include bedroom and occasional furniture starting in May of 2016. Also in 2016 we began moving to a great room centric floor plan for our retail locations that will focus more on our domestic upholstery products that have led our sales increases in recent years complemented by both imported and domestically produced entertainment and occasional furnishings. All of these new products have been carefully designed in coordination with our merchants, designers, engineers and finishing technicians to achieve the upscale casual decor that we believe speaks to today's consumer.

For several years we owned 49% of Zenith Freight Lines, LLC ("Zenith"). During that time the strategic significance of our partnership with Zenith had risen to include the over-the-road transportation of furniture, the operation of regional freight terminals, warehouse and distribution facilities in eleven states, and the management of various home delivery facilities that service BHF stores and other clients in local markets around the United States. On February 2, 2015, we acquired the remaining 51% of Zenith, which now operates as a wholly-owned subsidiary of Bassett. Our acquisition of Zenith brings to our Company the ability to deliver best-of-class shipping and logistical support services that are uniquely tailored to the needs of the furniture industry, as well as the ability to provide the expedited delivery service which is increasingly demanded by our industry. We believe that our ownership of Zenith will not only enhance our own wholesale and retail distribution capabilities, but will provide additional growth opportunities as Zenith continues to expand its service to other customers.

## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

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 heritage in the furniture industry with the penetration of 96 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 driving sales at our stores. In October of 2015, we announced the extension of our partnership with HGTV through 2019. While continuing to feature HGTV branded custom upholstery products in our HGTV Home Design Studios in BHF stores, we have now expanded the concept to select independent dealers. We believe this will provide additional growth outside our BHF store network.

At November 26, 2016, our BHF store network included 59 Company-owned stores and 31 licensee-owned stores. During fiscal 2016, we closed three underperforming stores in Tucson, Arizona; Egg Harbor, New Jersey and Fountain Valley, California. We opened a new store in Sterling, Virginia during the second quarter of 2016 and opened another new store in Hunt Valley, Maryland during the third quarter of 2016.

Due to the improved operating performance of our retail network over the last few years, we are expanding our retail presence in various parts of the country. We currently have signed leases for four new stores that we expect to open during fiscal 2017. In addition, we have signed leases for the repositioning of two of our legacy stores to improved locations which we expect to occur in 2017. We are also in various stages of negotiation on several leases for both new store locations and the relocation of existing stores. Our plans for 2017 include at least two additional new store openings bringing the total to six for the year. Four of these openings would be in existing markets with the other two in new markets. Because we only opened two new stores in 2016, we expect to incur an additional \$2,000 of new store preopening costs and post-opening losses as compared to 2016. There can be no assurance that any of these leases will be completed in 2017 or beyond.

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 \$200 to \$400 per store depending on the overall rent costs for the location and the period between the time when we take physical possession of the store space and the time of the store opening. Generally, rent payments during a buildout period between delivery of possession and opening of a new store are deferred and therefore straight line rent expense recognized during that time does not require cash. Inherent in our retail business model, we also incur losses in the two to three months of operation following a new store opening. Like other furniture retailers, we do not recognize a sale 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 many of our furniture offerings, delivery to our customers usually occurs about 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 recognized. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from \$400 to \$600 per store. While our retail expansion is initially costly, 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 a reasonable period of time following store opening. Factors affecting the length of time required to achieve this goal on a store-by-store basis may include the level of brand recognition, the degree of local competition and the depth of penetration in a particular market. Even as new stores ramp up to break-even, we do realize additional wholesale sales volume that leverages the fixed costs in our wholesale business.

Our website, [www.bassettfurniture.com](http://www.bassettfurniture.com), provides our consumers with the ability to research and purchase our merchandise online. The ultimate goal of our digital strategy is to drive traffic to our stores while deepening interactions with our consumers. We have worked diligently to enhance our online presence by making it easier for consumers to browse our wide array of goods and to design custom furniture. Late in 2015, we launched a new responsive platform allowing smartphone and tablet users to browse and purchase our product assortment on their mobile devices. Our e-commerce platform is simple, easy to use and amplifies the experience of the Bassett brand reflected in our stores, direct mail and television commercials. We constantly update our website to reflect current product availability, pricing and special offers. In 2017, we will continue to make improvements to our website to improve brand interaction and drive more qualified prospects to our stores. We are leveraging our Company-owned and licensed store network to handle delivery and customer service for orders placed online.



**Management’s Discussion and Analysis of Financial Condition and Results of Operations -Continued**  
(Amounts in thousands except share and per share data)

**Analysis of Operations**

Net sales revenue, cost of furniture and accessories sold, selling, general and administrative (SG&A) expense, new store pre-opening costs, other charges, and income from operations were as follows for the years ended November 26, 2016, November 28, 2015 and November 29, 2014:

	<u>2016</u>		<u>2015</u>		<u>2014</u>	
Sales Revenue:						
Furniture and accessories	\$ 377,196	87.3%	\$ 387,405	89.9%	\$ 340,738	100.0%
Logistics	54,842	12.7%	43,522	10.1%	-	0.0%
Total net sales revenue	<u>432,038</u>	<u>100.0%</u>	<u>430,927</u>	<u>100.0%</u>	<u>340,738</u>	<u>100.0%</u>
Cost of furniture and accessories sold	167,519	38.8%	179,291	41.6%	158,317	46.5%
SG&A	235,178	54.4%	224,050	52.0%	166,073	48.7%
New store pre-opening costs	1,148	0.3%	623	0.2%	1,217	0.4%
Other charges	-	0.0%	974	0.2%	-	0.0%
Income from operations	<u>\$ 28,193</u>	<u>6.5%</u>	<u>\$ 25,989</u>	<u>6.0%</u>	<u>\$ 15,131</u>	<u>4.4%</u>

Our consolidated net sales by segment were as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Wholesale	\$ 240,346	\$ 252,180	\$ 223,993
Retail	254,667	249,379	216,631
Logistical services	95,707	77,250	-
Inter-company eliminations:			
Furniture and accessories	(117,817)	(114,154)	(99,886)
Logistical services	<u>(40,865)</u>	<u>(33,728)</u>	<u>-</u>
Consolidated net sales	<u>\$ 432,038</u>	<u>\$ 430,927</u>	<u>\$ 340,738</u>

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for fiscal 2016 and 2015 as compared with the prior year periods.

Certain other items affecting comparability between periods are discussed below in “Other Items Affecting Net Income”.

## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

### Segment Information

We have strategically aligned our business into three reportable segments 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 (licensee-owned stores and Company-owned 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. We eliminate the sales between our wholesale and retail segments as well as the imbedded profit in the retail inventory for the consolidated presentation in our financial statements. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our consolidated statements of income.

**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.

**Logistical services.** With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, the revenue from which is eliminated upon consolidation, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our consolidated statement of income. Zenith's operating costs are included in selling, general and administrative expenses. Amounts charged by Zenith to the Company for transportation and logistical services prior to February 2, 2015 are included in selling, general and administrative expenses, and our equity in the earnings of Zenith prior to the date of acquisition is included in other loss, net, in the consolidated statements of income.



## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

The following tables illustrate the effects of various intercompany eliminations on income (loss) from operations in the consolidation of our segment results:

	Year Ended November 26, 2016				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 240,346	\$ 254,667	\$ -	\$ (117,817)(1)	\$ 377,196
Logistics	-	-	95,707	(40,865)(2)	54,842
Total sales revenue	240,346	254,667	95,707	(158,682)	432,038
Cost of furniture and accessories sold	156,894	128,208	-	(117,583)(3)	167,519
SG&A expense	64,780	120,978	92,196	(42,776)(4)	235,178
New store pre-opening costs	-	1,148	-	-	1,148
Income from operations	\$ 18,672	\$ 4,333	\$ 3,511	\$ 1,677	\$ 28,193

	Year Ended November 28, 2015				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 252,180	\$ 249,379	\$ -	\$ (114,154)(1)	\$ 387,405
Logistics	-	-	77,250	(33,728)(2)	43,522
Total sales revenue	252,180	249,379	77,250	(147,882)	430,927
Cost of furniture and accessories sold	168,792	124,376	-	(113,877)(3)	179,291
SG&A expense	67,770	118,210	73,722	(35,652)(4)	224,050
New store pre-opening costs	-	623	-	-	623
Income from operations (5)	\$ 15,618	\$ 6,170	\$ 3,528	\$ 1,647	\$ 26,963

	Year Ended November 29, 2014				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 223,993	\$ 216,631	\$ -	\$ (99,886)(1)	\$ 340,738
Logistics	-	-	-	- (2)	-
Total sales revenue	223,993	216,631	-	(99,886)	340,738
Cost of furniture and accessories sold	149,646	108,174	-	(99,503)(3)	158,317
SG&A expense	60,227	107,768	-	(1,922)(4)	166,073
New store pre-opening costs	-	1,217	-	-	1,217
Income (loss) from operations	\$ 14,120	\$ (528)	\$ -	\$ 1,539	\$ 15,131

- (1) Represents the elimination of sales from our wholesale segment to our Company-owned BHF stores.
- (2) Represents the elimination of logistical services billed to our wholesale and retail segments.
- (3) Represents the elimination of purchases by our Company-owned BHF stores from our wholesale segment, as well as the change for the period in the elimination of intercompany profit in ending retail inventory.
- (4) Represents the elimination of rent paid by our retail stores occupying Company-owned real estate, and for fiscal years 2016 and 2015, logistical services expense incurred from Zenith by our retail and wholesale segments.

	Year Ended		
	November 26, 2016	November 28, 2015	November 29, 2014
Intercompany logistical services	\$ (40,865)	\$ (33,728)	\$ -
Intercompany rents	(1,911)	(1,924)	(1,922)
Total SG&A expense elimination	\$ (42,776)	\$ (35,652)	\$ (1,922)

- (5) Excludes the effects of asset impairment charges, lease exit costs and management restructuring costs which are not allocated to our segments.

## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

### Wholesale Segment

Net sales, gross profit, selling, general and administrative (SG&A) expense and operating income (loss) from operations for our Wholesale Segment were as follows for the years ended November 26, 2016, November 28, 2015 and November 29, 2014:

	2016		2015		2014	
Net sales	\$ 240,346	100.0%	\$ 252,180	100.0%	\$ 223,993	100.0%
Gross profit	83,452	34.7%	83,388	33.1%	74,347	33.2%
SG&A	64,780	27.0%	67,770	26.9%	60,227	26.9%
Income from operations	\$ 18,672	7.8%	\$ 15,618	6.2%	\$ 14,120	6.3%

Wholesale shipments by category for the last three fiscal years are summarized below:

	2016		2015		2014	
Wood	\$ 88,763	36.9%	\$ 93,073	36.9%	\$ 86,577	38.7%
Upholstery	149,027	62.0%	156,768	62.2%	135,831	60.6%
Other	2,556	1.1%	2,339	0.9%	1,585	0.7%
Total	\$ 240,346	100.0%	\$ 252,180	100.0%	\$ 223,993	100.0%

### Fiscal 2016 as Compared to Fiscal 2015

Net sales for the wholesale segment were \$240,346 for 2016 as compared to \$252,180 for 2015, a decrease of \$11,834 or 4.7%. This sales decrease was driven by a 13% decrease in open market shipments (outside the BHF network) while shipments to the BHF store network were essentially flat compared to the prior year. The decrease in sales to the open market was primarily due to lower sales of imported product primarily from the discontinuation of our relationship with a significant customer and loss of sales from the HGTV Home Collection brand, exited late in 2015. Gross margins for the wholesale segment increased to 34.7% for 2016 as compared to 33.1% for 2015. This increase is due in part to the \$1,428 million settlement of the Polyurethane Foam Antitrust Litigation in 2016. Excluding the effects of the legal settlement, the gross margin would have been 34.1%. This increase over 2015 was driven largely by higher margins in the imported wood operation from favorable ocean freight and lower impact from discounting, as we were exiting the open market HGTV Home Collection brand in 2015. Wholesale SG&A decreased \$2,990 to \$64,780 for 2016 as compared to \$67,770 for 2015. SG&A as a percentage of sales was 27.0% and 26.9% for fiscal 2016 and 2015, respectively. SG&A for 2016 included decreases in incentive compensation expenses of \$877 and bad debt costs of \$652. The prior year period also included \$209 of costs associated with the acquisition of Zenith. Operating income was \$18,672 or 7.8% of sales for 2016 as compared to \$15,618 or 6.2% of sales in 2015.

### Fiscal 2015 as Compared to Fiscal 2014

Net sales for the wholesale segment were \$252,180 for 2015 as compared to \$223,993 for 2014, an increase of \$28,187 or 13%. This sales increase was driven by a 13% increase in shipments to the BHF store network and a 7.4% increase in open market shipments (outside the BHF store network). Gross margins for the wholesale segment decreased slightly to 33.1% for 2015 as compared to 33.2% for 2014. Wholesale SG&A increased \$7,543 to \$67,770 for 2015 as compared to \$60,227 for 2014. SG&A as a percentage of sales was 26.9% for both fiscal 2015 and 2014. Included in SG&A for 2015 is an additional \$850 in increased legal and environmental costs, an additional \$541 of incentive compensation, and a \$289 increase in bad debt costs largely associated with one remaining long-term note from a prior licensee. Also included in SG&A during 2015 are \$209 of costs associated with the acquisition of Zenith. Operating income was \$15,618 or 6.2% of sales for 2015 as compared to \$14,120 or 6.3% of sales in 2014.



## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

### Wholesale Backlog

The dollar value of our wholesale backlog, representing orders received but not yet delivered to dealers and Company stores as of November 26, 2016, November 28, 2015, and November 29, 2014 was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Year end wholesale backlog	\$ 22,130	\$ 17,131	\$ 13,644

### Retail Segment – Company Owned Stores

Net sales, gross profit, selling, general and administrative (SG&A) expense, new store pre-opening costs and operating income (loss) for our Retail Segment were as follows for the years ended November 26, 2016, November 28, 2015 and November 29, 2014:

	<u>2016 vs 2015</u>				<u>2015 vs 2014</u>			
	<u>2016</u>		<u>2015</u>		<u>2015</u>		<u>2014</u>	
Net sales	\$254,667	100.0%	\$249,379	100.0%	\$249,379	100.0%	\$216,631	100.0%
Gross profit	126,459	49.7%	125,003	50.1%	125,003	50.1%	108,457	50.1%
SG&A expense	120,978	47.5%	118,210	47.4%	118,210	47.4%	107,768	49.7%
New store pre-opening costs	1,148	0.5%	623	0.2%	623	0.2%	1,217	0.6%
Income (loss) from operations	<u>\$ 4,333</u>	<u>1.7%</u>	<u>\$ 6,170</u>	<u>2.5%</u>	<u>\$ 6,170</u>	<u>2.5%</u>	<u>\$ (528)</u>	<u>-0.2%</u>

The following tables present operating results on a comparable store basis for each comparative set of periods. Table A compares the results of the 56 stores that were open and operating for all of 2016 and 2015. Table B compares the results of the 53 stores that were open and operating for all of 2015 and 2014.

### Comparable Store Results:

	<u>Table A: 2016 vs 2015 (56 Stores)</u>				<u>Table B: 2015 vs 2014 (53 Stores)</u>			
	<u>2016</u>		<u>2015</u>		<u>2015</u>		<u>2014</u>	
Net sales	\$243,062	100.0%	\$239,713	100.0%	\$225,444	100.0%	\$199,048	100.0%
Gross profit	121,327	49.9%	120,535	50.3%	112,815	50.0%	99,591	50.0%
SG&A expense	114,097	46.9%	112,484	46.9%	105,347	46.7%	97,325	48.9%
Income (loss) from operations	<u>\$ 7,230</u>	<u>3.0%</u>	<u>\$ 8,051</u>	<u>3.4%</u>	<u>\$ 7,468</u>	<u>3.3%</u>	<u>\$ 2,266</u>	<u>1.1%</u>

## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

The following tables present operating results for all other stores which were not comparable year-over-year. Each table includes the results of stores that either opened or closed at some point during the 24 months of each comparative set of periods.

### All Other (Non-Comparable) Store Results:

	2016 vs 2015 All Other Stores				2015 vs 2014 All Other Stores			
	2016		2015		2015		2014	
Net sales	\$ 11,605	100.0%	\$ 9,666	100.0%	\$ 23,935	100.0%	\$ 17,583	100.0%
Gross profit	5,132	44.2%	4,468	46.2%	12,188	50.9%	8,866	50.4%
SG&A expense	6,881	59.3%	5,726	59.2%	12,863	53.7%	10,443	59.4%
New store pre-opening costs	1,148	9.9%	623	6.4%	623	2.6%	1,217	6.9%
Loss from operations	\$ (2,897)	-25.0%	\$ (1,881)	-19.5%	\$ (1,298)	-5.4%	\$ (2,794)	-15.9%

### Fiscal 2016 as Compared to Fiscal 2015

Net sales for the 59 Company-owned BHF stores were \$254,667 for the fiscal 2016 as compared to \$249,379 for fiscal 2015, an increase of \$5,288 or 2.1%. The increase was due to a \$3,349 or 1.4% increase in comparable store sales coupled with a \$1,939 increase in non-comparable store sales.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 1.4% for fiscal 2016 as compared to 2015.

The consolidated retail operating income for fiscal 2016 was \$4,333 as compared to \$6,170 for the 2015. The 56 comparable stores generated operating income of \$7,230 for fiscal 2016, or 3.0% of sales, as compared to \$8,051, or 3.4% of sales, for 2015. Gross margins for comparable stores were 49.9% for fiscal 2016 compared to 50.3% for 2015. Lower gross margins were due primarily to increased discounting of clearance items in preparation for a significant product rollout for the Memorial Day holiday promotion. Also, Company-owned stores experienced increased clearance activity in reducing imported wood furniture placements to make room for more upholstery on the retail floors. SG&A expenses for comparable stores increased \$1,613 to \$114,097 or 46.9% of sales, unchanged from the 2015 percentage.

Losses from the non-comparable stores in fiscal 2016 were \$2,897 compared with \$1,881 for fiscal 2015, an increase of \$1,016. The loss for fiscal 2016 included \$1,148 of pre-opening costs primarily associated with the Sterling, Virginia and Hunt Valley, Maryland stores which opened at the end of the second and third quarters of 2016, respectively, along with three other stores expected to open during the first half of 2017. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between \$200 to \$400 per store based on the overall rent costs for the location and the period between the time when the Company takes possession of the physical store space and the time of the store opening. Also included in the non-comparable store loss for 2016 are losses arising from the closure of our stores in Tucson, Arizona; Egg Harbor, New Jersey and Fountain Valley, California and the post-opening losses of the Woodland Hills, California store which opened during the fourth quarter of 2015.

We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until 30 days after the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$400 to \$600 per store. During fiscal 2016, we had post-opening losses of \$482 which were primarily associated with the Sterling, Virginia and Hunt Valley, Maryland stores, compared with post-opening losses of \$112 during fiscal 2015 associated with the Woodland Hills, California store.

Each addition to our Company-owned store network results in incremental fixed overhead costs, primarily associated with local store personnel, occupancy costs and warehousing expenses. The incremental SG&A expenses associated with each new store will be ongoing.

## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

### *Fiscal 2015 as Compared to Fiscal 2014*

Net sales for the 60 Company-owned Bassett Home Furnishings stores were \$249,379 for fiscal 2015 as compared to \$216,631 for fiscal 2014, an increase of \$32,748 or 15%. The increase was primarily due to a \$26,396 or 13% increase in comparable store sales coupled with a \$6,352 increase in non-comparable store sales from 7 new stores opened in the last 24 months.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 11% for 2015 over 2014.

The consolidated retail operating income for 2015 was \$6,170 as compared to a loss of \$528 for 2014, a \$6,698 improvement. The 53 comparable stores generated operating income of \$7,468 for the year, or 3.3% of sales, as compared to \$2,266, or 1.1% of sales, for the prior year. Gross margins were 50.0% for 2015, unchanged from the prior year. SG&A expenses for comparable stores increased \$8,022 to \$105,347 or 46.7% of sales as compared to 48.9% of sales for 2014. This decrease is primarily due to greater leverage of fixed costs due to higher sales volumes.

Losses from the non-comparable stores in 2015 were \$1,298 compared to \$2,794 for 2014. This decrease is due in part to a decline in new store pre-opening costs from \$1,217 recognized in 2014 due to the six new store openings during that year as compared with \$623 in 2015 primarily associated with the Woodland Hills, California store which opened in early October of 2015. These costs included rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between \$200 to \$400 per store based 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. Also included in the non-comparable store loss for 2014 was \$983 in post-opening losses from six stores opened during 2014. We incur losses in the two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales

volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$400 to \$600 per store.

Each addition to our Company-owned store network results in incremental fixed overhead costs, primarily associated with local store personnel, occupancy costs and warehousing expenses. The incremental SG&A expenses associated with each new store will be ongoing.

### *Retail Comparable Store Sales Increases*

The following table provides year-over-year comparable store sales increases for the last three fiscal years:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Delivered	1.4%	13.3%	3.7%
Written	1.4%	11.0%	4.3%

### *Retail Backlog*

The dollar value of our retail backlog, representing orders received but not yet delivered to customers as of November 26, 2016, November 28, 2015, and November 29, 2014, was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Year end retail backlog	\$ 32,788	\$ 31,871	\$ 30,206
Retail backlog per open store	\$ 556	\$ 531	\$ 503



## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

### Logistical Services Segment

Our logistical services segment was created with the acquisition of Zenith on February 2, 2015. Results for that segment since the date of acquisition during fiscal 2015 are as follows:

	<u>2016</u>		<u>2015 (1)</u>	
Logistics revenue	\$ 95,707	100.0%	\$ 77,250	100.0%
Operating expenses	92,196	96.3%	73,722	95.4%
Income from operations	<u>\$ 3,511</u>	<u>3.7%</u>	<u>\$ 3,528</u>	<u>4.6%</u>

- (1) Results of operations for logistical services for fiscal 2015 include approximately 10 months of operations from the date of acquisition, February 2, 2015.

Operating expenses include depreciation and amortization of \$4,204 for the year ended November 26, 2016 and \$2,634 from the date of acquisition through November 28, 2015. Operating expenses as a percentage of sales increased primarily due to increases in fixed costs in anticipation of planned higher revenue.

### Other Items Affecting Net Income

Other items affecting net income for fiscal 2016, 2015 and 2014 are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Remeasurement gain on acquisition of affiliate (1)	\$ -	\$ 7,212	\$ -
Income from unconsolidated affiliated company (2)	-	220	661
Income from Continued Dumping & Subsidy Offset Act (3)	240	1,156	-
Interest expense (4)	(552)	(607)	(188)
Loan and lease guarantee recovery (5)	59	73	66
Investment income (6)	296	228	352
Other (7)	<u>(2,459)</u>	<u>(2,403)</u>	<u>(1,415)</u>
Total other income (loss), net	<u>\$ (2,416)</u>	<u>\$ 5,879</u>	<u>\$ (524)</u>

- (1) See Note 3 to the Consolidated Financial Statements for information related to our acquisition of Zenith and the recognition of a remeasurement gain on our pre-acquisition equity method investment in Zenith.
- (2) See Note 9 to the Consolidated Financial Statements for information related to our equity in the income of Zenith as an unconsolidated affiliate prior to our acquisition of Zenith.
- (3) See Note 16 to the Consolidated Financial Statements for information related to our income from the Continued Dumping and Subsidy Offset Act ("CDSOA").
- (4) Our interest expense prior to fiscal 2015 consisted primarily of interest on our retail real estate mortgage obligations and has been declining steadily as those obligations are being repaid. During fiscal 2015 our interest expense increased significantly due to debt arising from our acquisition of Zenith. See Note 3 to the Consolidated Financial Statements regarding debt incurred and assumed at the date of the acquisition. In the fourth quarter of fiscal 2016, we repaid all of the outstanding debt which had been secured by certain of Zenith's real estate and transportation equipment. See Note 10 to the Consolidated Financial Statements for additional information regarding our outstanding debt at November 26, 2016.
- (5) Loan and lease guarantee recovery consists of adjustments to reduce our reserves for the net amount of our estimated losses on loan and lease guarantees that we have entered into on behalf of our licensees. The recovery recognized for fiscal 2016, 2015 and 2014 reflects the changes in our estimates of the risk that we may have to assume the underlying obligations with respect to our guarantees.
- (6) Investment income for fiscal 2016, 2015 and 2014 includes interest income arising from our short-term investments. See Note 4 to the Consolidated Financial Statements for additional information regarding our investments in certificates of deposit. Investment income for Fiscal 2016, 2015 and 2014 also includes gains of \$176, \$136 and \$280, respectively, arising from the partial liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired during fiscal 2012.

## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

- (7) Fiscal 2014 includes \$827 in death benefits received from life insurance policies covering former executives. No such benefits were received in fiscal 2016 or 2015.

### *Provision for Income taxes*

We recorded an income tax provision of \$9,948, \$11,629 and \$5,308 in fiscal 2016, 2015 and 2014, respectively. For fiscal 2016, our effective tax rate of 38.6% differs from the statutory rate of 35.0% primarily due to the effects of state income taxes and various permanent differences including the favorable impact of the Section 199 manufacturing deduction. For fiscal 2015, our effective tax rate of approximately 35.9% differs from the statutory rate of 35.0% primarily due to the effects of state income taxes, partially offset by a lower effective tax rate on the gain associated with our acquisition of Zenith arising from the remeasurement of our previous 49% equity method investment in Zenith. For fiscal 2014, our effective tax rate of approximately 36.3% differs from the statutory rate of 35.0% primarily due to the effects of state income taxes, adjustments to state net operating loss carryforwards, a reduction in the valuation allowance on deferred tax assets and permanent differences arising from non-taxable income. See Note 14 to the Consolidated Financial Statements for additional information regarding our income tax provision (benefit), as well as our net deferred tax assets and other matters.

We have net deferred tax assets of \$8,071 as of November 26, 2016, which, upon utilization, are expected to reduce our cash outlays for income taxes in future years. It will require approximately \$23,000 of future taxable income to utilize our net deferred tax assets.

### *Liquidity and Capital Resources*

We are committed to maintaining a strong balance sheet in order to weather difficult industry conditions, to allow us to take advantage of opportunities as market conditions improve, and to execute our long-term retail strategies.

### *Cash Flows*

Cash provided by operations for fiscal 2016 was \$39,062 compared to \$34,396 for fiscal 2015, an increase of \$4,666. The improvement is primarily the result of higher operating income coupled with improved working capital management. Cash provided by operations for fiscal 2016 includes cash flows arising from excess tax benefits related to stock based compensation in the amount of \$87 compared to \$1,998 associated with such excess tax benefits during the comparable prior year period. This amount was previously reported as a cash flow from financing activities and has been reclassified due to our adoption of Accounting Standards Update No. 2016-09 (see Note 2 to our consolidated financial statements).

Our overall cash position decreased by \$1,124 during 2016. Offsetting the cash provided by operations, we used \$20,834 of cash in investing activities, primarily consisting of capital expenditures which included the purchase of freight transportation equipment, retail store relocations, retail store remodels, and in-process spending on new stores and expanding and upgrading our manufacturing capabilities. Net cash used in financing activities was \$19,352, including dividend payments of \$6,311 and stock repurchases of \$6,393 under our existing share repurchase plan, of which \$11,536 remains authorized at November 26, 2016. In addition, we had net repayments of long-term debt totaling \$6,867, which included the full repayment of all debt previously secured by certain of Zenith's transportation equipment and real estate. With cash and cash equivalents and short-term investments totaling \$58,269 on hand at November 26, 2016, we believe we have sufficient liquidity to fund operations for the foreseeable future.

### *Debt and Other Obligations*

Effective December 5, 2015, we entered into a new credit facility with our bank which provides for a line of credit of up to \$15,000. This credit facility, which matures in December of 2018, is unsecured and 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 November 26, 2016, we had \$1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$13,028. In addition, we have outstanding standby letters of credit with another bank totaling \$456.

At November 26, 2016 we have outstanding principal totaling \$7,219, excluding discounts, under notes payable of which \$3,385 matures within one year of the balance sheet date. See Note 10 to our consolidated financial statements for additional details regarding these notes, including collateral and future maturities. We expect to satisfy these obligations as they mature using cash flow from operations or our available cash on hand.

## **Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued**

(Amounts 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, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. We had obligations of \$149,259 at November 26, 2016 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terms under these lease guarantees range from approximately one to three years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,868 at November 26, 2016. See Note 17 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.

### ***Dividends and Share Repurchases***

During fiscal 2016, we declared four quarterly dividends totaling \$4,127, or \$0.38 per share, and one special dividend of \$3,218, or \$0.30 per share. Cash dividend payments to our shareholders during fiscal 2016 totaled \$6,311. During fiscal 2016, we also repurchased 254,450 shares of our stock for \$6,393 under our share repurchase program. The weighted-average effect of these share repurchases was to increase both our basic and diluted earnings per share in 2016 by approximately \$0.01.

### ***Capital Expenditures***

We currently anticipate that total capital expenditures for fiscal 2017 will be approximately \$20 million which will be used primarily for the build out of new and relocated stores in our retail segment, build out of our permanent upholstery manufacturing space in Grand Prairie, Texas, various equipment upgrades in our wholesale manufacturing plants and the purchase of transportation equipment for our logistical services segment. Our capital expenditure and working capital requirements in the foreseeable future may change depending on many factors, including but not limited to the overall performance of the new stores, our rate of growth, our operating results and any adjustments in our operating plan needed in response to industry conditions, competition or unexpected events. We believe that our existing cash, together with cash from operations, will be sufficient to meet our capital expenditure and working capital requirements for the foreseeable future.

### **Fair Value Measurements**

We account 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 and notes payable for disclosure purposes (see Note 10 to the Consolidated Financial Statements) involves Level 3 inputs. Our primary non-recurring fair value estimates, typically involving the valuation of business acquisitions (see Note 3 to the Consolidated Financial Statements) and asset impairments (see Note 15 to the Consolidated Financial Statements) have utilized Level 3 inputs.



**Management’s Discussion and Analysis of Financial Condition and Results of Operations -Continued**  
(Amounts in thousands except share and per share data)

**Contractual Obligations and Commitments**

We enter into contractual obligations and commercial commitments in the ordinary course of business (See Note 17 to the Consolidated Financial Statements for a further discussion of these obligations). The following table summarizes our contractual payment obligations and other commercial commitments and the fiscal year in which they are expected to be paid.

	2017	2018	2019	2020	2021	Thereafter	Total
Post employment benefit obligations (1)	\$ 1,072	\$ 1,034	\$ 974	\$ 928	\$ 920	\$ 10,948	\$ 15,876
Notes payable	3,385	3,412	422	-	-	-	7,219
Other obligations & commitments	890	790	790	150	150	350	3,120
Contractual advertising	3,190	3,375	3,560	-	-	-	10,125
Interest payable	138	120	15	-	-	-	273
Letters of credit	2,428	-	-	-	-	-	2,428
Operating leases (2)	28,132	23,584	20,520	18,459	15,560	43,004	149,259
Lease guarantees (3)	860	728	280	-	-	-	1,868
Purchase obligations (4)	-	-	-	-	-	-	-
Total	\$ 40,095	\$ 33,043	\$ 26,561	\$ 19,537	\$ 16,630	\$ 54,302	\$ 190,168

- (1) Does not reflect a reduction for the impact of any company owned life insurance proceeds to be received. Currently, we have life insurance policies with net death benefits of \$3,022 to provide funding for these obligations. See Note 11 to the Consolidated Financial Statements for more information.
- (2) Does not reflect a reduction for the impact of sublease income to be received. See Note 17 to the Consolidated Financial Statements for more information.
- (3) Lease guarantees relate to payments we would only be required to make in the event of default on the part of the guaranteed parties.
- (4) The Company is not a party to any long-term supply contracts with respect to the purchase of raw materials or finished goods. At the end of fiscal year 2016, we had approximately \$14,413 in open purchase orders, primarily for imported inventories, which are in the ordinary course of business.

**Off-Balance Sheet Arrangements**

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of BHF stores and Zenith distribution facilities. We have guaranteed certain lease obligations of licensee operators as part of our retail strategy. See Contractual Obligations and Commitments table above and Note 17 to the Consolidated Financial Statements, included in Item 8 of this Annual Report on Form 10-K, for further discussion of operating leases and lease guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

**Contingencies**

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

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) which requires that certain estimates and assumptions be made that affect the amounts and disclosures reported in those financial statements and the related accompanying notes. Actual results could differ from these estimates and assumptions. We use our best judgment in valuing these estimates and may, as warranted, solicit external advice. Estimates are based on current facts and circumstances, prior experience and other assumptions believed to be

## Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued

(Amounts in thousands except share and per share data)

reasonable. The following critical accounting policies, some of which are impacted significantly by judgments, assumptions and estimates, affect our consolidated financial statements.

**Consolidation** – The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and its majority-owned subsidiaries for whom we have operating control. In accordance with ASC Topic 810, *Consolidation*, 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.

**Revenue Recognition** - Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This generally occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. Our wholesale payment terms generally vary from 30 to 60 days. For retail sales, we typically receive a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. An estimate for returns and allowances has been provided in recorded sales. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us. For our logistical services segment, line-haul freight revenue and home delivery revenue are recognized upon delivery to the destination. Warehousing services revenue is based upon warehouse space occupied by a customer's goods and inventory movements in and out of a warehouse and is recognized as such services are provided.

Staff Accounting Bulletin No. 104, *Revenue Recognition* (“SAB 104”) outlines the four basic criteria for recognizing revenue as follows: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured. SAB 104 further asserts that if collectibility of all or a portion of the revenue is not reasonably assured, revenue recognition should be deferred until payment is received. During fiscal 2016, 2015 and 2014, there were no dealers for which these criteria were not met.

**Allowance for Doubtful Accounts** - We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our accounts receivable reserves were \$799 and \$1,175 at November 26, 2016 and November 28, 2015, respectively, representing 4.2% and 5.3% of our gross accounts receivable balances at those dates, respectively. The allowance for doubtful accounts is based on a review of specifically identified customer accounts in addition to an overall aging analysis. We evaluate the collectibility of our receivables from our licensees and other customers on a quarterly basis based on factors such as their financial condition, our collateral position, potential future plans with licensees and other similar factors. Our allowance for doubtful accounts represents our best estimate of potential losses on our accounts and notes receivable and is adjusted accordingly based on historical experience, current developments and present economic conditions and trends. Although actual losses have not differed materially from our previous estimates, future losses could differ from our current estimates. Unforeseen events such as a licensee or customer bankruptcy filing could have a material impact on our results of operations.

**Inventories** - Inventories are stated at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out method. The cost of imported inventories is determined on a first-in, first-out basis. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. Our reserves for excess and obsolete inventory were \$1,350 and \$1,397 at November 26, 2016 and November 28, 2015, respectively, representing 2.5% and 2.3%, respectively, of our inventories on a last-in, first-out basis. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

**Goodwill** – Goodwill represents the excess of the purchase price over the value assigned to tangible assets and liabilities and identifiable intangible assets of businesses acquired. The acquisition of assets and liabilities and any resulting goodwill is allocated to the respective reporting unit; Wood, Upholstery, Retail or Logistical Services. We review goodwill at the reporting unit level annually for impairment or more frequently if events or circumstances indicate that assets might be impaired.

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other*, the goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment

## **Management's Discussion and Analysis of Financial Condition and Results of Operations -Continued**

(Amounts in thousands except share and per share data)

test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the two-step process. Based on our qualitative assessment as described above, we have concluded that our goodwill in the amount of \$11,588 is not impaired as of November 26, 2016.

The first step compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step is performed whereby we must calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. This second step represents a hypothetical purchase price allocation as if we had acquired the reporting unit on that date. Our impairment methodology uses a discounted cash flow analysis requiring certain assumptions and estimates to be made regarding future profitability of the reporting unit and industry economic factors. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts.

***Other Intangible Assets*** – Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or between annual tests when an impairment indicator exists. The recoverability of indefinite-lived intangible assets is assessed by comparison of the carrying value of the asset to its estimated fair value. If we determine that the carrying value of the asset exceeds its estimated fair value, an impairment loss equal to the excess would be recorded. At November 26, 2016, our indefinite-lived intangible assets other than goodwill consist of trade names acquired in the acquisition of Zenith and have a carrying value of \$2,490.

Definite-lived intangible assets are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We estimate the useful lives of our intangible assets and ratably amortize the value over the estimated useful lives of those assets. If the estimates of the useful lives should change, we will amortize the remaining book value over the remaining useful lives or, if an asset is deemed to be impaired, a write-down of the value of the asset may be required at such time. At November 26, 2016 our definite-lived intangible assets consist of customer relationships and customized technology applications acquired in the acquisition of Zenith with a total carrying value of \$3,282.

***Impairment of Long-Lived Assets*** - We periodically evaluate whether events or circumstances have occurred that indicate long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. When analyzing our real estate properties for potential impairment, we consider such qualitative factors as our experience in leasing and selling real estate properties as well as specific site and local market characteristics. Upon the closure of a Bassett Home Furnishings store, we generally write off all tenant improvements which are only suitable for use in such a store.

### ***Recent Accounting Pronouncements***

See note 2 to our Consolidated Financial Statements regarding the impact or potential impact of recent accounting pronouncements upon our financial position and results of operations.



## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in the value of foreign currencies. Substantially all of our imports purchased outside of North America are denominated in U.S. dollars. Therefore, we believe that gains or losses resulting from changes in the value of foreign currencies relating to foreign purchases not denominated in U.S. dollars would not be material to our results from operations in fiscal 2016.

We are exposed to market risk from changes in the cost of raw materials used in our manufacturing processes, principally wood, woven fabric, and foam products. An increase in the rate of in home construction could result in increases in wood and fabric costs from current levels, and the cost of foam products, which are petroleum-based, is sensitive to changes in the price of oil.

We are also exposed to commodity price risk related to diesel fuel prices for fuel used in our logistical services segment. We manage our exposure to that risk primarily through the application of fuel surcharges to our customers.

We have potential exposure to market risk related to conditions in the commercial real estate market. Our retail real estate holdings of \$2,969 and \$3,120 at November 26, 2016 and November 28, 2015, respectively, for stores formerly operated by licensees as well as our holdings of \$26,454 and \$27,175 at November 26, 2016 and November 28, 2015, respectively, for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties during periods of weakness in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of \$1,868 and \$2,537 which we have guaranteed on behalf of licensees as of November 26, 2016 and November 28, 2015, respectively, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

	<u>Number of Locations</u>	<u>Aggregate Square Footage</u>	<u>Net Book Value (in thousands)</u>
Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1)	11	276,887	\$ 26,454
Investment real estate leased to others	<u>2</u>	<u>41,021</u>	<u>2,969</u>
Total Company investment in retail real estate	<u>13</u>	<u>317,908</u>	<u>\$ 29,423</u>

(1) Includes two properties encumbered under mortgages totaling \$1,219 at November 26, 2016.

*As used herein, unless the context otherwise requires, “Bassett,” the “Company,” “we,” “us” and “our” refer to Bassett Furniture Industries, Incorporated and its subsidiaries. References to 2016, 2015, 2014, 2013 and 2012 mean the fiscal years ended November 26, 2016, November 28, 2015, November 29, 2014, November 30, 2013 and November 24, 2012. Please note that fiscal 2013 contained 53 weeks.*

## **SAFE-HARBOR, FORWARD-LOOKING STATEMENTS**

This discussion contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and subsidiaries. Such forward-looking statements are identified by use of forward-looking words such as “anticipates”, “believes”, “plans”, “estimates”, “expects”, “aimed” and “intends” or words or phrases of similar expression. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Important factors, which should be read in conjunction with Item 1A “Risk Factors”, that could cause actual results to differ materially from those contemplated by such forward-looking statements include:

- competitive conditions in the home furnishings industry
- general economic conditions, including the strength of the housing market in the United States
- overall retail traffic levels and consumer demand for home furnishings
- ability of our customers and consumers to obtain credit
- Bassett store openings and store closings and the profitability of the stores (independent licensees and Company-owned retail stores)
- ability to implement our Company-owned retail strategies and realize the benefits from such strategies as they are implemented
- fluctuations in the cost and availability of raw materials, labor and sourced products
- results of marketing and advertising campaigns
- effectiveness and security of our information technology systems
- future tax legislation, or regulatory or judicial positions
- ability to efficiently manage the import supply chain to minimize business interruption
- concentration of domestic manufacturing, particularly of upholstery products, and the resulting exposure to business interruption from accidents, weather and other events and circumstances beyond our control
- general risks associated with providing freight transportation and other logistical services due to our acquisition of Zenith Freight Lines, LLC

**Consolidated Balance Sheets**  
**Bassett Furniture Industries, Incorporated and Subsidiaries**  
**November 26, 2016 and November 28, 2015**  
(In thousands, except share and per share data)

	<b>2016</b>	<b>2015</b>
<b><u>Assets</u></b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 35,144	\$ 36,268
Short-term investments	23,125	23,125
Accounts receivable, net of allowance for doubtful accounts of \$799 and \$1,175 as of November 26, 2016 and November 28, 2015, respectively	18,358	21,197
Inventories	53,215	59,896
Other current assets	10,727	6,798
Total current assets	140,569	147,284
Property and equipment, net	104,655	96,104
<b>Other long-term assets</b>		
Deferred income taxes, net	8,071	13,471
Goodwill and other intangible assets	17,360	17,682
Other	7,612	8,002
Total other long-term assets	33,043	39,155
<b>Total assets</b>	<b>\$ 278,267</b>	<b>\$ 282,543</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>Current liabilities</b>		
Accounts payable	\$ 21,281	\$ 20,916
Accrued compensation and benefits	13,602	14,345
Customer deposits	25,181	23,999
Dividends payable	3,218	2,184
Current portion of long-term debt	3,290	5,273
Other accrued liabilities	10,441	13,133
Total current liabilities	77,013	79,850
<b>Long-term liabilities</b>		
Post employment benefit obligations	12,760	12,694
Notes payable	3,821	8,500
Other long-term liabilities	3,968	4,133
Total long-term liabilities	20,549	25,327
<b>Commitments and Contingencies</b>		
<b>Stockholders' equity</b>		
Common stock, \$5 par value; 50,000,000 shares authorized; issued and outstanding 10,722,947 at November 26, 2016 and 10,916,021 at November 28, 2015	53,615	54,580
Retained earnings	129,388	120,904
Additional paid-in-capital	255	4,560
Accumulated other comprehensive loss	(2,553)	(2,678)
Total stockholders' equity	180,705	177,366
<b>Total liabilities and stockholders' equity</b>	<b>\$ 278,267</b>	<b>\$ 282,543</b>

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

**Consolidated Statements of Income**  
**Bassett Furniture Industries, Incorporated and Subsidiaries**  
**For the years ended November 26, 2016, November 28, 2015, and November 29, 2014**  
**(In thousands, except per share data)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Sales revenue:			
Furniture and accessories	\$ 377,196	\$ 387,405	\$ 340,738
Logistics	54,842	43,522	-
Total sales revenue	<u>432,038</u>	<u>430,927</u>	<u>340,738</u>
Cost of furniture and accessories sold	167,519	179,291	158,317
Selling, general and administrative expenses excluding new store pre-opening costs	235,178	224,050	166,073
New store pre-opening costs	1,148	623	1,217
Lease exit costs	-	419	-
Asset impairment charges	-	106	-
Management restructuring costs	<u>-</u>	<u>449</u>	<u>-</u>
Income from operations	28,193	25,989	15,131
Remeasurement gain on acquisition of affiliate	-	7,212	-
Income from Continued Dumping & Subsidy Offset Act	240	1,156	-
Income from unconsolidated affiliated company	-	220	661
Interest expense	(552)	(607)	(188)
Other loss, net	<u>(2,104)</u>	<u>(2,102)</u>	<u>(997)</u>
Income before income taxes	25,777	31,868	14,607
Income tax expense	<u>9,948</u>	<u>11,435</u>	<u>5,308</u>
Net income	<u>\$ 15,829</u>	<u>\$ 20,433</u>	<u>\$ 9,299</u>
Net income per share			
Basic income per share	<u>\$ 1.47</u>	<u>\$ 1.91</u>	<u>\$ 0.88</u>
Diluted income per share	<u>\$ 1.46</u>	<u>\$ 1.88</u>	<u>\$ 0.87</u>
Dividends per share			
Regular dividends	<u>\$ 0.38</u>	<u>\$ 0.34</u>	<u>\$ 0.28</u>
Special dividend	<u>\$ 0.30</u>	<u>\$ 0.20</u>	<u>\$ 0.20</u>

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



**Consolidated Statements of Comprehensive Income**  
**Bassett Furniture Industries, Incorporated and Subsidiaries**  
**For the years ended November 26, 2016, November 28, 2015, and November 29, 2014**  
**(In thousands)**

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net income	\$ 15,829	\$ 20,433	\$ 9,299
Other comprehensive income (loss):			
Actuarial adjustment to supplemental executive retirement defined benefit plan (SERP)	201	(1,135)	(918)
Income taxes related to SERP	(76)	431	358
Other comprehensive income (loss), net of tax	125	(704)	(560)
Total comprehensive income	<u>\$ 15,954</u>	<u>\$ 19,729</u>	<u>\$ 8,739</u>

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

**Consolidated Statements of Cash Flows**  
**Bassett Furniture Industries, Incorporated and Subsidiaries**  
For the years ended November 26, 2016, November 28, 2015, and November 29, 2014  
(In thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating activities:</b>			
Net income	\$ 15,829	\$ 20,433	\$ 9,299
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	12,249	10,137	7,316
Equity in undistributed income of investments and unconsolidated affiliated companies	-	(220)	(661)
Non-cash asset impairment charges	-	106	-
Non-cash portion of lease exit costs	-	419	-
Remeasurement gain on acquisition of affiliate	-	(7,212)	-
Tenant improvement allowances received from lessors	914	1,283	3,060
Collateral deposited with insurance carrier	(300)	-	(1,150)
Deferred income taxes	5,324	1,930	544
Excess tax benefits from stock-based compensation	87	1,998	300
Other, net	1,055	2,082	264
Changes in operating assets and liabilities			
Accounts receivable	3,228	(2,354)	775
Inventories	6,681	(2,624)	(4,203)
Other current and long-term assets	(3,629)	1,494	1,548
Customer deposits	1,182	1,796	5,912
Accounts payable and accrued liabilities	(3,558)	5,128	7,257
<b>Net cash provided by operating activities</b>	<u>39,062</u>	<u>34,396</u>	<u>30,261</u>
<b>Investing activities:</b>			
Purchases of property and equipment	(21,501)	(13,974)	(17,980)
Proceeds from sales of property and equipment	667	2,981	5,157
Cash paid for business acquisition, net of cash acquired	-	(7,323)	-
Capital contribution to affiliate	-	(1,345)	-
Proceeds from sale of affiliate	-	-	2,348
Proceeds from maturities and sales of investments	-	-	5,000
Cash received on notes receivable and other	-	-	320
<b>Net cash used in investing activities</b>	<u>(20,834)</u>	<u>(19,661)</u>	<u>(5,155)</u>
<b>Financing activities:</b>			
Cash dividends	(6,311)	(5,786)	(5,155)
Proceeds from exercise of stock options	114	4,031	297
Issuance of common stock	182	325	311
Repurchases of common stock	(6,393)	(2,071)	(5,602)
Taxes paid related to net share settlement of equity awards	(77)	(178)	(489)
Proceeds from equipment loan	7,384	1,307	-
Payments on notes and equipment loans	(14,251)	(2,768)	(528)
<b>Net cash used in financing activities</b>	<u>(19,352)</u>	<u>(5,140)</u>	<u>(11,166)</u>
<b>Change in cash and cash equivalents</b>	<u>(1,124)</u>	<u>9,595</u>	<u>13,940</u>
<b>Cash and cash equivalents - beginning of year</b>	<u>36,268</u>	<u>26,673</u>	<u>12,733</u>
<b>Cash and cash equivalents - end of year</b>	<u>\$ 35,144</u>	<u>\$ 36,268</u>	<u>\$ 26,673</u>

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

**Consolidated Statements of Stockholders' Equity**  
**Bassett Furniture Industries, Incorporated and Subsidiaries**  
**For the years ended November 26, 2016, November 28, 2015, and November 29, 2014**  
**(In thousands, except share and per share data)**

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
<b>Balance, November 30, 2013</b>	10,859,318	\$ 54,297	\$ -	\$ 104,526	\$ (1,414)	\$ 157,409
Comprehensive income						
Net income	-	-	-	9,299	-	9,299
Actuarial adjustment to SERP, net of tax	-	-	-	-	(560)	(560)
Regular dividends (\$0.28 per share)	-	-	-	(2,983)	-	(2,983)
Special dividend (\$0.20 per share)	-	-	-	(2,102)	-	(2,102)
Issuance of common stock	69,619	348	260	-	-	608
Purchase and retirement of common stock	(435,544)	(2,178)	(1,511)	(2,401)	-	(6,090)
Stock-based compensation	-	-	951	-	-	951
Excess tax benefits from Stock-based compensation	-	-	300	-	-	300
<b>Balance, November 29, 2014</b>	<u>10,493,393</u>	<u>52,467</u>	<u>-</u>	<u>106,339</u>	<u>(1,974)</u>	<u>156,832</u>
Comprehensive income						
Net income	-	-	-	20,433	-	20,433
Actuarial adjustment to SERP, net of tax	-	-	-	-	(704)	(704)
Regular dividends (\$0.34 per share)	-	-	-	(3,684)	-	(3,684)
Special dividend (\$0.20 per share)	-	-	-	(2,184)	-	(2,184)
Issuance of common stock	503,814	2,519	3,511	-	-	6,030
Purchase and retirement of common stock	(81,186)	(406)	(1,843)	-	-	(2,249)
Stock-based compensation	-	-	894	-	-	894
Excess tax benefits from Stock-based compensation	-	-	1,998	-	-	1,998
<b>Balance, November 28, 2015</b>	<u>10,916,021</u>	<u>54,580</u>	<u>4,560</u>	<u>120,904</u>	<u>(2,678)</u>	<u>177,366</u>
Comprehensive income						
Net income	-	-	-	15,829	-	15,829
Actuarial adjustment to SERP, net of tax	-	-	-	-	125	125
Regular dividends (\$0.38 per share)	-	-	-	(4,127)	-	(4,127)
Special dividend (\$0.30 per share)	-	-	-	(3,218)	-	(3,218)
Issuance of common stock	64,316	322	(25)	-	-	297
Purchase and retirement of common stock	(257,390)	(1,287)	(5,183)	-	-	(6,470)
Stock-based compensation	-	-	903	-	-	903
<b>Balance, November 26, 2016</b>	<u>10,722,947</u>	<u>\$ 53,615</u>	<u>\$ 255</u>	<u>\$ 129,388</u>	<u>\$ (2,553)</u>	<u>\$ 180,705</u>

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

## **Notes to Consolidated Financial Statements**

(In thousands, except share and per share data)

### **1. Description of Business**

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, “Bassett”, “we”, “our”, the “Company”) based in Bassett, Virginia, is a leading manufacturer, marketer and retailer of branded home furnishings. Bassett’s full range of furniture products and accessories, designed to provide quality, style and value, are sold through an exclusive nation-wide network of 90 retail stores known as Bassett Home Furnishings (referred to as “BHF”). Of the 90 stores, the Company owns and operates 59 stores (“Company-owned retail stores”) with the other 31 being independently owned (“licensee operated”). We also distribute our products through other multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants.

We sourced approximately 31% of our wholesale products from various countries, with the remaining volume produced at our four domestic manufacturing facilities.

#### ***Zenith Acquisition***

Prior to February 2, 2015 we held a 49% interest in Zenith Freight Lines, LLC (“Zenith”) for which we used the equity method of accounting. On February 2, 2015 we acquired the remaining 51% ownership interest (see Note 3, Business Combinations). Zenith provides over-the-road transportation of furniture, operates regional freight terminals, warehouse and distribution facilities in twelve states, and manages various home delivery facilities that service BHF stores and other clients in local markets around the United States. With the acquisition of Zenith, we established our logistical services operating segment.

### **2. Significant Accounting Policies**

#### **Basis of Presentation and Principles of Consolidation**

Our fiscal year ends on the last Saturday in November, which periodically results in a 53-week year. Fiscal 2016, 2015 and 2014 each contained 52 weeks. The Consolidated Financial Statements include the accounts of Bassett Furniture Industries, Incorporated and our majority-owned subsidiaries in which we have a controlling interest. All significant intercompany balances and transactions are eliminated in consolidation. Accordingly, the results of Zenith have been consolidated with our results since the date of the acquisition. Sales of logistical services from Zenith to our wholesale and retail segments have been eliminated, and Zenith’s operating costs and expenses since the date of acquisition are included in selling, general and administrative expenses in our condensed consolidated statements of net income. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). Unless otherwise indicated, references in the Consolidated Financial Statements to fiscal 2016, 2015 and 2014 are to Bassett’s fiscal year ended November 26, 2016, November 28, 2015 and November 29, 2014, respectively. References to the “ASC” included hereinafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board as the source of authoritative GAAP.

For comparative purposes, certain amounts in the 2015 and 2014 financial statements have been reclassified to conform to the 2016 presentation. See “Recent Accounting Pronouncements” below regarding the impact of our adoption of Accounting Standards Update 2016-09 upon the classification of excess tax benefits from stock-based compensation in our consolidated statements of cash flows.

The equity method of accounting was used for our investment in Zenith prior to the date of acquisition because we exercised significant influence but did not maintain a controlling interest. Consolidated net income includes our proportionate share of the net income or net loss of Zenith prior to the date of the acquisition.



## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

We analyzed our licensees under the requirements for variable interest entities (“VIEs”). All of these licensees operate as BHF stores and are furniture retailers. We sell furniture to these licensees, and in some cases have extended credit beyond normal terms, made lease guarantees, guaranteed loans, or loaned directly to the licensees. We have recorded reserves for potential exposures related to these licensees. See Note 17 for disclosure of leases and lease guarantees. Based on financial projections and best available information, all licensees have sufficient equity to carry out their principal operating activities without subordinated financial support. Furthermore, we believe that the power to direct the activities that most significantly impact the licensees’ operating performance continues to lie with the ownership of the licensee dealers. Our rights to assume control over or otherwise influence the licensees’ significant activities only exist pursuant to our license and security agreements and are in the nature of protective rights as contemplated under ASC Topic 810. We completed our assessment for other potential VIEs, and concluded that there were none. We will continue to reassess the status of potential VIEs including when facts and circumstances surrounding each potential VIE change.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include allowances for doubtful accounts, calculation of inventory reserves, valuation of income tax reserves, lease guarantees, insurance reserves and assumptions related to our post-employment benefit obligations. Actual results could differ from those estimates.

### Revenue Recognition

Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. We offer terms varying from 30 to 60 days for wholesale customers. For retail sales, we typically collect a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. These deposits are carried on our balance sheet as a current liability until delivery is fulfilled. Estimates for returns and allowances have been recorded as a reduction to revenue. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us. Revenue is reported net of any taxes collected. For our logistical services segment, line-haul freight revenue and home delivery revenue are recognized upon the completion of delivery to the destination. Warehousing services revenue is based upon warehouse space occupied by a customer’s goods and inventory movements in and out of a warehouse and is recognized as such services are provided.

Staff Accounting Bulletin No. 104, *Revenue Recognition* (“SAB 104”) outlines the four basic criteria for recognizing revenue as follows: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller’s price to the buyer is fixed or determinable, and (4) collectability is reasonably assured. SAB 104 further asserts that if collectability of all or a portion of the revenue is not reasonably assured, revenue recognition should be deferred until payment is received. During fiscal 2016, 2015 and 2014, there were no dealers for which these criteria were not met.

### Cash Equivalents

The Company considers cash on hand, demand deposits in banks and all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Our short-term investments, which consist of certificates of deposit, are not considered cash equivalents since they have original maturities of greater than three months.

### Accounts Receivable

Substantially all of our trade accounts receivable is due from customers located within the United States. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### Concentrations of Credit Risk and Major Customers

Financial instruments that subject us to credit risk consist primarily of investments, accounts and notes receivable and financial guarantees. Investments are managed within established guidelines to mitigate risks. Accounts and notes receivable and financial guarantees subject us to credit risk partially due to the concentration of amounts due from and guaranteed on behalf of independent licensee customers. At November 26, 2016 and November 28, 2015, our aggregate exposure from receivables and guarantees related to customers consisted of the following:

	<u>2016</u>	<u>2015</u>
Accounts receivable, net of allowances (Note 5)	\$ 18,358	\$ 21,197
Notes receivable, net of allowances	10	10
Contingent obligations under lease and loan guarantees, less amounts recognized (Note 17)	<u>1,865</u>	<u>2,441</u>
Total credit risk exposure related to customers	<u>\$ 20,233</u>	<u>\$ 23,648</u>

At November 26, 2016, approximately 30% of the aggregate risk exposure, net of reserves, shown above was attributable to four customers. At November 28, 2015, approximately 26% of the aggregate risk exposure, net of reserves, shown above was attributable to three customers. In fiscal 2016, 2015 and 2014, no customer accounted for more than 10% of total consolidated net sales. However, one customer accounted for approximately 36% and 26% of our consolidated revenue from logistical services during 2016 and 2015, respectively.

We have no foreign manufacturing or retail operations. We define export sales as sales to any country or territory other than the United States or its territories or possessions. Our export sales were approximately \$3,607, \$4,516, and \$4,774 in fiscal 2016, 2015, and 2014, respectively. All of our export sales are invoiced and settled in U.S. dollars.

### Inventories

Inventories (retail merchandise, finished goods, work in process and raw materials) are stated at the lower of cost or market. Cost is determined for domestic manufactured furniture inventories using the last-in, first-out (“LIFO”) method because we believe this methodology provides better matching of revenue and expenses. The cost of imported inventories is determined on a first-in, first-out (“FIFO”) basis. Inventories accounted for under the LIFO method represented 53% and 43% of total inventory before reserves at November 26, 2016 and November 28, 2015, respectively. We estimate inventory reserves for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

### Property and Equipment

Property and equipment is comprised of all land, buildings and leasehold improvements and machinery and equipment used in the manufacturing and warehousing of furniture, our Company-owned retail operations, our logistical services operations, and corporate administration. This property and equipment is stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the respective assets utilizing the straight-line method. Buildings and improvements are generally depreciated over a period of 10 to 39 years. Machinery and equipment are generally depreciated over a period of 5 to 10 years. Leasehold improvements are amortized based on the underlying lease term, or the asset’s estimated useful life, whichever is shorter.

### Retail Real Estate

Retail real estate is comprised of owned and leased properties which have been utilized by licensee operated BHF stores, including properties which are now leased or subleased to non-licensee tenants. These properties are located in high traffic, upscale locations that are normally occupied by large successful national retailers. This real estate is stated at cost less accumulated depreciation and is depreciated over the useful lives of the respective assets utilizing the straight line method. Buildings and improvements are generally depreciated over a period of 10 to 39 years. Leasehold improvements are amortized based on the underlying lease term, or the asset’s estimated useful life, whichever is shorter. As of both November 26, 2016 and November 28, 2015, the cost of retail real estate included land totaling \$990 and building and leasehold improvements of \$6,178. As of November 26, 2016 and November 28, 2015, accumulated depreciation of retail real estate was \$4,311 and

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

\$4,160, respectively. The net book value of our retail real estate is included in other long-term assets in our consolidated balance sheets. Depreciation expense was \$152, \$184, and \$400 in fiscal 2016, 2015, and 2014, respectively, and is included in other loss, net, in our consolidated statements of income.

During the year ended November 28, 2015 we closed on the sale of our retail real estate investment property located in Sugarland, Texas and received cash in the amount of \$2,835. During fiscal 2015 we recognized a non-cash charge of \$182 to write down the carrying value of the Sugarland real estate to the selling price.

During the year ended November 29, 2014 we received proceeds from the disposition of retail real estate totaling \$5,157. During the first quarter of fiscal 2014 we received \$1,407 from the sale of our retail real estate investment property in Henderson, Nevada. During the third quarter of fiscal 2014 we received net proceeds in the amount of \$3,750 from the sale of our retail real estate investment property located in Denver, Colorado. There were no material gains or losses associated with these dispositions during fiscal 2014.

The fiscal 2015 and 2014 sales proceeds described above are included in proceeds from sales of property and equipment in the accompanying consolidated statements of cash flows. The fiscal 2015 impairment charges described above are included in other loss, net, in our consolidated statements of income.

### Goodwill

Goodwill represents the excess of the fair value of consideration given over the fair value of the tangible assets and liabilities and identifiable intangible assets of businesses acquired. The acquisition of assets and liabilities and the resulting goodwill is allocated to the respective reporting unit: Wood, Upholstery, Retail or Logistical Services. We review goodwill at the reporting unit level annually for impairment or more frequently if events or circumstances indicate that assets might be impaired.

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other*, the goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the two-step process. Based on our qualitative assessment as described above, we have concluded that our goodwill is not impaired as of November 26, 2016.

The first step compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step is performed whereby we must calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. This second step represents a hypothetical application of the acquisition method of accounting as if we had acquired the reporting unit on that date. Our impairment methodology uses a discounted cash flow analysis requiring certain assumptions and estimates to be made regarding future profitability of the reporting unit and industry economic factors. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts.

### Other Intangible Assets

Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or between annual tests when an impairment indicator exists. The recoverability of indefinite-lived intangible assets is assessed by comparison of the carrying value of the asset to its estimated fair value. If we determine that the carrying value of the asset exceeds its estimated fair value, an impairment loss equal to the excess would be recorded.

## **Notes to Consolidated Financial Statements -Continued**

(In thousands, except share and per share data)

Definite-lived intangible assets are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We estimate the useful lives of our intangible assets and ratably amortize the value over the estimated useful lives of those assets. If the estimates of the useful lives should change, we will amortize the remaining book value over the remaining useful lives or, if an asset is deemed to be impaired, a write-down of the value of the asset may be required at such time.

### **Impairment of Long Lived Assets**

We periodically evaluate whether events or circumstances have occurred that indicate long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use and eventual disposition of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based on discounted cash flows or appraised values depending on the nature of the assets. The long-term nature of these assets requires the estimation of cash inflows and outflows several years into the future.

When analyzing our real estate properties for potential impairment, we consider such qualitative factors as our experience in leasing and selling real estate properties as well as specific site and local market characteristics. Upon the closure of a Bassett Home Furnishings store, we generally write off all tenant improvements which are only suitable for use in such a store.

### **Income Taxes**

We account for income taxes under the liability method which requires that we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Despite our belief that our liability for unrecognized tax benefits is adequate, it is often difficult to predict the final outcome or the timing of the resolution of any particular tax matters. We may adjust these liabilities as relevant circumstances evolve, such as guidance from the relevant tax authority or our tax advisors, or resolution of issues in the courts. These adjustments are recognized as a component of income tax expense in the period in which they are identified.

We evaluate our deferred income tax assets to determine if valuation allowances are required or should be adjusted. A valuation allowance is established against our deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified. See Note 11.

### **New Store Pre-Opening Costs**

Income (loss) from operations for fiscal 2016, 2015 and 2014 includes new store pre-opening costs of \$1,148, \$623 and \$1,217, respectively. Such costs consist of expenses incurred at the new store location during the period prior to its opening and include, among other things, facility occupancy costs such as rent and utilities and local store personnel costs related to pre-opening activities including training. New store pre-opening costs do not include costs which are capitalized in accordance with our property and equipment capitalization policies, such as leasehold improvements and store fixtures and equipment. Such capitalized costs associated with new stores are depreciated commencing with the opening of the store. There are no pre-opening costs associated with stores acquired from licensees, as such locations were already in operation at the time of their acquisition.



## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### Shipping and Handling Costs

Costs incurred to deliver wholesale merchandise to customers are recorded in selling, general and administrative expense and totaled \$18,451, \$18,624, and \$16,162 for fiscal 2016, 2015 and 2014, respectively. Costs incurred to deliver retail merchandise to customers are also recorded in selling, general and administrative expense and totaled \$15,946, \$15,383, and \$12,844 for fiscal 2016, 2015 and 2014, respectively.

### Advertising

Costs incurred for producing and distributing advertising and advertising materials are expensed when incurred and are included in selling, general and administrative expenses. Advertising costs totaled \$16,688, \$16,228, and \$15,614 in fiscal 2016, 2015, and 2014, respectively.

### Insurance Reserves

We have self-funded insurance programs in place to cover workers' compensation and health insurance. These insurance programs are subject to various stop-loss limitations. We accrue estimated losses using historical loss experience. Although we believe that the insurance reserves are adequate, the reserve estimates are based on historical experience, which may not be indicative of current and future losses. We adjust insurance reserves, as needed, in the event that future loss experience differs from historical loss patterns.

### Supplemental Cash Flow Information

In connection with our acquisition of Zenith, non-cash financing activities during fiscal 2015 included the issuance of 89,485 shares of our common stock valued at \$1,675, and the issuance of a note payable with a discounted fair value of \$8,436. See Note 3 for additional information regarding the fair value of the consideration given for the acquisition of Zenith. There were no material non-cash investing or financing activities during fiscal 2016 or 2014.

### Recent Accounting Pronouncements

#### *Adoption of Accounting Standards Update 2016-09*

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). While the effective date of ASU 2016-09 is for fiscal years beginning after December 15, 2016, earlier adoption is permitted and we adopted the amendments in ASU 2016-09 during the second quarter of fiscal 2016. This standard simplifies or clarifies several aspects of the accounting for equity-based payment awards, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Certain of these changes are required to be applied retrospectively, while other changes are required to be applied prospectively.

The impact of early adoption resulted in the following:

- We recorded \$87 of tax benefits within income tax expense for the year ended November 26, 2016 related to the excess tax benefit on stock based compensation. Prior to adoption this amount would have been recorded as additional paid-in capital. This change could create future volatility in our effective tax rate depending upon the amount of exercise or vesting activity from our stock based awards.
- We elected to recognize forfeitures as they occur. There was no cumulative effect adjustment as a result of the adoption of this amendment on a modified retrospective basis.
- We elected to apply the change in classification of cash flows resulting from excess tax benefits or deficiencies on a retrospective basis. Accordingly, \$1,998 and \$300 of excess tax benefits previously reported as a cash flow provided by financing activities during the years ended November 28, 2015 and November 29, 2014, respectively, has been reclassified to be included in cash flows provided by operating activities.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

- We excluded the excess tax benefits from the assumed proceeds available to repurchase shares in the computation of our diluted earnings per share for the year ended November 26, 2016. The effect of this change on our diluted earnings per share was not significant.
- ASU 2016-09 also requires the presentation of employee taxes paid by the Company through the withholding of shares as a financing activity on the statement of cash flows, which is where we had previously reclassified these items.

There were no other material impacts to our consolidated financial statements as a result of adopting this updated standard.

### ***Recent Pronouncements Not Yet Adopted***

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), which creates ASC Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, ASU 2014-09 supersedes the cost guidance in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts, and creates new Subtopic 340-40, Other Assets and Deferred Costs—Contracts with Customers. In summary, the core principle of Topic 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. Companies are allowed to select between two transition methods: (1) a full retrospective transition method with the application of the new guidance to each prior reporting period presented, or (2) a retrospective transition method that recognizes the cumulative effect on prior periods at the date of adoption together with additional footnote disclosures. In addition, during 2016 the FASB has issued ASU 2016-08, ASU 2016-10 and ASU 2016-12, all of which clarify certain implementation guidance within ASU 2014-09, and ASU 2016-11, which rescinds certain SEC guidance within the ASC effective upon an entity's adoption of ASU 2014-09. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and early application is not permitted. Therefore the amendments in ASU 2014-09 will become effective for us as of the beginning of our 2019 fiscal year. We are currently evaluating the impact that the adoption of ASU 2014-09 will have on our consolidated financial statements and have not made any decision on the method of adoption.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that inventory within the scope of this Update be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this Update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. For all entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. Therefore the amendments in ASU 2015-11 will become effective for us as of the beginning of our 2018 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In July 2015, the FASB issued Accounting Standards Update No. 2015-16, Business Combinations (Topic 805): *Simplifying the Accounting for Measurement Period Adjustments*. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Any current period adjustments to provisional amounts that would have impacted a prior period's earnings had they been recognized at the acquisition date are required to be presented separately on the face of the income statement or disclosed in the notes. The amendments in this Update are effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments in this Update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this Update with earlier application permitted for financial statements that have not been issued. Therefore the amendments in ASU 2015-16 will become effective for us as of the beginning of our 2017 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

In January 2016, the FASB issued Accounting Standards Update No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires that equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Furthermore, equity investments without readily determinable fair values are to be assessed for impairment using a quantitative approach. The amendments in ASU 2016-01 should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption, with other amendments related specifically to equity securities without readily determinable fair values applied prospectively. The amendments in ASU 2016-01 will become effective for us as of the beginning of our 2019 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As with previous guidance, there continues to be a differentiation between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. Lease assets and liabilities arising from both finance and operating leases will be recognized in the statement of financial position. ASU 2016-02 leaves the accounting for leases by lessors largely unchanged from previous GAAP. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. The guidance in ASU 2016-02 will become effective for us as of the beginning of our 2020 fiscal year. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements, which we expect will have a material effect on our statement of financial position, and have not made any decision on the method of adoption with respect to the optional practical expedients.

In August 2016, the FASB issued Accounting Standards Update No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. Among the types of cash flows addressed are payments for costs related to debt prepayments or extinguishments, payments representing accreted interest on discounted debt, payments of contingent consideration after a business combination, proceeds from insurance claims and company-owned life insurance, and distributions from equity method investees, among others. The amendments in ASU 2016-15 are to be adopted retrospectively and will become effective for us at the beginning of our 2019 fiscal year. Early adoption, including adoption in an interim period, is permitted. The adoption of this guidance is not expected to have a material impact upon our presentation of cash flows.

### 3. Business Combination – Acquisition of Zenith

Prior to February 2, 2015 we held a 49% interest in Zenith for which we used the equity method of accounting. Zenith provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors and also provides home delivery services to furniture retailers. We historically have contracted with Zenith to provide substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for many of our Company-owned retail stores. On February 2, 2015, we acquired the remaining 51% of Zenith in exchange for cash, Bassett common stock and a note payable with a total fair value of \$19,111. The value of the Bassett common stock was based on the closing market price of our shares on the acquisition date, discounted for lack of marketability due to restrictions on the seller's ability to transfer the shares. The restrictions on one half of the shares expired on the first anniversary of the acquisition, with the remainder expiring on the second anniversary. The note is payable in three annual installments of \$3,000 each which began February 2, 2016, and has been discounted to its fair value as of the date of the acquisition based on our estimated borrowing rate.

The carrying value of our 49% interest in Zenith prior to the acquisition was \$9,480 (see Note 9, Unconsolidated Affiliated Company). In connection with the acquisition, this investment was remeasured to a fair value of \$16,692 resulting in the

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

recognition of a gain of \$7,212 during the year ended November 28, 2015. The impact of this gain upon our basic and diluted earnings per share for the year ended November 28, 2015 is approximately \$0.41 net of the related tax expense. The remeasured fair value of our prior interest in Zenith was estimated based on the fair value of the consideration transferred to acquire the remaining 51% of Zenith less an estimated control premium.

Under the acquisition method of accounting, the fair value of the consideration transferred along with the fair value of our previous 49% interest in Zenith was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values as of the acquisition date with the remaining unallocated amount recorded as goodwill.

The total fair value of the acquired business was determined as follows:

Fair value of consideration transferred in exchange for 51% of Zenith:

Cash	\$ 9,000
Bassett common stock, 89,485 shares, par value \$5.00 per share, fair value at closing \$18.72 per share	1,675
Note payable	8,436
Total fair value of consideration transferred to seller	<u>19,111</u>
Less effective settlement of previous amounts payable to Zenith at acquisition	<u>(3,622)</u>
Total fair value of consideration net of effective settlement	15,489
Fair value of Bassett's previous 49% interest in Zenith	<u>16,692</u>
Total fair value of acquired business	<u>\$ 32,181</u>

The allocation of the fair value of the acquired business is as follows:

Identifiable assets acquired:	
Acquired cash and cash equivalents	\$ 1,677
Accounts receivable, net	3,399
Prepaid expenses and other current assets	496
Property and equipment	18,110
Other long-term assets	646
Intangible assets	<u>6,362</u>
Total identifiable assets acquired	30,690
Liabilities assumed:	
Accounts payable and accrued liabilities	(4,038)
Notes payable	<u>(4,329)</u>
Total liabilities assumed	<u>(8,367)</u>
Net identifiable assets acquired	22,323
Goodwill	9,858
Total net assets acquired	<u>\$ 32,181</u>

Goodwill was determined based on the residual difference between the fair value of the consideration transferred and the value assigned to tangible and intangible assets and liabilities. Approximately \$6,982 of the acquired goodwill is deductible for tax purposes. Among the factors that contributed to a purchase price resulting in the recognition of goodwill were Zenith's reputation for best-in-class, fully integrated logistical services which are uniquely tailored to the needs of the furniture industry, as well as their ability to provide expedited delivery service which is increasingly in demand in the furniture industry.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

A portion of the fair value of consideration transferred has been assigned to identifiable intangible assets as follows:

<b>Description:</b>	<b>Useful Life In Years</b>	<b>Fair Value</b>
Customer relationships	15	\$ 3,038
Trade names	Indefinite	2,490
Technology - customized applications	7	<u>834</u>
Total acquired intangible assets		<u>\$ 6,362</u>

The finite-lived intangible assets are being amortized on a straight-line basis over their useful lives. The indefinite-lived intangible asset and goodwill are not amortized but will be tested for impairment annually or between annual tests if an indicator of impairment exists.

The fair values of consideration transferred and net assets acquired were determined using a combination of Level 2 and Level 3 inputs as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 4.

Acquisition costs related to the Zenith acquisition totaled \$209 during the year ended November 28, 2015 and are included in selling, general and administrative expenses in the consolidated statements of income. The acquisition costs are primarily related to legal, accounting and valuation services.

The revenue and pre-tax profit of Zenith that is included in our consolidated statements of income for the years ended November 26, 2016 and November 28, 2015 is as follows:

Net sales and operating losses generated by acquired stores subsequent to acquisition:

	<u>2016</u>	<u>2015 (1)</u>
Zenith revenue (2)	\$54,842	\$43,522
Zenith pre-tax income	\$3,313	\$3,379

(1) From date of acquisition, February 2, 2015.

(2) Net of eliminated inter-company transactions, See Note 20.

The pro forma results of operations for the acquisition of Zenith have not been presented because they are not material to our consolidated results of operations.

#### 4. Financial Instruments, Investments and Fair Value Measurements

##### *Financial Instruments*

Our financial instruments include cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, cost 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 method investments generally involve entities for which it is not practical to determine fair values.

##### *Investments*

Our short-term investments of \$23,125 at both November 26, 2016 and November 28, 2015 consisted of certificates of deposit (CDs) with original terms of twelve months, bearing interest at rates ranging from 0.28% to 1.00%. At November 26, 2016, the weighted average remaining time to maturity of the CDs was approximately seven months and the weighted average yield

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

of the CDs was approximately 0.65%. Each CD is placed with a Federally insured financial institution and all deposits are within Federal deposit insurance limits. As the CDs mature, we expect to reinvest them in CDs of similar maturities of up to one year. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at November 26, 2016 and November 28, 2015 approximates their fair value.

### **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 notes payable for disclosure purposes (see Note 10) involves Level 3 inputs. Our primary non-recurring fair value estimates typically involve business acquisitions (Note 3) which involve a combination of Level 2 and Level 3 inputs, and asset impairments (Note 15) which utilize Level 3 inputs.

### **5. Accounts Receivable**

Accounts receivable consists of the following:

	<b>November 26, 2016</b>	<b>November 28, 2015</b>
Gross accounts receivable	\$ 19,157	\$ 22,372
Allowance for doubtful accounts	(799)	(1,175)
Net accounts receivable	<u>\$ 18,358</u>	<u>\$ 21,197</u>

Activity in the allowance for doubtful accounts was as follows:

	<b>2016</b>	<b>2015</b>
Balance, beginning of the year	\$ 1,175	\$ 1,249
Acquired allowance on accounts receivable (Note 3)	-	209
Reductions to allowance, net	(376)	(283)
Balance, end of the year	<u>\$ 799</u>	<u>\$ 1,175</u>

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 4.



## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### 6. Inventories

Inventories consist of the following:

	<b>November 26, 2016</b>	<b>November 28, 2015</b>
Wholesale finished goods	\$ 24,392	\$ 31,253
Work in process	369	318
Raw materials and supplies	11,343	9,793
Retail merchandise	26,265	27,680
Total inventories on first-in, first-out method	62,369	69,044
LIFO adjustment	(7,804)	(7,751)
Reserve for excess and obsolete inventory	(1,350)	(1,397)
	<u>\$ 53,215</u>	<u>\$ 59,896</u>

We source a significant amount of our wholesale product from other countries. During 2016, 2015 and 2014, purchases from our two largest vendors located in Vietnam and China were \$19,128, \$25,190 and \$26,707 respectively.

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 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.

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

	<b>Wholesale Segment</b>	<b>Retail Segment</b>	<b>Total</b>
<b>Balance at November 29, 2014</b>	\$ 1,060	\$ 352	\$ 1,412
Additions charged to expense	2,442	430	2,872
Write-offs	(2,415)	(472)	(2,887)
<b>Balance at November 28, 2015</b>	1,087	310	1,397
Additions charged to expense	1,994	475	2,469
Write-offs	(2,020)	(496)	(2,516)
<b>Balance at November 26, 2016</b>	<u>\$ 1,061</u>	<u>\$ 289</u>	<u>\$ 1,350</u>

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### 7. Property and Equipment

Property and equipment consist of the following:

Property and equipment were comprised of the following:

	<u>November 26, 2016</u>	<u>November 28, 2015</u>
Land	\$ 12,311	\$ 12,311
Buildings and leasehold improvements	109,728	104,265
Machinery and equipment	99,067	85,490
Property and equipment at cost	221,106	202,066
Less accumulated depreciation	(116,451)	(105,962)
Property and equipment, net	<u>\$ 104,655</u>	<u>\$ 96,104</u>

The net book value of our property and equipment by reportable segment is as follows:

Net book value of PP&E by segment:

	<u>November 26, 2016</u>	<u>November 28, 2015</u>
Wholesale	\$ 22,984	\$ 17,763
Retail - Company-owned stores	59,347	60,810
Logistical Services	22,324	17,531
Total property and equipment, net	<u>\$ 104,655</u>	<u>\$ 96,104</u>

Depreciation expense associated with the property and equipment shown above was included in income from operations in our consolidated statements of income as follows:

Location of Depreciation Expense:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Cost of goods sold (1)	\$ 748	\$ 599	\$ 542
Selling, general and administrative expenses (2)	11,648	9,627	6,814
Total depreciation expense included in income from operations	<u>\$ 12,396</u>	<u>\$ 10,226</u>	<u>\$ 7,356</u>

- (1) All associated with our wholesale segment for fiscal 2016, 2015 and 2014.
- (2) Includes depreciation associated with our retail segment of \$6,612, \$5,970 and \$5,782 for fiscal 2016, 2015 and 2014, respectively. Fiscal 2016 and 2015 includes depreciation associated with our logistical services segment of \$3,882 and \$2,366, respectively.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### 8. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

	<u>November 26, 2016</u>		
	<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Intangible</u> <u>Assets,</u> <u>Net</u>
Intangibles subject to amortization:			
Customer relationships	\$ 3,038	\$ (371)	\$ 2,667
Technology - customized applications	<u>834</u>	<u>(219)</u>	<u>615</u>
Total intangible assets subject to amortization	3,872	(590)	3,282
Intangibles not subject to amortization:			
Trade names	2,490	-	2,490
Goodwill	<u>11,588</u>	<u>-</u>	<u>11,588</u>
Total goodwill and other intangible assets	<u>\$ 17,950</u>	<u>\$ (590)</u>	<u>\$ 17,360</u>
	<u>November 28, 2015</u>		
	<u>Gross</u> <u>Carrying</u> <u>Amount</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Intangible</u> <u>Assets,</u> <u>Net</u>
Intangibles subject to amortization:			
Customer relationships	\$ 3,038	\$ (169)	\$ 2,869
Technology - customized applications	<u>834</u>	<u>(99)</u>	<u>735</u>
Total intangible assets subject to amortization	3,872	(268)	3,604
Intangibles not subject to amortization:			
Trade names	2,490	-	2,490
Goodwill	<u>11,588</u>	<u>-</u>	<u>11,588</u>
Total goodwill and other intangible assets	<u>\$ 17,950</u>	<u>\$ (268)</u>	<u>\$ 17,682</u>

Changes in the carrying amounts of goodwill by reportable segment were as follows:

	<u>Wholesale</u>	<u>Retail</u>	<u>Logistics</u>	<u>Total</u>
Balance as of November 29, 2014	\$ 1,128	\$ 602	\$ -	\$ 1,730
Goodwill arising from acquisition of Zenith	<u>3,711</u>	<u>1,218</u>	<u>4,929</u>	<u>9,858</u>
Balance as of November 28, 2015	4,839	1,820	4,929	11,588
Changes during fiscal 2016 (none)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance as of November 26, 2016	<u>\$ 4,839</u>	<u>\$ 1,820</u>	<u>\$ 4,929</u>	<u>\$ 11,588</u>

There were no changes in the carrying value of our goodwill during fiscal 2016, and there were no accumulated impairment losses on goodwill as of November 26, 2016, November 28, 2015 or November 29, 2014.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

Amortization expense associated with intangible assets during fiscal 2016 and 2015 was \$322 and \$268, respectively and is included in selling, general and administrative expense in our consolidated statement of income. All expense arising from the amortization of intangible assets is associated with our logistical services segment. There was no amortization expense recognized during fiscal 2014. Estimated future amortization expense for intangible assets that exist at November 26, 2016 is as follows:

Future amortization of intangible assets:

Fiscal 2017	\$	322
Fiscal 2018		322
Fiscal 2019		322
Fiscal 2020		322
Fiscal 2021		322
Thereafter		<u>1,672</u>
Total	\$	<u>3,282</u>

### 9. Unconsolidated Affiliated Companies

#### Zenith Freight Lines, LLC

Prior to February 2, 2015 we owned 49% of Zenith and accounted for our investment under the equity method. Our investment in Zenith at November 29, 2014 was \$7,915 and is included in other assets in our condensed consolidated balance sheet. The balance of our investment in Zenith was adjusted for our equity in the earnings of Zenith through February 2, 2015 of \$220, and increased by \$1,345 representing our 49% share of a \$2,745 capital contribution made to Zenith, a portion of which was used for retirement of certain of Zenith's debt prior to the acquisition. This activity resulted in a carrying value for our investment in Zenith of \$9,480 on the date of acquisition. See Note 3 regarding the remeasurement of this carrying value to fair value in connection with the acquisition and the resulting gain.

Prior to the acquisition on February 2, 2015, we recorded the following income from Zenith in our consolidated statements of income:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Earnings recognized	\$220	\$661	\$770

Prior to the acquisition, we paid Zenith approximately \$6,863 and \$31,308 for freight expense and logistical services in fiscal 2015 and 2014, respectively.

#### International Home Furnishings Center

In connection with the sale of our interest in International Home Furnishings Center, Inc. ("IHFC") on May 2, 2011, to International Market Centers, L.P. ("IMC"), \$6,106 of the sales proceeds were placed in escrow at the time of the sale to cover various contingencies. At various times during fiscal 2012, 2013 and 2014, the contingencies were satisfied without loss to the Company and the funds were released to us. During fiscal 2014 we received the final payment of sales proceeds in the amount of \$2,348 which is included in cash flows from investing activities in our consolidated statements of cash flows.

In addition to the proceeds described above, at the time of the sale we acquired a minority interest in IMC in exchange for \$1,000. IMC is majority owned by funds managed by Bain Capital Partners and a subsidiary of certain investment funds managed by Oaktree Capital Management, L.P. Our investment in IMC is included in other long-term assets in the accompanying consolidated balance sheets and is accounted for using the cost method as we do not have significant influence over IMC.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### 10. Notes Payable and Bank Credit Facility

Our notes payable consist of the following:

	<u>November 26, 2016</u>		
	<u>Principal Balance</u>	<u>Unamortized Discount</u>	<u>Net Carrying Amount</u>
Zenith acquisition note payable	\$ 6,000	\$ (108)	\$ 5,892
Transportation equipment notes payable	-	-	-
Real estate notes payable	<u>1,219</u>	<u>-</u>	<u>1,219</u>
Total debt	7,219	(108)	7,111
Less current portion	<u>(3,385)</u>	<u>95</u>	<u>(3,290)</u>
Total long-term debt	<u>\$ 3,834</u>	<u>\$ (13)</u>	<u>\$ 3,821</u>
	<u>November 28, 2015</u>		
	<u>Principal Balance</u>	<u>Unamortized Discount</u>	<u>Net Carrying Amount</u>
Zenith acquisition note payable	\$ 9,000	\$ (312)	\$ 8,688
Transportation equipment notes payable	2,152	-	2,152
Real estate notes payable	<u>2,933</u>	<u>-</u>	<u>2,933</u>
Total debt	14,085	(312)	13,773
Less current portion	<u>(5,477)</u>	<u>204</u>	<u>(5,273)</u>
Total long-term debt	<u>\$ 8,608</u>	<u>\$ (108)</u>	<u>\$ 8,500</u>

The future maturities of our notes payable are as follows:

Fiscal 2017	\$ 3,385
Fiscal 2018	3,412
Fiscal 2019	<u>422</u>
	<u>\$ 7,219</u>

#### ***Zenith Acquisition Note Payable***

As part of the consideration given for our acquisition of Zenith on February 2, 2015, we issued an unsecured note payable to the former owner in the amount of \$9,000, payable in three annual installments of \$3,000 due on each anniversary of the note, the first installment having been paid on February 2, 2016. Interest is payable annually at the one year LIBOR rate, which was established at 0.62% on February 2, 2015 and resets on each anniversary of the note, having reset to the current rate of 1.14% on February 2, 2016. The note was recorded at its fair value in connection with the acquisition resulting in a debt discount that is amortized to the principal amount through the recognition of non-cash interest expense over the term of the note. Interest expense resulting from the amortization of the discount was \$204 and \$252 for fiscal 2016 and 2015, respectively. The current portion of the note due within one year, including unamortized discount, was \$2,904 and \$2,796 at November 26, 2016 and November 28, 2015, respectively.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### *Transportation Equipment Notes Payable*

Certain of the transportation equipment operated in our logistical services segment was financed by notes payable in the amount of \$2,152 at November 28, 2015. The current portion of these notes due within one year at November 28, 2015 was \$901, and the notes were secured by tractors, trailers and local delivery trucks with a total net book value of \$3,796 at November 28, 2015. Over the course of fiscal 2016, all of the outstanding transportation equipment notes were paid in full.

### *Real Estate Notes Payable*

Two 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 \$5,858 and \$5,993 at November 26, 2016 and November 28, 2015, respectively. The total balance outstanding under these mortgages was \$1,219 and \$1,709 at November 26, 2016 and November 28, 2015, respectively. The current portion of these mortgages due within one year was \$385 and \$351 as of November 26, 2016 and November 28, 2015, respectively.

Certain of the real estate located in Conover, NC and operated in our logistical services segment had been subject to a note payable in the amount of \$1,224 at November 28, 2015, all of which had been included in the current portion of notes payable. The note was secured by land and buildings with a total net book value of \$6,226 at November 28, 2015. The entire outstanding balance due under this note was paid in full during fiscal 2016.

### *Fair Value*

We believe that the carrying amount of our notes payable approximates fair value at both November 26, 2016 and November 28, 2015. In estimating the fair value, we utilize 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 4.

### *Bank Credit Facility*

Effective December 5, 2015, we entered into a new credit facility with our bank which provides for a line of credit of up to \$15,000. This credit facility, which matures in December of 2018, is unsecured and 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.

We have \$1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$13,028. In addition, we have outstanding standby letters of credit with another bank totaling \$456.

Total interest paid during fiscal 2016, 2015 and 2014 was \$353, 277 and \$176, respectively.

## **11. Post-Employment Benefit Obligations**

### **Supplemental Retirement Income Plan**

We have an unfunded Supplemental Retirement Income Plan (the "Supplemental Plan") that covers one current and certain former executives. Upon retirement, the Supplemental Plan provides for lifetime monthly payments in an amount equal to 65% of the participant's final average compensation as defined in the Supplemental Plan, which is reduced by certain social security benefits to be received and other benefits provided by us. The Supplemental Plan also provides a death benefit that is calculated as (a) prior to retirement death, which pays the beneficiary 50% of final average annual compensation for a period of 120 months, or (b) post-retirement death, which pays the beneficiary 200% of final average compensation in a single payment. We own life insurance policies on these executives with a current net death benefit of \$3,022 at November 26, 2016 and we expect to substantially fund this death benefit through the proceeds received upon the death of the executive. Funding for the remaining cash flows is expected to be provided through operations. There are no benefits payable as a result of a termination of employment for any reason other than death or retirement, other than a change of control provision which provides for the immediate vesting and payment of the retirement benefit under the Supplemental Plan in the event of an employment termination resulting from a change of control.



## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

Summarized information for the plan measured as of the end of each year presented, is as follows:

	<u>2016</u>	<u>2015</u>
<b>Change in Benefit Obligation:</b>		
Projected benefit obligation at beginning of year	\$ 11,678	\$ 10,376
Service cost	146	105
Interest cost	423	374
Actuarial losses	165	1,372
Benefits paid	(549)	(549)
Projected benefit obligation at end of year	<u>\$ 11,863</u>	<u>\$ 11,678</u>
<b>Accumulated Benefit Obligation</b>	<u>\$ 11,138</u>	<u>\$ 10,967</u>
<b>Discount rate used to value the ending benefit obligations:</b>	3.75%	3.75%
<b>Amounts recognized in the consolidated balance sheet:</b>		
Current liabilities	\$ 776	\$ 749
Noncurrent liabilities	11,087	10,929
Total amounts recognized	<u>\$ 11,863</u>	<u>\$ 11,678</u>
<b>Amounts recognized in accumulated other comprehensive income:</b>		
Transition obligation	\$ 85	\$ 127
Actuarial loss	4,065	4,223
Net amount recognized	<u>\$ 4,150</u>	<u>\$ 4,350</u>
<b>Total recognized in net periodic benefit cost and accumulated other comprehensive income:</b>	<u>\$ 734</u>	<u>\$ 1,851</u>

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Components of Net Periodic Pension Cost:</b>			
Service cost	\$ 146	\$ 105	\$ 78
Interest cost	423	374	373
Amortization of transition obligation	42	42	42
Amortization of other loss	323	195	123
<b>Net periodic pension cost</b>	<u>\$ 934</u>	<u>\$ 716</u>	<u>\$ 616</u>

### Assumptions used to determine net periodic pension cost:

Discount rate	3.75%	3.75%	3.75%
Increase in future compensation levels	3.00%	3.00%	3.00%

### Estimated Future Benefit Payments (with mortality):

Fiscal 2017	776
Fiscal 2018	738
Fiscal 2019	700
Fiscal 2020	662
Fiscal 2021	624
Fiscal 2022 through 2026	4,606

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

Of the \$4,150 recognized in accumulated other comprehensive income at November 26, 2016, \$42 of net transition obligation and \$332 of net loss are expected to be recognized as components of net periodic pension cost during fiscal 2017.

### Deferred Compensation Plan

We have an unfunded Deferred Compensation Plan that covers one current and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or benefits permitted. We recognized expense of \$228, \$248, and \$134 in fiscal 2016, 2015, and 2014, respectively, associated with the plan. The expense for fiscal 2014 is net of a credit to income of \$124 due to a change in our estimate of the future obligation of a former employee. Our liability under this plan was \$1,969 and \$2,085 as of November 26, 2016 and November 28, 2015, respectively. The non-current portion of this obligation is included in post-employment benefit obligations in our consolidated balance sheets, with the current portion included in accrued compensation and benefits.

### Defined Contribution Plan

We have a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers substantially all employees who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched at the rate of 25% of up to 8% of gross pay, regardless of years of service. Expense for employer matching contributions was \$865, \$662 and \$397 during fiscal 2016, 2015 and 2014, respectively. The increase in contribution expense for fiscal 2016 over fiscal 2015 was largely due to an increase in the matching rate from 20% in 2015 to 25% in 2016. The increase in contribution expense for fiscal 2015 over fiscal 2014 was largely due to an increase in the matching rate from 15% in 2014 to 20% in 2015, as well as the acquisition of Zenith.

### 12. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the fiscal years ended November 26, 2016 and November 28, 2015, which is comprised solely of post-retirement benefit costs related to our SERP, is as follows:

Balance at November 29, 2014	\$ (1,974)
Actuarial losses	(1,372)
Net pension amortization reclassified from accumulated other comprehensive loss	237
Tax effects	431
Balance at November 28, 2015	(2,678)
Actuarial losses	(165)
Net pension amortization reclassified from accumulated other comprehensive loss	366
Tax effects	(76)
Balance at November 26, 2016	<u>\$ (2,553)</u>

### 13. Capital Stock and Stock Compensation

We account for our stock-based employee and director compensation plans in accordance with ASC 718, *Compensation – Stock Compensation*. ASC 718 requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period) which we recognize on a straight-line basis. Compensation expense related to restricted stock and stock options included in selling, general and administrative expenses in our consolidated statements of income for fiscal 2016, 2015 and 2014 was as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Stock based compensation expense	\$903	\$894	\$951

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### Incentive Stock Compensation Plans

In 1997, we adopted an Employee Stock Plan (the “1997 Plan”), and reserved for issuance 950,000 shares of common stock. An additional 500,000 shares of common stock were authorized for issuance in 2000. In addition, the terms of the 1997 Plan allow for the re-issuance of any stock options which have been forfeited before being exercised. Options granted under the 1997 Plan may be for such terms and exercised at such times as determined by the Organization, Compensation, and Nominating Committee of the Board of Directors. There are no shares available for grant under the 1997 Plan at November 26, 2016.

On April 14, 2010, our shareholders approved the Bassett Furniture Industries, Incorporated 2010 Stock Incentive Plan which was amended and restated effective January 13, 2016 (the “2010 Plan”). All present and future non-employee directors, key employees and outside consultants for the Company are eligible to receive incentive awards under the 2010 Plan. Our Organization, Compensation and Nominating Committee (the “Compensation Committee”) selects eligible key employees and outside consultants to receive awards under the 2010 Plan in its discretion. Our Board of Directors or any committee designated by the Board of Directors selects eligible non-employee directors to receive awards under the 2010 Plan in its discretion. 1,250,000 shares of common stock are reserved for issuance under the 2010 Plan as amended. Participants may receive the following types of incentive awards under the 2010 Plan: stock options, stock appreciation rights, payment shares, restricted stock, restricted stock units and performance shares. Stock options may be incentive stock options or non-qualified stock options. Stock appreciation rights may be granted in tandem with stock options or as a freestanding award. Non-employee directors and outside consultants are eligible to receive restricted stock and restricted stock units only. We expect to issue new common stock upon the exercise of options.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies, the expected life is based on the estimated average of the life of options using the simplified method. Forfeitures are recognized as they occur. We utilize the simplified method to determine the expected life of our options due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns.

### Stock Options

There were no new grants of options made in 2016, 2015 or 2014.

Changes in the outstanding options under our plans during the year ended November 26, 2016 were as follows:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price Per Share</b>
Outstanding at November 28, 2015	84,250	\$11.42
Granted	-	-
Exercised	(8,000)	14.31
Forfeited/Expired	(10,000)	14.73
Outstanding at November 26, 2016	<u>66,250</u>	10.57
Exercisable at November 26, 2016	<u>66,250</u>	\$10.57

There were no non-vested options outstanding under our plans during the year ended November 26, 2016.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

Additional information regarding our outstanding stock options at November 26, 2016 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$3.23 - \$6.45	1,000	3.6	\$4.38	1,000	\$4.38
\$6.45 - \$9.67	22,250	4.6	8.02	22,250	8.02
\$9.68 - \$12.90	28,000	0.9	10.60	28,000	10.60
\$12.91 - \$16.13	15,000	0.4	14.73	15,000	14.73
	<u>66,250</u>			<u>66,250</u>	
Aggregate intrinsic value	\$ <u>1,257</u>			\$ <u>1,257</u>	

Additional information regarding activity in our stock options during fiscal 2016, 2015 and 2014 is as follows:

	2016	2015	2014
Total intrinsic value of options exercised	\$ 124	\$ 5,934	\$ 236
Total fair value of options vested	-	87	200
Total cash received from the exercise of options	114	4,031	382
Excess tax benefits recognized as additional paid-in capital upon the exercise of options (1)	-	1,899	72

(1) Prior to the adoption of ASU 2016-09 in fiscal 2016. See Note 2.

### Restricted Shares

Changes in the outstanding non-vested restricted shares during the year ended November 26, 2016 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Non-vested restricted shares outstanding at November 28, 2015	134,154	\$17.68
Granted	7,814	29.66
Vested	(18,954)	20.56
Forfeited	-	-
Non-vested restricted shares outstanding at November 26, 2016	<u>123,014</u>	\$17.99

The grants for 2016 consisted of 5,814 restricted shares granted to our non-employee directors on April 1, 2016 which will vest on the first anniversary of the grant, and 2,000 shares granted to an employee on July 12, 2016 which will vest on the second anniversary of the grant.

During fiscal 2016, 18,954 restricted shares were vested and released, of which 12,600 shares had been granted to employees and 6,354 shares to directors. Of the shares released to employees, 2,940 shares were withheld by the Company to cover withholding taxes of \$77. During fiscal 2015 and 2014, 4,836 shares and 31,234 shares, respectively, were withheld to cover withholding taxes of \$154 and \$489, respectively, arising from the vesting of restricted shares. During fiscal 2016, \$87 of

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

excess tax benefits were recognized within income tax expense. Prior to the adoption of ASU 2016-09, excess tax benefits of \$99 and \$228 were recognized during fiscal 2015 and 2014, respectively, as additional paid-in capital upon the release of vested shares.

Additional information regarding our outstanding non-vested restricted shares at November 26, 2016 is as follows:

<u>Grant Date</u>	<u>Restricted Shares Outstanding</u>	<u>Share Value at Grant Date Per Share</u>	<u>Remaining Restriction Period (Years)</u>
July 17, 2013	25,200	\$16.64	1.6
January 15, 2014	48,000	14.12	0.1
January 14, 2015	40,000	20.21	1.1
July 14, 2015	2,000	38.02	1.6
April 1, 2016	5,814	30.96	0.3
July 12, 2016	2,000	25.88	1.6
	<u>123,014</u>		

Unrecognized compensation cost related to these non-vested restricted shares at November 26, 2016 is \$748, expected to be recognized over approximately a two year period.

### Employee Stock Purchase Plan

In 2000, we adopted and implemented an Employee Stock Purchase Plan (“ESPP”) that allows eligible employees to purchase a limited number of shares of our stock at 85% of market value. Under the ESPP we sold 8,502, 19,053 and 25,677 shares to employees in fiscal 2016, 2015 and 2014, respectively, which resulted in an immaterial amount of compensation expense. The ESPP reached the cumulative number of shares authorized for purchase under the plan during the third quarter of fiscal 2016.

### 14. Income Taxes

The components of the income tax provision are as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current:			
Federal	\$ 3,728	\$ 7,972	\$ 4,168
State	896	1,533	596
Deferred:			
Increase (decrease) in valuation allowance	-	(70)	(974)
Federal	4,559	1,520	221
State	765	480	1,297
Total	<u>\$ 9,948</u>	<u>\$ 11,435</u>	<u>\$ 5,308</u>

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

A reconciliation of the statutory federal income tax rate and the effective income tax rate, as a percentage of income before income taxes, is as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutory federal income tax rate	35.0%	35.0%	35.0%
Adjustments to state net operating loss carryforwards	-	-	3.3
Change in income tax valuation allowance	-	(0.1)	(3.7)
Change in income tax reserves	-	0.1	(1.7)
State income tax, net of federal benefit	4.2	4.4	4.9
Benefit of goodwill basis difference	-	(3.2)	-
Excess tax benefits from stock-based compensation	(0.3)	-	-
Other	(0.3)	(0.3)	(1.5)
Effective income tax rate	<u>38.6%</u>	<u>35.9%</u>	<u>36.3%</u>

Excess tax benefits in the amount of \$1,998 and \$300 were recognized as additional paid-in capital during fiscal 2015 and 2014, respectively, resulting from the exercise of stock options and the release of restricted shares. Subsequent to the adoption of ASU 2016-09 in fiscal 2016 (see Note 2), excess tax benefits of \$87 were recognized as a component of income tax expense.

The income tax effects of temporary differences and carryforwards, which give rise to significant portions of the deferred income tax assets and deferred income tax liabilities, are as follows:

	<u>November 26, 2016</u>	<u>November 28, 2015</u>
Deferred income tax assets:		
Trade accounts receivable	\$ 307	\$ 506
Inventories	2,407	2,420
Notes receivable	562	1,795
Post employment benefit obligations	5,338	6,992
State net operating loss carryforwards	731	927
Unrealized loss from affiliates	217	356
Net deferred rents	3,112	2,674
Other	2,005	2,165
Gross deferred income tax assets	<u>14,679</u>	<u>17,835</u>
Valuation allowance	-	-
Total deferred income tax assets	<u>14,679</u>	<u>17,835</u>
Deferred income tax liabilities:		
Property and equipment	5,179	3,093
Intangible assets	1,012	860
Prepaid expenses and other	417	411
Total deferred income tax liabilities	<u>6,608</u>	<u>4,364</u>
Net deferred income tax assets	<u>\$ 8,071</u>	<u>\$ 13,471</u>

At the beginning of fiscal 2014 we carried a valuation allowance of \$1,044 which was primarily related to state net operating loss carryforwards for which it was considered to be more likely than not that they would not be utilized prior to their expiration. During fiscal 2014 we reduced our valuation allowance related to adjustments to state net operating loss carryforwards primarily due to state tax law changes resulting in a credit to income of \$974, or \$0.09 per basic and diluted share. The remaining balance in the valuation allowance was \$0 at both November 26, 2016 and November 28, 2015.



## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

The following table represents a summary of the valuation allowances against deferred tax assets:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balance, beginning of the year	\$ -	\$ 70	\$ 1,044
Additions charged to expense	-	-	-
Deductions reducing expense	-	(70)	(974)
Balance, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70</u>

We have state net operating loss carryforwards available to offset future taxable state income of \$9,057, which expire in varying amounts between 2017 and 2030. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards.

Income taxes paid, net of refunds received, during 2016, 2015 and 2014 were \$9,949, \$5,906, and \$2,367, respectively.

As of November 29, 2014, the gross amount of unrecognized tax benefits was approximately \$1,236, exclusive of interest and penalties. Substantially all of this balance, along with additional amounts recognized during fiscal 2015, was effectively settled as of November 28, 2015. We regularly evaluate, assess and adjust the related liabilities in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period.

The following table summarizes the activity related to our gross unrecognized tax benefits:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Balance, beginning of the year	\$ 12	\$ 1,236	\$ 1,497
Gross increases	43	12	-
Gross decreases due to settlements	-	(1,236)	(221)
Gross decreases primarily due to the expiration of statutes	-	-	(40)
Balance, end of the year	<u>\$ 55</u>	<u>\$ 12</u>	<u>\$ 1,236</u>

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. During fiscal 2016, 2015, and 2014, we recognized \$15, \$(144), and \$7 of interest expense (recovery) and \$10, \$3, and \$10 of penalty expense, respectively, related to the unrecognized benefits noted above in our consolidated statements of income. At November 26, 2016 and November 28, 2015, the balance of accrued interest and penalties associated with unrecognized tax benefits was not material.

Significant judgment is required in evaluating the Company's federal and state tax positions and in the determination of its tax provision. Despite our belief that the liability for unrecognized tax benefits is adequate, it is often difficult to predict the final outcome or the timing of the resolution of any particular tax matter. We may adjust these liabilities as relevant circumstances evolve, such as guidance from the relevant tax authority, or resolution of issues in the courts. These adjustments are recognized as a component of income tax expense in the period in which they are identified. The Company also cannot predict when or if any other future tax payments related to these tax positions may occur.

We remain subject to examination for tax years 2013 through 2015 for all of our major tax jurisdictions.

### 15. Litigation Gain, Asset Impairment, and Other Charges

#### *Income from Antitrust Litigation Settlement*

Cost of furniture and accessories sold for the year ended November 26, 2016 includes the benefit of \$1,428 of income we received from the settlement of class action litigation. This benefit is included in our wholesale segment. We were a member of the certified class of consumers that were plaintiffs in the Polyurethane Foam Antitrust Litigation against various producers of flexible polyurethane foam. The litigation alleged a price-fixing conspiracy in the flexible polyurethane foam industry that caused indirect purchasers to pay higher prices for products that contain flexible polyurethane foam. In 2015 a settlement

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

was reached with several of the producers, though other producers named in the suit filed appeals blocking distribution of the settlement. In June of 2016 the final producer appeal was dismissed and we received \$1,428 in cash representing our share of the settlement, which is included in cash provided by operating activities in our statement of cash flows for the year ended November 26, 2016.

### *Asset Impairment Charges and Lease Exit Costs*

During fiscal 2015 income from operations included \$106 of non-cash asset impairment charges and a \$419 charge for the accrual of lease exit costs, both incurred in connection with the closing of our Company-owned retail store location in Memphis, Tennessee.

There were no asset impairment charges or lease exit costs incurred against income from operations during fiscal 2016 or 2014. See Note 2 regarding non-operating impairment charges incurred in connection with our investments in retail real estate.

### *Management Restructuring Costs*

During the year ended November 28, 2015, we recognized \$449 of expense related to severance payable to a former executive, who left the Company in April, 2015. As of November 28, 2015, all required payments of severance had been disbursed. These management restructuring costs were incurred within our wholesale segment. There were no restructuring charges incurred in fiscal 2016 or 2014.

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

	<u>2016</u>	<u>2015</u>
Balance, beginning of the year	\$ 566	\$ 433
Provisions associated with Company-owned retail stores	-	419
Provisions made to adjust previous estimates	156	111
Payments on unexpired leases, net of sublease rent received	(517)	(410)
Accretion of interest on obligations	<u>9</u>	<u>13</u>
Balance, end of the year	<u>\$ 214</u>	<u>\$ 566</u>
Current portion included in other accrued liabilities	\$ 105	\$ 351
Long-term portion included in other long-term liabilities	<u>109</u>	<u>215</u>
Total accrued lease exit costs at November 26, 2016	<u>\$ 214</u>	<u>\$ 566</u>

### **16. Income from the Continued Dumping and Subsidy Offset Act**

During the years ended November 26, 2016 and November 28, 2015, we recognized income of \$240 and \$1,156, respectively, arising from distributions received from U.S. Customs and Border Protection (“Customs”) under the Continued Dumping and Subsidy Offset Act of 2000 (“CDSOA”). These distributions primarily represent amounts previously withheld by Customs pending the resolution of claims filed by certain manufacturers who did not support the antidumping petition (“Non-Supporting Producers”) challenging certain provisions of the CDSOA and seeking to share in the distributions. The Non-Supporting Producers’ claims were dismissed by the courts and all appeals were exhausted in 2014. While it is possible that we may receive additional distributions from Customs, we cannot estimate the likelihood or amount of any future distributions.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### 17. Leases and Lease Guarantees

#### Leases

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, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. Our real estate lease terms range from one to 15 years and generally have renewal options of between five and 15 years. Some store leases contain contingent rental provisions based upon sales volume. Our transportation equipment leases have terms ranging from two to seven years with fixed monthly rental payments plus variable charges based upon mileage. The following schedule shows future minimum lease payments under non-cancellable operating leases with terms in excess of one year as of November 26, 2016:

	<u>Retail Stores</u>	<u>Distribution Centers</u>	<u>Transportation Equipment</u>	<u>Total</u>
Fiscal 2017	\$ 20,587	\$ 4,249	\$ 3,296	\$ 28,132
Fiscal 2018	18,559	3,015	2,010	23,584
Fiscal 2019	16,710	2,002	1,808	20,520
Fiscal 2020	15,415	1,301	1,743	18,459
Fiscal 2021	13,137	1,254	1,169	15,560
Thereafter	38,765	3,022	1,217	43,004
Total future minimum lease payments	<u>\$ 123,173</u>	<u>\$ 14,843</u>	<u>\$ 11,243</u>	<u>\$ 149,259</u>

Lease expense was \$31,867, \$26,382 and \$19,903 for 2016, 2015, and 2014, respectively.

In addition to subleasing certain of these properties, we own retail real estate which we in turn lease to licensee operators of BHF stores. We also own real estate for closed stores which we lease to non-licensees. The following schedule shows minimum future rental income related to pass-through rental expense on subleased property as well as rental income on real estate owned by Bassett.

Fiscal 2017	\$ 1,863
Fiscal 2018	1,337
Fiscal 2019	1,247
Fiscal 2020	1,194
Fiscal 2021	359
Thereafter	-
Total minimum future rental income	<u>\$ 6,000</u>

Real estate rental income (loss), net of expense (including lease costs, depreciation, insurance, and taxes), related to licensee stores and other investment real estate, was \$(59), \$(181) and \$(248) in 2016, 2015 and 2014, respectively, and is reflected in other expense, net in the accompanying consolidated statements of income.

#### Guarantees

As part of the strategy for our store program, we have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to three years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,868 and \$2,494 at November 26, 2016 and November 28, 2015, 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, and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are estimated to cover the maximum amount of our future payments under the guarantee obligations, net of reserves. The fair

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at November 26, 2016 and November 28, 2015, were not material.

### 18. Contingencies

We are involved in various claims and actions, including 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, it is our opinion that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations.

### 19. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Numerator:			
Net income	\$ 15,829	\$ 20,433	\$ 9,299
Denominator:			
Denominator for basic income per share - weighted average shares	10,732,217	10,701,829	10,552,462
Effect of dilutive securities	<u>130,204</u>	<u>141,198</u>	<u>140,569</u>
Denominator for diluted income per share — weighted average shares and assumed conversions	<u>10,862,421</u>	<u>10,843,027</u>	<u>10,693,031</u>
Basic income per share:			
Net income per share — basic	<u>\$ 1.47</u>	<u>\$ 1.91</u>	<u>\$ 0.88</u>
Diluted income per share:			
Net income per share — diluted	<u>\$ 1.46</u>	<u>\$ 1.88</u>	<u>\$ 0.87</u>

For fiscal 2016, 2015 and 2014, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Stock options	-	-	150,000
Unvested restricted shares	<u>7,814</u>	<u>8,354</u>	-
Total anti-dilutive securities	<u>7,814</u>	<u>8,354</u>	<u>150,000</u>

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### 20. 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. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our consolidated statements of income.
- **Retail – Company-owned stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities and capital expenditures directly related to these stores.
- **Logistical services.** With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our condensed consolidated statement of income. Zenith's operating costs are included in selling, general and administrative expenses and total \$92,196 for the year ended November 26, 2016 and \$73,722 from the date of acquisition through November 28, 2015. Amounts charged by Zenith to the Company for logistical services prior to the date of acquisition are included in selling, general and administrative expenses, and our equity in the earnings of Zenith prior to the date of acquisition is included in other loss, net, in the accompanying statements of income.

Inter-company sales elimination represents the elimination of wholesale sales to our Company-owned stores and the elimination of Zenith logistics revenue from our wholesale and retail segments. 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, and the elimination of shipping and handling charges from Zenith for services provided to our wholesale and retail operations.

## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

The following table presents segment information for each of the last three fiscal years:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Net Sales</b>			
Wholesale	\$ 240,346	\$ 252,180	\$ 223,993
Retail	254,667	249,379	216,631
Logistical services	95,707	77,250	-
Inter-company eliminations:			
Furniture and accessories	(117,817)	(114,154)	(99,886)
Logistical services	(40,865)	(33,728)	-
Consolidated	<u>\$ 432,038</u>	<u>\$ 430,927</u>	<u>\$ 340,738</u>
<b>Income (loss) from Operations</b>			
Wholesale	\$ 18,672	\$ 15,618	\$ 14,120
Retail	4,333	6,170	(528)
Logistical services	3,511	3,528	-
Inter-company elimination	1,677	1,647	1,539
Lease exit costs	-	(419)	-
Asset impairment charges	-	(106)	-
Management restructuring costs	-	(449)	-
Consolidated income from operations	<u>\$ 28,193</u>	<u>\$ 25,989</u>	<u>\$ 15,131</u>
<b>Depreciation and Amortization</b>			
Wholesale	\$ 2,053	\$ 2,075	\$ 1,972
Retail	5,992	5,428	5,344
Logistical services	4,204	2,634	-
Consolidated	<u>\$ 12,249</u>	<u>\$ 10,137</u>	<u>\$ 7,316</u>
<b>Capital Expenditures</b>			
Wholesale	\$ 7,232	\$ 4,898	\$ 4,527
Retail	5,115	7,077	13,836
Logistical services	9,154	1,999	-
Consolidated	<u>\$ 21,501</u>	<u>\$ 13,974</u>	<u>\$ 18,363</u>
<b>Identifiable Assets</b>			
Wholesale	\$ 139,477	\$ 146,878	\$ 154,275
Retail	88,855	88,878	86,471
Logistical services	49,935	46,787	-
Consolidated	<u>\$ 278,267</u>	<u>\$ 282,543</u>	<u>\$ 240,746</u>

A breakdown of wholesale sales by product category for each of the last three fiscal years is provided below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Wood	37%	37%	39%
Upholstery	63%	63%	61%
	<u>100%</u>	<u>100%</u>	<u>100%</u>



## Notes to Consolidated Financial Statements -Continued

(In thousands, except share and per share data)

### 21. Quarterly Results of Operations

	<b>2016</b>			
	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter (1)</b>	<b>Fourth Quarter (2)</b>
Sales revenue:				
Furniture and accessories	\$ 92,402	\$ 92,990	\$ 91,465	\$ 100,339
Logistics	14,471	13,677	13,247	13,447
Total sales revenue	<u>106,873</u>	<u>106,667</u>	<u>104,712</u>	<u>113,786</u>
Cost of furniture and accessories sold	41,986	42,419	40,091	43,023
Income from operations	5,791	5,853	7,540	9,009
Net income	3,234	3,385	4,165	5,045
Basic earnings per share	0.30	0.31	0.39	0.47
Diluted earnings per share	0.30	0.31	0.38	0.47
	<b>2015</b>			
	<b>First Quarter (3)</b>	<b>Second Quarter (4)</b>	<b>Third Quarter</b>	<b>Fourth Quarter (5)</b>
Sales revenue:				
Furniture and accessories	\$ 89,548	\$ 99,467	\$ 97,107	\$ 101,283
Logistics	3,259	12,086	13,904	14,273
Total sales revenue	<u>92,807</u>	<u>111,553</u>	<u>111,011</u>	<u>115,556</u>
Cost of furniture and accessories sold	41,930	46,921	44,824	45,616
Income from operations	2,877	6,714	7,692	8,706
Net income	5,956	4,529	4,266	5,682
Basic earnings per share	0.57	0.42	0.39	0.53
Diluted earnings per share	0.56	0.42	0.39	0.52

All quarters shown above for fiscal 2016 and 2015 consist of 13 week fiscal periods.

Sales revenue from logistics is recognized from the date of our acquisition of Zenith, February 2, 2015. Prior to the acquisition of Zenith, net income included our 49% equity in the earnings of Zenith, which is included in other loss, net in our consolidated statements of income.

- (1) Income from operations includes the benefit of a \$1,428 award received from the settlement of class action litigation (see Note 15).
- (2) Net income includes income of \$148 from the CDSOA, net of related income tax effects of approximately \$92 (see Note 16).
- (3) Income from operations includes asset impairment charges and lease exit costs totaling \$525 (see Note 15). Net income includes a gain of \$7,212, net of income tax effects of approximately \$2,777, resulting from the remeasurement of our prior ownership interest in Zenith upon acquisition (see Note 3).
- (4) Income from operations includes management restructuring charges of \$449 (see Note 15). Net income includes income of \$1,066 from the CDSOA, net of related income tax effects of approximately \$410 (see Note 16).
- (5) Net income includes the effect of a \$1,111 tax benefit arising from purchase accounting adjustments relating to the gain recorded on the remeasurement of our prior ownership in Zenith.

## SELECTED FINANCIAL DATA

The selected financial data set forth below for the fiscal years indicated were derived from our audited consolidated financial statements. The information should be read in conjunction with our consolidated financial statements (including the notes thereto) and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in, or incorporated by reference into, this report.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013 (1)</u>	<u>2012</u>
Net sales	\$ 432,038 (2)	\$ 430,927 (2)	\$ 340,738	\$ 321,286	\$ 269,972
Operating income	\$ 28,193 (3)	\$ 25,989 (4)	\$ 15,131	\$ 10,005	\$ 5,080 (4)
Other income (loss), net	\$ (2,416)(5)	\$ 5,879 (5)	\$ (524)	\$ (1,818)	\$ 6,934 (6)
Income before income taxes	\$ 25,777	\$ 31,868	\$ 14,607	\$ 8,187	\$ 12,014
Income tax expense (benefit)	\$ 9,948	\$ 11,435	\$ 5,308	\$ 3,091	\$ (14,699)(7)
Net income	\$ 15,829	\$ 20,433	\$ 9,299	\$ 5,096	\$ 26,713
Diluted earnings per share	\$ 1.46	\$ 1.88	\$ 0.87	\$ 0.47	\$ 2.41
Cash dividends declared	\$ 7,345	\$ 5,805	\$ 5,085	\$ 4,565	\$ 15,920
Cash dividends per share	\$ 0.68	\$ 0.54	\$ 0.48	\$ 0.42	\$ 1.45
Total assets	\$ 278,267	\$ 282,543	\$ 240,746	\$ 225,849	\$ 227,180
Long-term debt	\$ 3,821	\$ 8,500	\$ 1,902	\$ 2,467	\$ 3,053
Current ratio (8)	1.83 to 1	1.84 to 1	1.95 to 1	2.37 to 1	2.39 to 1
Book value per share	\$ 16.85	\$ 16.25	\$ 14.95	\$ 14.50	\$ 14.51

- (1) Fiscal 2013 contained 53 weeks, whereas all other fiscal years presented above contained 52 weeks.
- (2) Fiscal 2016 and 2015 included logistical services revenue from Zenith in the amount of \$54,842 and \$43,522, respectively, since the acquisition of Zenith on February 2, 2015.
- (3) Fiscal 2016 operating income includes the benefit of a \$1,428 award received from the settlement of class action litigation (see Note 15 to the Consolidated Financial Statements related to the antitrust litigation settlement).
- (4) Fiscal 2015 included restructuring and asset impairment charges and lease exit costs totaling \$974. Fiscal 2012 included restructuring and asset impairment charges and lease exit costs totaling \$1,070.
- (5) See Note 3 to the Consolidated Financial Statements related to a remeasurement gain of \$7,212 arising from our acquisition of Zenith during fiscal 2015. Also see Note 16 to the Consolidated Financial Statements related to \$240 and \$1,156 of income from the Continued Dumping and Subsidy Offset Act (“CDSOA”) received in fiscal 2016 and 2015, respectively.
- (6) During fiscal 2012 other income (loss), net included income from the CDSOA of \$9,010.
- (7) Fiscal 2012 included the effects of changes in our valuation allowance on deferred tax assets resulting in a credit to income of \$18,704.
- (8) In fiscal 2015 we adopted Accounting Standards Update 2015-17, which required the classification of all deferred tax assets and liabilities as non-current. The current ratio presented for all periods prior to fiscal 2015 has been restated to reflect the reclassification of our current deferred tax assets to non-current.

## Bassett Furniture Industries, Incorporated

### Schedule II

Analysis of Valuation and Qualifying Accounts  
For the Years Ended November 26, 2016, November 28, 2015 and November 29, 2014  
(amounts in thousands)

	<u>Balance Beginning of Period</u>	<u>Additions Charged to Cost and Expenses</u>	<u>Deductions (1)</u>	<u>Other</u>	<u>Balance End of Period</u>
<b>For the Year Ended November 29, 2014:</b>					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 1,607	\$ 77	\$ (435)	\$ -	\$ 1,249
Notes receivable valuation reserves	\$ 4,139	\$ -	\$ -	\$ -	\$ 4,139
Income tax valuation allowance	\$ 1,044	\$ -	\$ (974)	\$ -	\$ 70
<b>For the Year Ended November 28, 2015:</b>					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 1,249	\$ (216)	\$ (67)	\$ 209 (2)	\$ 1,175
Notes receivable valuation reserves	\$ 4,139	\$ 582	\$ (75)	\$ -	\$ 4,646
Income tax valuation allowance	\$ 70	\$ -	\$ (70)	\$ -	\$ -
<b>For the Year Ended November 26, 2016:</b>					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 1,175	\$ (376)	\$ -	\$ -	\$ 799
Notes receivable valuation reserves	\$ 4,646	\$ -	\$ (3,192)	\$ - (3)	\$ 1,454
Income tax valuation allowance	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Deductions are for the purpose for which the reserve was created. Deductions from the income tax valuation allowance for the year ended November 29, 2014 were due to the removal of the majority of our valuation allowance.

(2) Represents reserves of acquired company at date of acquisition.

(3) During fiscal 2016, previously reserved notes were determined to be uncollectible and were written off against the reserve.

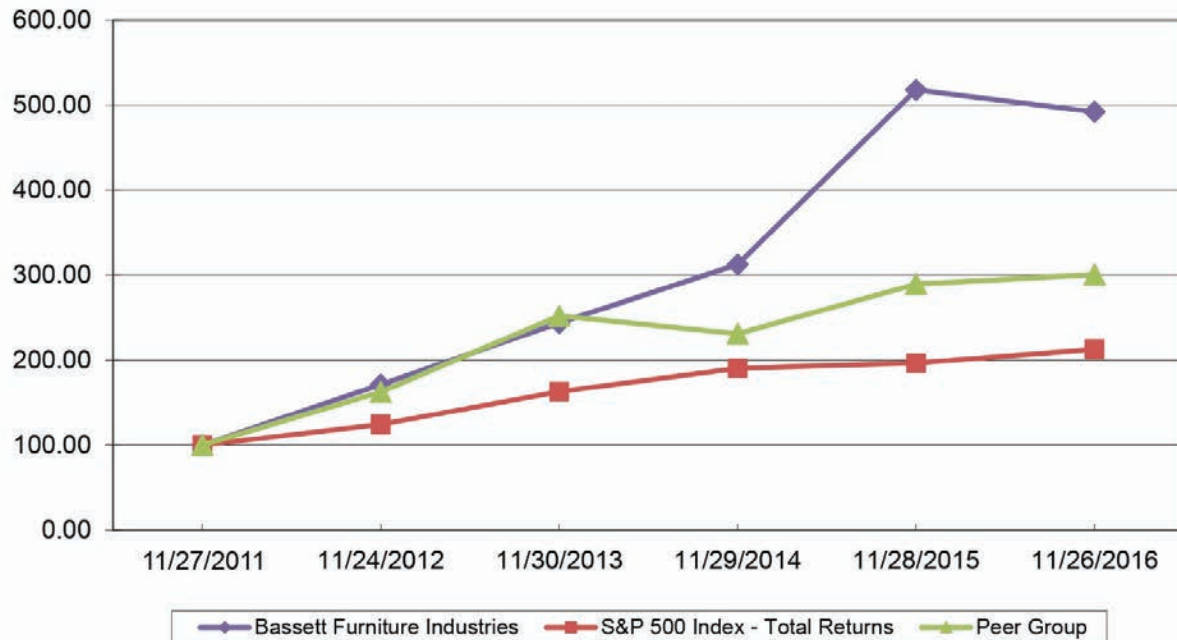
## STOCKHOLDER RETURN PERFORMANCE GRAPH

Presented below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on the Company's Common Stock against the cumulative total return of the Standard & Poor's 500 Index and the Company's peer group. The Company's peer group consists of the following:

American Woodmark, Inc.  
 Culp, Inc.  
 The Dixie Group, Inc.  
 Ethan Allan Interiors, Inc.  
 Flexsteel Industries, Inc.  
 Haverty Furniture Companies, Inc.  
 Hooker Furniture Corporation  
 Kirkland's, Inc.  
 La-Z-Boy Incorporated  
 Stanley Furniture Company, Inc.

This graph assumes that \$100 was invested on November 27, 2011 in the Company's Common Stock, the S&P Index and the two peer groups and that any dividends paid were invested.

**Comparison of 5 Year Cumulative Total Return  
 Assumes Initial Investment of \$100  
 November 2016**



**Assumes \$100 Invested on November 27, 2011  
 Assumes Dividends Reinvested**

## Management's Report of Internal Control over Financial Reporting

As of the end of the period covered by this Annual Report on Form 10-K, our principal executive officer and principal financial officer have evaluated the effectiveness of our "disclosure controls and procedures" ("Disclosure Controls"). Disclosure Controls, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their controls evaluation, our CEO and CFO have concluded that our Disclosure Controls are effective at a reasonable assurance level.

We are responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15. With the participation of our CEO and CFO, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of November 26, 2016 based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 26, 2016, based on those criteria. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Ernst & Young LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting.

Bassett Furniture Industries, Inc.  
Bassett, Virginia  
January 19, 2017

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Bassett Furniture Industries, Incorporated and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated and Subsidiaries as of November 26, 2016 and November 28, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended November 26, 2016. Our audits also included Financial Statement Schedule II - Analysis of Valuation and Qualifying Accounts for each of the three years in the period ended November 26, 2016. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bassett Furniture Industries, Incorporated and Subsidiaries at November 26, 2016 and November 28, 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended November 26, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bassett Furniture Industries, Incorporated and Subsidiaries' internal control over financial reporting as of November 26, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated January 19, 2017 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Richmond, Virginia  
January 19, 2017

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Bassett Furniture Industries, Incorporated and Subsidiaries

We have audited Bassett Furniture Industries, Incorporated and Subsidiaries' internal control over financial reporting as of November 26, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Bassett Furniture Industries, Incorporated and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Bassett Furniture Industries, Incorporated and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of November 26, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Bassett Furniture Industries, Incorporated and Subsidiaries as of November 26, 2016 and November 28, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended November 26, 2016 of Bassett Furniture Industries, Incorporated and Subsidiaries and our report dated January 19, 2017 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Richmond, Virginia  
January 19, 2017



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# INVESTOR INFORMATION

## Internet Site

Our site on the Internet has been updated recently and is filled with information about Bassett Furniture, including this annual report, detailed financial information and updates, information about our home furnishings products, and a dealer locator of Bassett stores and other stores that feature Bassett products. Visit us at [bassettfurniture.com](http://bassettfurniture.com).

## Forward Looking Statements

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation and Reform Act of 1995 and within the meaning of Sections 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Annual Report the words “hope,” “believe,” “expect,” “plan” or “planned,” “intend,” “anticipate,” “potential” and similar expressions are intended to identify forward-looking statements. Readers are cautioned against placing undue reliance on these statements. Such statements, including but not limited to those regarding increases in sales, growth in the number of Bassett stores, improving gross margins, growth in earnings per share, changes in capital structure and the operating performance of licensed Bassett stores are based upon management’s beliefs, as well as assumptions made by and information currently available to management, and involve various risks and uncertainties, certain of which are beyond the Company’s control. The Company’s actual results could differ materially from those expressed in any forward-looking statement made by or on behalf of the Company.

If the Company does not attain its goals, its business and results of operations might be adversely affected. For a discussion of factors that may impair the Company’s ability to achieve its goals, please see the cautionary statements in the Management’s Discussion and Analysis section of this Annual Report.

## Corporate Information and Investor Inquiries

Our annual report and proxy statement together contain much of the information presented in the Form 10-K report filed with the Securities and Exchange Commission. Individuals who wish to receive the Form 10-K or other corporate literature should visit our website at [bassettfurniture.com](http://bassettfurniture.com) or contact Investor Relations, at 276.629.6000.

## Transfer Agent - Stockholder Inquiries

Stockholders with inquiries relating to stockholder records, stock transfers, change of ownership, change of address or dividend payments should write to:  
American Stock Transfer & Trust Company, LLC  
Operations Center  
6201 15th Avenue  
Brooklyn, NY 11219  
Toll free: (800) 937-5449  
Local & International: (718) 921-8124  
Email: [info@amstock.com](mailto:info@amstock.com)  
Web site: [www.amstock.com](http://www.amstock.com)

## Annual Meeting

The Bassett Annual Meeting of Shareholders will be held Wednesday, March 8, 2017, at 10:00 a.m. EST at the Company’s headquarters in Bassett, VA.

## Market and Dividend Information

Bassett’s common stock trades on the NASDAQ national market system under the symbol “BSET.” We had approximately 1300 registered stockholders on November 28, 2015. The range of per share amounts for the high and low market prices and dividends declared for the last two fiscal years are listed below:

Quarter	MARKET PRICES OF COMMON STOCK				DIVIDENDS DECLARED	
	2016		2015		2016	2015
	HIGH	LOW	HIGH	LOW		
First	\$31.98	\$23.65	\$26.97	\$18.22	\$0.09	\$0.08
Second	33.20	26.79	32.54	24.59	0.09	0.08
Third	29.60	23.94	38.02	26.81	0.10	0.09
Fourth	30.00	22.75	33.30	27.85	0.40	0.29

## BOARD OF DIRECTORS

**ROBERT H. SPILMAN, JR.**

Chairman of the Board and Chief Executive Officer  
Bassett Furniture Industries, Inc.

**JOHN R. BELK**

Former President and Chief Operating Officer  
Belk, Inc.  
Private Investor

**KRISTINA K. CASHMAN**

Chief Financial Officer  
Hopdoddy Burger Bar, Inc.

**PAUL FULTON**

Chairman Emeritus  
Bassett Furniture Industries, Inc.

**GEORGE W. HENDERSON, III**

Former Chairman and Chief Executive Officer  
Burlington Industries, Inc.

**J. WALTER MCDOWELL**

Former Chief Executive Officer  
Carolinas/Virginia Banking  
Wachovia Corporation

**WILLIAM C. WAMPLER, JR.**

Former Executive Director, New College Institute  
Former Member, Senate of Virginia

**WILLIAM C. WARDEN, JR.**

Lead Independent Director of Bassett Furniture Industries, Inc.  
Former Executive Vice President  
Lowe's Companies, Inc.

## OFFICERS

**ROBERT H. SPILMAN, JR.**

Chairman of the Board and Chief Executive Officer

**DAVID C. BAKER**

Senior Vice President, Corporate Retail

**JOHN E. BASSETT, III**

Senior Vice President, Wood

**BRUCE R. COHENOUR**

Senior Vice President, Sales and Merchandising

**J. MICHAEL DANIEL**

Senior Vice President and Chief Financial Officer

**JACK L. HAWN, JR.**

Senior Vice President, Bassett  
President, Zenith

**MARK S. JORDAN**

Senior Vice President, Upholstery

**EDWIN C. AVERY, JR.**

Vice President, Upholstery Product Development

**WILLIAM A. BENDALL**

Vice President, Sales, Export and Juvenile

**KENA A. COHENOUR**

Vice President, Upholstery Merchandising

**NICHOLAS C. GEE**

Vice President, Corporate Retail Sales

**STEPHEN D. HARMON**

Vice President, Information Technology

**JAY R. HERVEY**

Vice President, Secretary, General Counsel

**MATTHEW S. JOHNSON**

Vice President, Sales

**KARA KELCHNER-STRONG**

Vice President, Strategy and Planning

**MIKE R. KREIDLER**

Vice President, Upholstery Operations

**PETER D. MORRISON**

Vice President, Marketing

**LOUIS C. MOSSOTTI, JR.**

Vice President, Corporate Retail – Southeast Region

**THOMAS E. PRATO**

Vice President, Sales

**J. CARTER UNDERWOOD**

Vice President, Wood Operations

**EDWARD H. WHITE**

Vice President, Human Resources

**ANN M. ZACCARIA**

Vice President, Real Estate and New Store Development

**Bassett®**

[bassettfurniture.com](http://bassettfurniture.com)

Bassett, Virginia

NASDAQ: BSET