UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended November 28, 1998 Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED
(Exact name of registrant as specified in its charter)

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

3525 FAIRYSTONE PARK HIGHWAY BASSETT, VIRGINIA	24055
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 540/629-6000

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

Title of each class:	Name of each exchange on which registered
Common Stock ($5.00 par value)	NASDAQ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for at least the past 90 days.

[X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of February 23, 1999 was $276,083,245.

The number of shares of the Registrant's common stock outstanding on February 23, 1999 was 12,754,634.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 28, 1998 (the "Annual Report") are incorporated by reference into Parts I and II of this Form 10-K.

(2) Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 1999 Annual Meeting of Stockholders to be held March 30,1999, filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

2

PART I

ITEM 1. BUSINESS
(dollar amounts in thousands except per share data)

GENERAL DEVELOPMENT OF BUSINESS

Bassett Furniture Industries, Incorporated was incorporated under the laws of the Commonwealth of Virginia in 1930. The executive offices are located in Bassett, Virginia.

During 1997, the Company commenced the restructuring of certain of its operations and recorded restructuring and impaired asset charges of $20,646. The restructuring plan is the result of management's decision to focus on its core Bassett product line and efforts to improve operating efficiencies. The principal actions of the plan include the closure or sale of fourteen manufacturing facilities, elimination of three product lines (National/Mt. Airy, Impact and veneer production) and the severance of approximately 1,000 employees. Refer to Note J of the Consolidated Financial Statements included in the Annual Report for a detail of restructuring activity for 1997 and 1998 and refer to the Management Discussion and Analysis section of the annual report for additional discussion on this topic.

There have been no other material changes in the mode of conducting business in the fiscal year beginning December 1, 1997.

INDUSTRY SEGMENT

In accordance with the instructions for this item, Bassett Furniture Industries, Incorporated and its subsidiaries, all of which are wholly-owned (Company), is deemed to have been engaged in only one business segment, manufacture and sale of household furniture, for the three years ended November 28, 1998.

DESCRIPTION OF BUSINESS

The Company manufactures and sells a full line of furniture for the home, including bedroom and dining suites and accent pieces; occasional tables, wall and entertainment units; home office systems and computer work stations; upholstered sofas, chairs and love seats (motion and stationary); recliners; and mattresses and box springs. The Company's products are distributed through a large number of retailers, principally in the United States. The retailers selling the Company's products include mass merchandisers, department stores, independent furniture stores, chain furniture stores, proprietary retail outlets called Bassett Furniture Direct, and Bassett Gallery stores, decorator showrooms, warehouse showrooms, specialty stores and rent-to-own stores.

The Company's significant product lines are: wood, upholstery and bedding, which accounted for 60%, 30% and 10% of net sales during 1998, respectively.

Raw materials used by the Company are generally available from numerous sources and are obtained principally from domestic sources. The Company has not experienced significant raw materials cost pressures in 1998.

The Company's trademark "Bassett" and the names of its marketing divisions and product collections are significant to the conduct of its business. This importance is due to consumer recognition of the names and identification with the Company's broad range of products. The Company owns certain patents and licenses that are important in the conduct of the Company's business.

The furniture industry in which the Company competes is not considered to be a seasonal industry. There are no special practices in the furniture industry, or applicable to the Company, that would have a significant effect on working capital items.

Sales to one customer (J. C. Penney Company) amounted to approximately 15% of gross sales in 1998, 1997 and 1996. The Company's backlog of orders believed to be firm was $35,000 at November 28,1998 and $43,000 at November 30, 1997. It is expected that the November 28, 1998 backlog will be filled within the 1999 fiscal year.

The furniture industry is very competitive and there are a large number of manufacturers both within the United States and offshore who compete in the market on the basis of product quality, price, style, delivery and service. Based on annual sales revenue, the Company is one of the largest furniture manufacturers located in the United States. The Company has been successful in this competitive environment because its products represent excellent value combining attractive prices and superior quality and styling; prompt delivery; and courteous service. Competition from foreign manufacturers is not any more significant in the marketplace today than competition from domestic manufacturers.

The furniture industry is considered to be a "fashion" industry subject to constant change to meet the changing consumer preferences and tastes. As such, the Company is continuously involved in the development of new designs and products. Due to the nature of these efforts and the close relationship to the manufacturing operations, these costs are considered normal operating costs and are not segregated. The Company is not otherwise involved in "traditional" research and development activities nor does the Company sponsor research and development activities of any of its customers.

In management's view, the Company has complied in all material respects with all federal, state and local standards in the area of safety, health and pollution and environmental controls. Compliance with these standards has not had a material adverse effect on past earnings, capital expenditures or competitive position. The Company is involved in environmental matters at certain of its plant facilities, which arise in the normal course of business. Although the final outcome of these environmental matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

The Company had approximately 5,400 employees at November 28, 1998.

The Company owns a minority interest in International Home Furnishings Center, which is a lessor of permanent exhibition space to furniture and accessory manufacturers.

FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The Company has no foreign operations, and its export sales were approximately $14.3 million, $12.5 million, and $11.7 million in 1998, 1997 and 1996 respectively.

ITEM 2. PROPERTIES

At November 28, 1998 the Company owns the following manufacturing facilities:

Plant or Division Name	Location	Construction
J. D. Bassett Manufacturing Company	Bassett, VA (2 plants)	Brick, frame and concrete
Bassett Superior Lines	Bassett, VA	Brick, frame, concrete and steel
Bassett Chair Company	Bassett, VA	Brick, frame, concrete and steel
Bassett Table Company	Bassett, VA	Brick and frame
Bassett Veneer *	Burkeville, VA	Brick, frame and concrete
Bassett Fiberboard	Bassett, VA	Brick, concrete and steel
Bassett Upholstery Division	Newton, NC (4 plants)	Brick, concrete and steel
Bassett Upholstery Division	Hiddenite, NC	Brick, concrete and steel

4

Bassett Upholstery Division		Dumas, AR	Brick, concrete and steel
Bassett Furniture Industries of North Carolina, Inc.		Macon, GA	Brick, concrete and steel
		Dublin, GA	Concrete, block and steel
Bassett Furniture Industries of North Carolina, Inc.	*	Statesville, NC	Block, frame, and concrete
Mt. Airy		Mt. Airy, NC	Brick, concrete and steel
Weiman Division		Christiansburg, VA	Metal frame
E. B. Malone Corporation		Lake Wales, FL (2 plants)	Concrete, block and frame
E. B. Malone Corporation	*	Pottstown, PA	Metal frame
E. B. Malone Corporation		Walworth, WI	Concrete, block and steel
E. B. Malone Corporation		Fredericksburg, VA	Brick and frame
E. B. Malone Corporation	*	Chehalis, WA	Concrete, block and metal frame
E. B. Malone Corporation		Los Angeles, CA	Concrete, block and metal frame
E. B. Malone Corporation		Los Angeles, CA	Brick, concrete and steel
E. B. Malone Corporation		Tipton, MO	Concrete, block and steel

The Company also owns its general corporate office building in Bassett, Virginia (brick, concrete and steel), two warehouses in Bassett, Virginia (brick and concrete) and a showroom in High Point, North Carolina (brick, concrete and steel).

In general, these facilities are suitable and are considered to be adequate for the continuing operations involved. All facilities, except those held for sale, are in regular use.

Properties designated by an asterisk "*" have ceased manufacturing operations and are currently held for sale in connection with the restructuring efforts.

The following facilities were sold or disposed of during 1998:

Plant Name	Location	Construction
W. M. Bassett	Martinsville, VA	Brick, frame and concrete
Bassett Motion	Saltillo, MS	Brick, concrete and steel
Bassett Motion	Booneville, MS	Brick, concrete and steel
Impact	Hildebran, NC	Brick, concrete and steel
E. B. Malone Corporation	West Palm Beach, FL	Brick, concrete and steel

ITEM 3. LEGAL PROCEEDINGS

A suit was filed in June, 1997, in the Superior Court of the State of California for the County of Los Angeles (the "Superior Court") against the Company, two major retailers and certain current and former employees of the Company. The suit sought certification of a class consisting of all consumers who purchased certain mattresses and box springs from the major retailers which were manufactured by a subsidiary of the Company, E.B. Malone Corporation, with different specifications than those originally manufactured for the sale by these retailers. The suit alleged various causes of action, including negligent misrepresentation, breach of warranty, violations of deceptive practices laws and fraud. Plaintiffs sought compensatory damages of $100 million and punitive damages. In 1997, the Superior Court twice sustained the Company's demurrers to several of plaintiffs' causes of action, but granted the plaintiffs leave to amend. In February, 1998, the Superior Court sustained the Company's demurrers to many of the individual claims, this time without granting plaintiffs leave to amend. The Superior Court also sustained the Company's demurrer to the class action allegations in plaintiffs' Third Amended Complaint, without granting leave to amend, and transferred the entire action out of the class action department. Plaintiffs have filed a notice of appeal from the class action ruling. Plaintiffs also filed a petition for a writ of mandamus or other extraordinary relief seeking immediate review of the other demurrer rulings, which petition was denied. The suit was subsequently transferred from the Superior Court for the County of Los Angeles to the Superior Court for Orange County. After the case was transferred to Orange County, the plaintiffs stipulated to a dismissal with prejudice of all individual defendants. Additionally, all remaining claims against the Company were stayed by the Court pending Plaintiffs' appeal of the dismissal of their class action allegations. Although it is impossible to predict the ultimate outcome of this litigation, the Company intends to vigorously defend this suit because it believes that the damages sought are unjustified and because this case is inappropriate for class action treatment. Because the Company believes that the two major retailers were unaware of the changes in specifications, the Company has agreed to indemnify the two major retailers with respect to the above.

The Company is also involved in various other claims and actions which arise in the normal course of business. Although the final outcome of these legal matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 4b. EXECUTIVE OFFICERS OF THE REGISTRANT

Johne F. Albanese, 38, has been with the Company since 1993 as the Vice President of Marketing and Communications (1993-1996) and Vice President of the Retail Group (since 1997).

John E. Bassett III, 40, has been with the Company since before 1993 as the Vice President and General Manager of Bassett Table and the Vice President of Wood Manufacturing.

David R. Bilyeu, 38, was the Director of Information Systems with Tokico, Inc from 1993 until 1995, the Vice President and Director of Information Systems with Harman, Inc from 1995 until 1997, and has been with the Company as Vice President and Chief Information Officer since 1997.

Grover S. Elliot, 58, was the Chief Financial Officer for Cochrane Furniture from 1993 until 1996 and has been with the Company as Vice President of Finance and Investor Relations since 1996.

Paul Fulton, 64, was the President of the Sara Lee Corporation (package food & consumer products division) until 1993, from 1994 until 1997 he was Dean of the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill, and has been Chairman and Chief Executive Officer of the Company since 1997.

Janice E. Hamlin, 45, was the Vice President of Retail Business and Product Development with Warner Bros. Consumer Products (Time Warner) from 1990 until 1996, the Vice President of Marketing for Viacom Retail Group from 1996 until 1997, and has been with the Company as Vice President of Marketing since 1997.

Jay R. Hervey, Esq., 39, was an Associate with the Richmond Office of McGuire, Woods, Battle and Boothe from 1993 through 1997 and has been the General Counsel, Corporate Vice President and Secretary for the Company since 1997.

Dennis S. Hoy, 40, was a furniture buyer with Marlo Furniture from 1987 until 1996 and has been with the Company working in the Impact Division, as Casegoods and Merchandise Manager and as Vice President of Merchandising since 1996.

John S. Lupo, 52, was the Senior Vice President and General Merchandise Manager of Wal-Mart, Inc from 1993-1996, the Senior Vice President and Chief Operating Officer of Wal-Mart International from 1996-1998, and has been the Executive Vice President for Sales and Marketing for the Company since October of 1998.

Thomas E. Prato, 43, has been with the Company since 1987 and is currently the Vice President of Sales.

Steven P. Rindskopf, 43, was the Vice President of Human Resources for The Bali Company (a division of the Sara Lee Corporation) from 1993 until 1997, the Owner & Operator of the Master's Loft (Bookstore & Cafe) Company from 1997 until 1997, and has been with the Company as Vice President, Administration and Human Resources since 1997.

Barry C. Safrit, 36, was with CHF Industries from 1993 until 1998 as Controller and as Chief Financial Officer and has been the Vice President and Chief Accounting Officer for the Company since October of 1998.

Keith R. Sanders, 54, was with Ethan Allen from 1993 until 1998 as the Vice President of Manufacturing and Vice President of Upholstery and has been the Vice President of Upholstery and Manufacturing for the Company since 1998.

Robert H. Spilman, Jr., 42, was the Company's Executive Vice President of Marketing and Merchandising from 1993 until 1997 and has served as President and Chief Operating Officer since 1997.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information contained in the Annual Report under the caption "Investor Information" with respect to number of stockholders, market prices and dividends paid is incorporated herein by reference thereto.

ITEM 6. SELECTED FINANCIAL DATA

The information for the five years ended November 28, 1998, contained in "Other Business Data" in the Annual Report is incorporated herein by reference thereto.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in "Management's Discussion and Analysis of Financial Condition and Result of Operations" in the Annual Report is incorporated herein by reference thereto.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The information contained in "Management's Discussion and Analysis of Financial Condition and Result of Operations" in the Annual Report is incorporated herein by reference thereto.

6

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes to consolidated financial statements of the Registrant and its subsidiaries contained in the Annual Report are incorporated herein by reference thereto. In addition, financial statements of the registrant's 50% or less owned significant subsidiary are included in this Form 10-K on pages F-1 to F-13.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Bassett Furniture Industries decided to change its independent Public Accountants from KPMG LLP (KPMG) to Arthur Andersen effective November 21, 1997, and KPMG was notified on that date. This decision was approved unanimously by the Board of Directors. The new management team at Bassett Furniture Industries, since taking charge in August 1997, has changed the Company's management focus and philosophy to more of a strategic focus and emphasis on return on assets employed. Management believes that Arthur Andersen's "business risk" audit approach is directly aligned with the Company's philosophy and will provide this Company's management team with invaluable information towards managing the Company better and planning for the future.

During the Company's fiscal year ended November 30, 1996 and the subsequent interim period through November 21, 1997, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which if not resolved to their satisfaction would have caused them to make reference to the subject matter of the disagreements in connection with their opinion.

The audit report of KPMG on the consolidated financial statements of the Company for the fiscal year ended November 30, 1996 did not contain an adverse opinion or disclaimer of opinion, nor was it qualified or modified as to uncertainty, audit scope or accounting principles.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained on pages 3 through 5 and page 11 of the Proxy Statement under the "Election of Directors" and "Section 16 (a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference thereto. Please see section entitled "Executive Officers of the Registrant" in part I of this report for information concerning executive officers.

ITEM 11. EXECUTIVE COMPENSATION

The information contained on pages 5 through 10 of the Proxy Statement under the captions "Organization, Compensation and Nominating Committee Report," "Stockholder Return Performance Graph," "Executive Compensation," "Supplemental Retirement Income Plan" and "Director Compensation" is incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information contained on pages 1 through 5 of the Proxy Statement under the headings "Principal Stockholders and Holdings of Management" and "Election of Directors" is incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information contained on page 5 of the Proxy statement under the heading "Certain Transactions" is incorporated herein by reference thereto.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) The following consolidated financial statements of the registrant and its subsidiaries, included in the annual report of the registrant to its stockholders for the year ended November 28, 1998 are incorporated herein by reference thereto:

Consolidated Balance Sheets--November 28, 1998 and November 30, 1997

Consolidated Statements of Operations--Years Ended November 28, 1998, November 30, 1997 and 1996

Consolidated Statements of Stockholders' Equity-- Years Ended November 28, 1998, November 30, 1997 and 1996

Consolidated Statements of Cash Flows-- Years Ended November 28, 1998, November 30, 1997 and 1996

Notes to Consolidated Financial Statements

Report of Independent Public Accountants

Financial Statements of certain significant 50% or less owned persons are included herein on pages F-1 to F-13.

(2) All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(3) Listing of Exhibits

3A. Articles of Incorporation as amended are incorporated herein by reference to Form 10- Q for the fiscal quarter ended February 28, 1994.

3B. By-laws as amended are filed herewith.

** 10A. Bassett 1993 Long Term Incentive Stock Option Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (no.33-52405) filed on February 25, 1994.

** 10B. Bassett Executive Deferred Compensation Plan is incorporated herein by reference to form 10-K for the fiscal year ended November 30, 1997.

** 10C. Bassett Supplemental Retirement Income Plan is incorporated herein by reference to form 10-K for the fiscal year ended November 30, 1997.

** 10D. Bassett 1993 Stock Plan for Non-Employee Directors is as amended filed herewith.

** 10E. Bassett 1997 Employee Stock Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (no. 333-60327) filed on July 31, 1998.

8

13. The registrant's Annual Report to Stockholders for the year ended November 28, 1998.*

21. List of subsidiaries of the registrant.

23A. Consent of Arthur Andersen LLP is filed herewith.

23B. Consent of KPMG LLP is filed herewith.

23C. Consent of Dixon Odom PLLC is filed herewith.

27. Financial Data Schedule (EDGAR filing only)

*With the exception of the information incorporated in this Form 10-K by reference thereto, the Annual Report shall not be deemed "filed" as a part of this Form 10-K.

**Management contract or compensatory plan or arrangement of the Company.

(b) No reports on Form 8-K were filed during the last quarter of the registrant's 1998 fiscal year.

9

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BASSETT FURNITURE INDUSTRIES, INCORPORATED (Registrant)

By: /s/ PAUL FULTON Date: 2/25/99

Paul Fulton
Chairman of the Board of Directors and
Chief Executive Officer

By: /s/ ROBERT H. SPILMAN JR. Date: 2/25/99

Robert H. Spilman Jr.
President and Chief Operating Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ AMY W. BRINKLEY Date: 2/25/99

Amy W. Brinkley
Director

By: /s/ PETER W. BROWN Date: 2/25/99

Peter W. Brown
Director

By: /s/ THOMAS E. CAPPS Date: 2/26/99

Thomas E. Capps
Director

By: /s/ WILLIE D. DAVIS Date: 2/25/99

Willie D. Davis
Director

By: /s/ ALAN T. DICKSON Date: 2/25/99

Alan T. Dickson
Director

By: /s/ WILLIAM H. GOODWIN, JR. Date: 2/26/99

William H. Goodwin, Jr.
Director

10

SIGNATURES Continued

By: /s/ HOWARD H. HAWORTH	Date: 2/26/99
Howard H. Haworth Director	
By: /s/ JAMES W. MCGLOTHLIN	Date: 2/26/99
James W. McGlothlin Director	
By: /s/ THOMAS W. MOSS, JR.	Date: 2/26/99
Thomas W. Moss, Jr. Director	
By:	Date:
Michael E. Murphy Director	
By: /s/ ALBERT F. SLOAN	Date: 2/26/99
Albert F. Sloan Director	
By: /s/ BARRY C. SAFRIT	Date: 2/25/99
Barry C. Safrit Vice President and Chief Accounting Officer (Principal Financial Officer)	

11

ANNUAL REPORT ON FORM 10-K
ITEM 14(a)(1) AND (c)

CERTAIN EXHIBITS

YEAR ENDED NOVEMBER 28, 1998

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

BASSETT, VIRGINIA

INTERNATIONAL HOME FURNISHINGS CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 1998, 1997 AND 1996

INTERNATIONAL HOME FURNISHINGS CENTER, INC.

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
International Home Furnishings Center, Inc.
High Point, North Carolina

We have audited the accompanying balance sheets of International Home Furnishings Center, Inc. as of October 31, 1998 and 1997 and the related statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended October 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial position of International Home Furnishings Center, Inc. at October 31, 1998 and 1997 and the results of its operations and its cash flows for each of the three years in the period ended October 31, 1998 in conformity with generally accepted accounting principles.

/s/ DIXON ODOM PLLC

High Point, North Carolina
November 25, 1998

INTERNATIONAL HOME FURNISHINGS CENTER, INC.
BALANCE SHEETS
OCTOBER 31, 1998 AND 1997

ASSETS	1998	1997
CURRENT ASSETS		
Cash and cash equivalents	$ 16,396,705	$ 5,574,018
Restricted cash(Note D)	2,275,974	--
Short-term investments	83,643	78,444
Receivables		
Trade	2,163,950	1,899,925
Interest	36,892	16,200
Deferred income tax asset	592,000	599,000
Prepaid expenses	55,965	283,063
TOTAL CURRENT ASSETS	21,605,129	8,450,650
PROPERTY AND EQUIPMENT, at cost		
Land and land improvements	3,293,772	3,293,772
Buildings, exclusive of theater complex	75,196,472	74,821,281
Furniture and equipment	3,536,662	3,464,427
	82,026,906	81,579,480
Accumulated depreciation	(41,727,981)	(39,581,587)
	40,298,925	41,997,893
OTHER ASSETS		
Theater complex, at cost less amortization(Note H)	1,020,109	1,063,364
Deferred financing costs, net of accumulated amortization of $20,883 in 1998	563,826	--
	1,583,935	1,063,364
TOTAL ASSETS	$ 63,487,989	$ 51,511,907
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable, trade	$ 833,988	$ 736,947
Accrued property taxes	1,668,201	1,662,933
Other accrued expenses	895,425	415,462
Rents received in advance	1,478,883	1,498,572
Current maturities of long-term debt	8,667,074	--
TOTAL CURRENT LIABILITIES	13,543,571	4,313,914
LONG-TERM DEBT	64,950,148	--
OTHER LONG-TERM LIABILITIES		
Supplemental retirement benefits	963,091	803,741
Deferred income tax liability	1,936,000	2,020,000
	2,899,091	2,823,741
COMMITMENT(Note H)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, $5 par value, 1,000,000 shares authorized, 527,638 shares issued and outstanding in 1998 and 1997	2,638,190	2,638,190
Additional paid-in capital	169,360	169,360
Retained earnings (deficit)	(20,712,371)	41,566,702
	(17,904,821)	44,374,252
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 63,487,989	$ 51,511,907

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.
STATEMENTS OF INCOME
YEARS ENDED OCTOBER 31, 1998, 1997 AND 1996

	1998	1997	1996
OPERATING REVENUES			
Rental income	$31,046,712	$31,099,737	$30,185,343
Other revenues	6,333,233	5,907,086	5,321,123
TOTAL OPERATING REVENUES	37,379,945	37,006,823	35,506,466
OPERATING EXPENSES			
Compensation and benefits	3,648,331	3,503,952	3,277,406
Market and promotional	2,554,960	2,705,908	2,406,917
Maintenance and building costs	743,347	1,188,784	1,714,734
Depreciation expense	2,187,359	2,191,755	2,257,549
Rent	138,835	138,835	138,835
Property taxes and insurance	2,012,249	2,061,772	2,078,482
Utilities	1,769,612	1,685,299	1,777,009
Other operating costs	472,929	439,691	558,173
TOTAL OPERATING EXPENSES	13,527,622	13,915,996	14,209,105
INCOME FROM OPERATIONS	23,852,323	23,090,827	21,297,361
NONOPERATING INCOME			
Interest income	802,224	1,552,708	1,562,480
Dividend income	4,188	3,874	2,819
TOTAL NONOPERATING INCOME	806,412	1,556,582	1,565,299
NONOPERATING EXPENSES			
Interest expense	1,517,248	--	--
TOTAL NONOPERATING EXPENSES	1,517,248	--	--
INCOME BEFORE INCOME TAXES	23,141,487	24,647,409	22,862,660
PROVISION FOR INCOME TAXES	9,103,000	9,542,000	8,413,000
NET INCOME	$14,038,487	$15,105,409	$14,449,660
BASIC EARNINGS PER COMMON SHARE	$ 26.61	$ 28.63	$ 27.13
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	527,638	527,638	532,558

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
YEARS ENDED OCTOBER 31, 1998, 1997 AND 1996

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
BALANCE, OCTOBER 31, 1995	$ 2,776,715	$ 178,252	$ 70,946,876	$ 73,901,843
Net income	--	--	14,449,660	14,449,660
Purchase and retirement of 27,705 common shares	(138,525)	(8,892)	(7,490,538)	(7,637,955)
BALANCE, OCTOBER 31, 1996	2,638,190	169,360	77,905,998	80,713,548
Net income	--	--	15,105,409	15,105,409
Dividends paid ($97.50 per common share)	--	--	(51,444,705)	(51,444,705)
BALANCE, OCTOBER 31, 1997	2,638,190	169,360	41,566,702	44,374,252
Net income	--	--	14,038,487	14,038,487
Dividends paid ($144.64 per common share)	--	--	(76,317,560)	(76,317,560)
BALANCE (DEFICIT), OCTOBER 31, 1998	$ 2,638,190	$ 169,360	$(20,712,371)	$(17,904,821)

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 1998, 1997 AND 1996

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 14,038,487	$ 15,105,409	$ 14,449,660
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,247,363	2,230,876	2,296,669
Provision for losses on accounts receivable	5,286	1,963	12,123
(Gain) loss on disposal of assets	(1,000)	2,000	(1,707)
Deferred income taxes	(77,000)	(138,000)	(67,000)
Change in assets and liabilities			
(Increase) decrease in trade and interest receivables	(290,003)	330,334	(142,682)
(Increase) decrease in prepaid expenses	227,098	(35,698)	549,905
Increase (decrease) in accounts payable and accrued expenses	582,272	(267,282)	(78,363)
Increase (decrease) in rents received in advance	(19,689)	120,952	28,833
Decrease in deferred compensation liability	--	--	(3,100)
Increase in supplemental retirement benefits	159,350	147,547	136,617
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,872,164	17,498,101	17,180,955
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in restricted cash	(2,275,974)	--	--
Purchase and construction of property and equipment	(484,257)	(146,092)	(327,533)
Proceeds from sale of property and equipment	1,000	2,000	2,500
Collections on notes receivable	--	--	25,350
Purchase of certificates of deposit	--	--	(2,000,000)
Purchase of short-term investments	(5,199)	(4,585)	(6,929)
Proceeds from maturity of certificates of deposit	--	--	2,000,000
Proceeds from maturity of short-term investments	--	150,000	1,034,865
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,764,430)	1,323	728,253
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt	75,000,000	--	--
Principal payments on long-term debt	(1,382,778)	--	--
Payment of deferred financing costs	(584,709)	--	--
Dividends paid	(76,317,560)	(51,444,705)	--
Purchase and retirement of common stock	--	--	(7,637,955)
NET CASH USED BY FINANCING ACTIVITIES	(3,285,047)	(51,444,705)	(7,637,955)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,822,687	(33,945,281)	10,271,253
CASH AND CASH EQUIVALENTS, BEGINNING	5,574,018	39,519,299	29,248,046
CASH AND CASH EQUIVALENTS, ENDING	$ 16,396,705	$ 5,574,018	$ 39,519,299
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes	$ 8,965,827	$ 9,707,600	$ 8,195,264
Interest expense	1,069,696	--	--

See accompanying notes to financial statements.

NOTE A - DESCRIPTION OF BUSINESS

The Company is the lessor of permanent exhibition space to furniture and accessory manufacturers which are headquartered throughout the United States and in many foreign countries. This exhibition space, located in High Point, North Carolina, is used by the Home Furnishings Industry to showcase its products at the International Home Furnishings Market held each April and October. The details of the operating leases with the Company's tenants are described in Note J.

The Company has been in business since June 27, 1919, and operates under the trade name of "International Home Furnishings Center."

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies relative to the carrying values of property and equipment and theater complex are indicated in the captions on the balance sheets. Other significant accounting policies are as follows:

Rental Income

Income from rental of exhibition space is recognized under the operating method. Aggregate rentals are reported as income on the straight-line basis over the lives of the leases, and expenses are charged as incurred against such income. Future rentals under existing leases are not recorded as assets in the accompanying balance sheets.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investment Securities

The Company has investments in debt and marketable equity securities. Debt securities consist of obligations of state and local governments and U. S. corporations. Marketable equity securities consist primarily of investments in mutual funds.

Management determines the appropriate classification of securities at the date of adoption and thereafter at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date. Since the Company neither buys investment securities in anticipation of short-term fluctuations in market prices or commits to holding debt securities to their maturities, investments in debt and marketable equity securities have been classified as available-for-sale. Available-for-sale securities are stated at fair value, and unrealized holding gains and losses, if significant, net of the related deferred tax effect, are reported as a separate component of stockholders' equity. Premiums and discounts on investments in debt securities are amortized over their contractual lives. Interest on debt securities is recognized in income as accrued, and dividends on marketable equity securities are recognized in income when declared. Realized gains and losses are included in income and are determined on the basis of the specific securities sold.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment and Depreciation

Additions to property and equipment are recorded at cost. Expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. Depreciation is provided primarily on the straight-line method over the following estimated useful lives:

Land improvements	10 years
Building structures	20 to 50 years
Building components	5 to 20 years
Furniture and equipment	3 to 10 years

Deferred Financing Costs

Costs associated with obtaining the term loan disclosed in Note F have been deferred and are being amortized on the straight-line method over the term of the related debt. Amortization expense charged to operations during the year ended October 31, 1998 was $20,883.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related to temporary differences between the reported amounts of assets and liabilities and their tax bases. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Earnings Per Common Share

During the year ended October 31, 1998, the Company adopted FASB Statement No. 128, "Earnings Per Share," which specifies the computation, presentation and disclosure requirements for earnings per share ("EPS"). It replaces the presentation of primary and fully diluted EPS with basic and diluted EPS. Basic EPS excludes all dilution and has been computed using the weighted average number of common shares outstanding during the year. Diluted EPS would reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company has no dilutive potential common shares.

Retirement Plans

The Company maintains a 401(k) qualified retirement plan covering eligible employees under which participants may contribute up to 25% of their compensation subject to maximum allowable contributions. The Company is obligated to contribute, on a matching basis, 50% of the first 6% of compensation voluntarily contributed by participants. The Company may also make additional contributions to the plan if it so elects.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plans (Continued)

In 1991, the Company adopted a nonqualified supplemental retirement benefits plan for key management employees. Benefits payable under the plan are based upon the participant's average compensation during his last five years of employment and are reduced by benefits payable under the Company's qualified retirement plan and by one-half of the participant's social security benefits. Benefits under the plan do not vest until the attainment of normal retirement age; however, a reduced benefit is payable if employment terminates prior to normal retirement age because of death or disability. The Company has no obligation to fund this supplemental plan.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C - ACQUISITION AND MERGER OF AFFILIATED COMPANY

On November 8, 1995, the Company and Southern Furniture Exposition Building, Inc. (SFEB) agreed to a plan to merge SFEB into the Company. On that date, in anticipation of the merger, six shareholders of SFEB who owned 527,638 shares (95.01%) of the SFEB outstanding common stock exchanged their shares in SFEB for 527,638 shares (100%) of the common stock of the Company. As of January 4, 1996, the date SFEB was merged into the Company, the Company acquired and retired the remaining 4.99% (27,705 shares) of the common stock of SFEB for cash of $7,637,955.

Because the Company and SFEB were commonly controlled, the exchange of stock and resulting merger has been accounted for at historical cost in a manner similar to a pooling of interest. Accordingly, the accompanying financial statements for the year ended October 31, 1996 are based on the assumption that the two companies were combined for the full year.

NOTE D - RESTRICTED CASH

Restricted cash consists of an interest-bearing debt service account. The Company makes semi-annual escrow deposits each May and November in amounts sufficient to provide interest and principal payments on the Company's term debt for the ensuing six months.

NOTE E - INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale securities as of October 31, 1998 and 1997:

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
State and local governments	$10,528,478	$ --	$ --	$10,528,478
U. S. corporations	3,000,000	--	--	3,000,000
Equity securities	83,643	--	--	83,643
	$13,612,121	$ --	$ --	$13,612,121

	1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
State and local governments	$1,054,136	$ --	$ --	$1,054,136
U. S. corporations	2,000,000	--	--	2,000,000
Equity securities	78,444	--	--	78,444
	$3,132,580	$ --	$ --	$3,132,580

Available-for-sale securities are classified in the following balance sheet captions as of October 31, 1998 and 1997:

	1998	1997
Cash and cash equivalents	$13,528,478	$ 3,054,136
Short-term investments	83,643	78,444
	$13,612,121	$ 3,132,580

All the Company's debt securities mature within one year.

NOTE F - LONG-TERM DEBT

Long-term debt consists of the following at October 31, 1998:

Term note payable, principal and interest are due in monthly installments of $1,137,987 through August 1, 2005, with interest included at 7.06%, collateralized by land and buildings with a carrying value of $39,939,683 at October 31, 1998	$73,617,222
Less current maturities	8,667,074
	$64,950,148

The aggregate maturities of long-term debt are due as follows:

Year Ending October 31,	
1999	$ 8,667,074
2000	9,295,564
2001	9,995,880
2002	10,735,336
2003	11,529,494
Thereafter	23,393,874
	$73,617,222

Under the provisions of the loan agreement, the Company is required, among other things, to comply with restrictive loan covenants including maintaining certain financial ratios and minimum levels of net worth and working capital. The Company was in compliance with the terms of the loan agreement at October 31, 1998.

NOTE G - INCOME TAXES

The provision for income taxes consisted of the following for the years ended October 31, 1998, 1997 and 1996:

	1998	1997	1996
Federal:			
Current	$ 7,450,000	$ 7,785,000	$ 6,740,000
Deferred	(62,000)	(109,000)	(54,000)
	7,388,000	7,676,000	6,686,000
State:			
Current	1,730,000	1,895,000	1,740,000
Deferred	(15,000)	(29,000)	(13,000)
	1,715,000	1,866,000	1,727,000
TOTAL	$ 9,103,000	$ 9,542,000	$ 8,413,000

NOTE G - INCOME TAXES (CONTINUED)

A reconciliation of the income tax provision at the federal statutory rate to the income tax provision at the effective tax rate is as follows:

	1998	1997	1996
Income taxes computed at the federal statutory rate	$ 8,100,000	$ 8,627,000	$ 8,002,000
State taxes, net of federal benefit	1,115,000	1,232,000	1,143,000
Nontaxable investment income	(196,000)	(414,000)	(411,000)
Other, net	84,000	97,000	(321,000)
	$ 9,103,000	$ 9,542,000	$ 8,413,000

The components of deferred income taxes consist of the following:

	1998	1997	1996
Deferred income tax assets:			
Rents received in advance	$ 592,000	$ 599,000	$ 551,000
Supplemental retirement benefits	384,000	321,000	264,000
TOTAL DEFERRED TAX ASSETS	976,000	920,000	815,000
Deferred income tax liabilities:			
Depreciation	(2,320,000)	(2,341,000)	(2,374,000)
TOTAL NET DEFERRED TAX LIABILITIES	$(1,344,000)	$(1,421,000)	$(1,559,000)

NOTE H - LAND LEASE COMMITMENT

During 1975, the Company completed construction of an eleven-story exhibition building. The building is constructed on land leased from the City of High Point, North Carolina under a noncancelable lease. The lease is for an initial term of fifty years with three options to renew for periods of ten years each and a final renewal option for nineteen years. Annual rental under the lease is $138,835 as of October 31, 1998 and is subject to adjustment at the end of each five-year period, such adjustment being computed as defined in the lease agreement. As part of the lease agreement, the Company constructed a theater complex for public use and office space for use by the City of High Point on the lower levels of the building. Annual rental cash payments over the initial fifty-year lease term are being reduced by $39,121 which represents amortization of the cost of the theater and office complex constructed for the City of High Point. At the termination of the lease, the building becomes the property of the City of High Point. Under the terms of the lease, the Company is responsible for all expenses applicable to the exhibition portion of the building. The City of High Point is responsible for all expenses applicable to the theater complex and office space constructed for use by the City.

NOTE I - RETIREMENT EXPENSE

Amounts expensed under the Company's retirement plans amounted to $268,856, $293,974 and $277,553 for the years ended October 31, 1998, 1997 and 1996, respectively, including $159,350, $147,547 and $136,617 under the supplemental retirement benefits plan for the years ended October 31, 1998, 1997 and 1996, respectively.

NOTE J - RENTALS UNDER OPERATING LEASES

The Company's leasing operations consist principally of leasing exhibition space. Property on operating leases consists of substantially all of the asset "buildings, exclusive of theater complex" included on the balance sheets. Accumulated depreciation on this property amounted to $38,909,532 and $36,893,568 at October 31, 1998 and 1997, respectively. Leases are typically for five-year periods and contain provisions to escalate rentals based upon either the increase in the consumer price index or increases in ad valorem taxes, utility rates and charges, minimum wage imposed by federal and state governments, maintenance contracts for elevators and air conditioning, maintenance of common areas, social security payments, increases resulting from collective bargaining contracts, if any, and such other similar charges and rates required in operating the Company. Tenants normally renew their leases.

The following is a schedule of minimum future rentals under noncancelable operating leases as of October 31, 1998, exclusive of amounts due under escalation provisions of lease agreements:

Year Ending October 31,	
1999	$26,611,372
2000	16,841,511
2001	11,655,406
2002	7,188,227
2003	1,625,780
Thereafter	223,916
Total minimum future rentals	$64,146,212

Rental income includes contingent rentals under escalation provisions of leases of $1,401,867, $1,534,413 and $1,270,969 for the years ended October 31, 1998, 1997 and 1996, respectively.

NOTE K - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits and trade accounts receivable from customers predominantly in the Home Furnishings Industry. As of October 31, 1998, the Company's bank balances exceeded federally insured limits by $3,054,561. The Company's trade accounts receivable are generally collateralized by merchandise in leased exhibition spaces which is in the Company's possession.

NOTE L - STOCKHOLDERS' DEFICIT

During the year ended October 31, 1998, the Company paid dividends of $76,317,560 resulting in a deficit in stockholders' equity of $17,904,821 at October 31, 1998. The dividends were financed, in part, with the proceeds of a $75,000,000 term loan. Although interest on the debt will negatively impact future earnings, management believes future earnings will restore stockholders' equity to a substantial positive amount and that operating cash flows will be sufficient to provide for debt service and for the Company's other financing and investing needs.

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INDEX TO EXHIBITS

Exhibit No.	
3B	Amended By-laws
10D	Bassett 1993 Stock Plan for Non-Employee Directors as amended.
13	Bassett Furniture Industries, Inc. Annual Report to Stockholders for the year ended November 28, 1998
21	List of subsidiaries of registrant
23A	Consent of Independent Public Accountants
23B	Consent of Previous Independent Public Accountants
23C	Consent of Independent Public Accountants
27	Financial Data Schedule (EDGAR filing only)

Rev. 2 '99

BY-LAWS
OF
BASSETT FURNITURE INDUSTRIES, INC.

ARTICLE I. OFFICES

The principal office of the Corporation in the State of Virginia shall be located in Bassett, County of Henry. The Corporation may have such other offices, either within or without the State of Virginia, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

ARTICLE II. SHAREHOLDERS

SECTION 1. ANNUAL MEETING. The annual meeting of the Shareholders shall be held on the last Tuesday of March of each year and the hour shall be set by the Chairman of the Board or by the President, for the purpose of electing Directors and for the transaction of such other business as may come before the meeting. If the election of Directors shall not be held on the day designated for any annual meeting of the Shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the Shareholders as soon thereafter as conveniently may be.

SECTION 2. SPECIAL MEETING. Special meetings of the Shareholders, for any purpose or purposes, unless otherwise prescribed by statute, may be called by the Chairman of the Board, by the President, or by the Board of Directors.

SECTION 3. PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Virginia unless otherwise prescribed by statute, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors.

SECTION 4. NOTICE OF MEETING. Written or printed notice stating the place, day and hour of the meeting and, in case of special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than 10 nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the Officer or persons calling the meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Shareholder at his address as it appears on the stock transfer books of the Corporation, with postage thereon prepaid. In the event the purpose or purposes for which a special or general meeting may be called are such that the law required a longer notice prior to the meeting, such notice shall be as required by the law.

SECTION 5. QUORUM. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of Shareholders.

If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice.

SECTION 6. PROXIES. At all meetings of Shareholders, a Shareholder may vote by proxy executed in writing by the Shareholder or by his duly authorized attorney in fact. Such proxy shall be filed with the Secretary of the Corporation before or at the time of the meeting.

SECTION 7. VOTING OF SHARES. Each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of Shareholders.

SECTION 8. VOTING OF SHARES BY CERTAIN HOLDERS. Shares standing in the name of another corporation may be voted by such Officer, agent or proxy as the by-laws of such corporation may prescribe, or, in the absence of such provision, as the Board of Directors of such corporation may determine.

Shares held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

A Shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to the Corporation or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting, and shall not be counted in determining the total number of outstanding shares at any given time.

SECTION 9. NOMINATIONS FOR DIRECTORS. Nominations for the election of Directors shall be made by the Board of Directors or by any Shareholder entitled to vote in elections of Directors. However, any Shareholder entitled to vote in elections of Directors may nominate one or more persons for election as Directors at an annual meeting only if written notice of such Shareholder's intent to make such nomination or nominations has been given, either by personal delivery or by United States registered or certified mail, postage prepaid, to the Secretary of the Corporation not later than 90 days prior to the date of the anniversary of the immediately preceding annual meeting. Each notice shall set forth (i) the name and address of the Shareholder who intends to make the nomination and of the person or persons to be nominated, (ii) a representation that the Shareholder is a holder of record of shares of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice, (iii) a description of all arrangements or understandings between the Shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the Shareholder, and (iv) such other information regarding each nominee proposed by such Shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors, and shall include a consent signed by each such nominee, to serve as a Director of the Corporation if so elected. The Chairman of the meeting may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedure.

SECTION 10. NOTICE OF BUSINESS AT ANNUAL MEETING. To be properly brought before an annual meeting of Shareholders, business must be (i) specified in the Notice of Meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) otherwise properly brought before the annual meeting by a Shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a Shareholder, the Shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a Shareholder's notice must be given, either by personal delivery or by United States registered or certified mail, postage prepaid, to the Secretary of the Corporation not later than 160 days prior to the date of the anniversary of the immediately preceding annual meeting. A Shareholders' notice to the Secretary shall set forth as to each matter the Shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address of record of the Shareholder proposing such business, (iii) the class and number of shares of the Corporation that are beneficially owned by the Shareholder and (iv) any material interest of the Shareholder in such business. In the event that a Shareholder attempts to bring business before an annual meeting without complying with the foregoing procedure, the Chairman of the meeting may declare to the meeting that the business was not properly brought before the meeting and, if he shall so declare, such business shall not be transacted.

ARTICLE III. BOARD OF DIRECTORS

SECTION 1. GENERAL POWERS: The business and affairs of the Corporation shall be managed by its Board of Directors.

SECTION 2. NUMBER, TENURE AND QUALIFICATIONS. The number of Directors of the Corporation shall be eleven. Each Director shall hold office until the next annual meeting of the Shareholders and until his successor shall have been elected and qualified.

SECTION 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this By-law immediately prior to, and at the same place as, the annual meeting of Shareholders. The Board of Directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by the Chairman of the Board on at least 24-hours' notice to each Director of the date, time and place thereof, and shall be called by the Chairman of the Board or by the Secretary on like notice on the request in writing of a majority of the total number of Directors in office at the time of such request. The time and place of the special meeting shall be stated in the notice.

SECTION 5. NOTICE. Notice of any special meeting shall be given at least 24-hours previously thereto by written notice delivered personally or mailed to each Director at his business address, or by telegram. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company. Any Director may waive notice of any meeting. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 6. QUORUM. A majority of the number of Directors fixed by Section 2 of this Article III shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

SECTION 7. MANNER OF ACTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 8. VACANCIES. Any Directorship to be filled by reason of any vacancy occurring in the Board of Directors or of an increase in the number of Directors shall be filled at any Director's meeting or any Stockholder's meeting.

SECTION 9. COMPENSATION. By resolution of the Board of Directors, the Directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 10. PRESUMPTION OF ASSENT. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

SECTION 11. REDEMPTION OF SHARES. Pursuant to Section 13.1-728.7 of the Virginia Stock Corporation Act, the Board may redeem shares [at the price established by Section 13.1-728.7.C] if the requirements of either Section 13.1-728.7.A or Section 13.1-728.7.B have occurred.

ARTICLE IV. OFFICERS

SECTION 1. NUMBER. The Officers of the Corporation shall be a Chairman of the Board of Directors and Chief Executive Officer, a President, Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. More than one office may be held by the same person with the exception that the same person cannot hold the office of President and Secretary at the same time. Such other Officers and assistant Officers as may be deemed necessary may be elected or appointed by the Board of Directors.

SECTION 2. ELECTION AND TERM OF OFFICE. The Officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the meeting held after each annual meeting of the Shareholders. If the election of Officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Each Officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3. REMOVAL. Any Officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

SECTION 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

SECTION 5. CHAIRMAN OF THE BOARD. The Chairman of the Board and the Chief Executive Officer shall be the principal executive Officer of the Corporation, and, subject to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. He shall, when present, preside at all meetings of the Board of Directors.

SECTION 6. PRESIDENT. The President shall be the principal executive Officer under the immediate supervision of the Chairman of the Board and subject to the supervision of the Chairman of the Board and to the control of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. He may sign, with the Secretary or any other proper Officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-laws to some other Officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 7. VICE PRESIDENTS. In the absence of the President or in event of his death, inability or refusal to act, a Vice President shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.

The Vice Presidents shall perform such other duties as from time to time may be assigned to them by the President or by the Board of Directors.

SECTION 8. SECRETARY. The Secretary shall: (a) keep the minutes of the Shareholders and of the Board of Directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-laws or as required by law; (c) be custodian of the corporate records and of the Seal of the Corporation and see that the Seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its Seal is duly authorized; (d) keep a register of the post office address of each Shareholder which shall be furnished to the Secretary by such Shareholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

SECTION 9. TREASURER. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. He shall (a) have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositaries as shall be selected in accordance with the provisions of Article V of these By-laws; and (b) in general perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

SECTION 10. SALARIES. The salaries of the Officers shall be fixed from time to time by the Board of Directors or by authority of the Board of Directors delegated to the Chairman of the Board or the President, and no Officer shall be prevented from receiving such salary by reason of the fact that he is also a Director of the Corporation.

ARTICLE V. CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS. The Board of Directors may authorize any Officer or Officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 2. LOANS. No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 3. CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such Officer or Officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositaries as the Board of Directors may select.

ARTICLE VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President and by the Secretary or by such other Officers authorized by law and by the Board of Directors so to do. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the Stock Transfer Books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the Stock Transfer Books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of authority to transfer, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 3. RESTRICTION ON TRANSFER. To the extent that any provision of the Rights Agreement between the Corporation and Dominion Trust, as Rights Agent, dated May 4, 1988, is deemed to constitute a restriction on the transfer of any securities of the Corporation, including, without limitation, the Rights, as defined therein, such restriction is hereby authorized by the By-laws of the Corporation.

ARTICLE VII. FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of December and end on the 30th day of November of each year.

ARTICLE VIII. DIVIDENDS

The Board of Directors may from time to time declare, and the Corporation may pay, dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and its Articles of Incorporation, and may set the stock "of record" date for such payment.

ARTICLE IX. SEAL

The Board of Directors shall provide a Corporate Seal which shall be circular in form and shall have inscribed thereon the name of the Corporation, the State of Incorporation and the words, "Corporate Seal."

ARTICLE X. WAIVER OF NOTICE

Unless otherwise provided by law, whenever any notice is required to be given to any Director of the Corporation under the provisions of these By-laws or under the provisions of the Articles of Incorporation, a waiver thereof in writing signed by such Director entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

ARTICLE XI. AMENDMENTS

These By-laws may be altered, amended or repealed and new By-laws may be adopted by the Board of Directors. But By-laws made by the Board of Directors may be repealed or changed, and new By-laws made, by the Shareholders at any annual Shareholders meeting or at any special Shareholders meeting when the proposed changes have been set out in the notice of such meeting.

ARTICLE XII. INDEMNIFICATION OF DIRECTORS AND OFFICERS

SECTION 1. The Corporation shall indemnify to the extent, in the manner and subject to compliance with the applicable standards of conduct provided by Section 13.1, et seq of the Virginia Stock Corporation Act of the Code of Virginia, as revised, every person who is or was (i) a Director or Officer of the Corporation (ii) an employee, including an employee of a subsidiary of the Corporation who is designated by the Board of Directors, or (iii) at the corporation, partnership, joint venture, trust or other enterprise who is designated from time to time by the Board of Directors.

SECTION 2. The indemnification hereby provided shall be applicable to claims, actions, suits or proceedings made or commenced after the adoption hereof, whether arising from actions or omissions to act occurring, before or after the adoption hereof. Such indemnification (i) shall not be deemed exclusive of any other rights to which any person seeking indemnification under or apart from this Article XII may be entitled under any By-law, agreement, vote of Stockholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, (ii) shall continue as to a person who has ceased to be a Director, Officer, employee, or agent, (iii) shall inure to the benefit of the heirs, executor or administrator of such a person and (iv) shall inure to any individual who has served, or may now or hereafter serve, as a Director or Officer of a corporation which is a subsidiary of this Corporation, provided however, that no indemnification shall be afforded as to acts of any Officer or Director of a subsidiary for any period prior to the time such Corporation became a subsidiary. The term subsidiary as used in this Section shall mean any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in such chain owns stock possessing at least fifty percent of the voting power in one of the other corporations in such chain.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

1993 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS

1. PURPOSE. This Plan is intended to provide Directors who are not employees of the Company a sense of proprietorship and personal involvement in the development and financial success of the Company and to encourage such Directors to remain with and to devote their best efforts to the Company.

2. DEFINITIONS. Whenever used in the Plan, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

(a) "Award" means an award pursuant to Sections 8 through 10 of the Plan.

(b) "Board" or "Board of Directors" means the Board of Directors of the Company.

(c) "Common Stock" means the Common Stock, $5.00 par value, of the Company and any other stock or securities resulting from the adjustment thereof or substitution therefor as described in Section 11 below.

(d) "Company" means Bassett Furniture Industries, Incorporated, a Virginia corporation, and any corporation succeeding to the Company's rights and obligations hereunder.

(e) "Compensation" means the annual fee payable by the Company to a Director for a year of service as a Director without reduction for withholding taxes and exclusive of reimbursement for expenses, meeting attendance fees and the value of any fringe benefits which the Director receives or is entitled to receive as a Director of the Company.

(f) "Director" means a member of the Board of Directors of the Company who is not a regular employee of the Company or its subsidiaries.

(g) "Disability" means the condition which results when an individual has become permanently and totally disabled within the meaning of Section 72(m)(7) of the Internal Revenue Code of 1986.

(h) "Election" means an election to receive an Award pursuant to Section 8 of the Plan.

(i) "Elective Award" means an award pursuant to an Election under Section 8 of the Plan.

(j) "Elective Award Agreement" means the written agreement between a Director and the Company evidencing the Company's agreement to issue Common Stock pursuant to an Election under the Plan and setting forth or incorporating the terms and conditions thereof.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value", with respect to a share of the Common Stock on a particular date, shall be (i) if such Common Stock is listed on a national securities exchange or a foreign securities exchange or traded on the NASDAQ National Market System, the closing sale price of the Common Stock on said date on the national securities exchange, the foreign securities exchange or the NASDAQ national Market System on which the Common Stock is principally traded, or, if no sales occur on said date, then on the next preceding date on which there were such sales of Common Stock, or (ii) if the Common Stock shall not be listed on a national securities exchange or a foreign securities exchange or traded on the NASDAQ National Market System, the mean between the highest and lowest prices reported by the National Association of Securities Dealers, Inc. for the over-the-counter market on said date or, if the highest and lowest prices are not reported on said date, then on the next preceding date on which there were such quotations, or (iii) if at any time quotations for the Common Stock shall not be reported by the National Association of Securities Dealers, Inc. for the over-the-counter market and the Common Stock shall not be listed on any national securities exchange or any foreign securities exchange or traded on the NASDAQ National Market System, the fair market value based on quotations for the Common Stock by market makers or other securities dealers as determined by the Board of Directors in such manner as the Board may deem reasonable.

(m) "Option" means a stock option granted pursuant to this Plan.

(n) "Optionee" means the person to whom an Option is granted.

(o) "Option Price" is defined in Section 6.

(p) "Payment Date" is defined in Section 10.

(q) "Plan" means this 1993 Stock Plan for Non-Employee Directors, as in effect from time to time.

(r) "Stock Option Agreement" means the written agreement between an Optionee and the Company evidencing the grant of an Option under the Plan and setting forth or incorporating the terms and conditions thereof.

3. ADMINISTRATION. The Plan shall be administered by the Board of Directors. The Board shall have all of the powers necessary to enable it properly to carry out its duties under the Plan, including but not limited to the power and duty to construe and interpret the Plan and to determine all questions that shall arise under the Plan, which interpretations and determinations shall be conclusive and binding upon all persons. Subject to the express provisions of the Plan,

the Board may establish from time to time such regulations, provisions and procedures which in its opinion may be advisable in the administration of the Plan.

Notwithstanding the foregoing or any other provision of this Plan to the contrary, no discretion concerning decisions regarding the Plan shall be afforded to a person who is not a "disinterested person" (as defined in the rules and regulations of the Securities and Exchange Commission under Section 16 of the Act, as in effect from time to time). In the event that it is necessary for the proper administration of the Plan to exercise any such discretion, and the Board is so precluded from exercising such discretion, the Board may delegate any authority to exercise such discretion to a person or committee of persons, each of whom is a "disinterested person" as so defined.

4. ELIGIBILITY; OPTION GRANTS. Each Director shall automatically be granted an option to purchase 2,500 shares upon first election to the Board and an option to purchase 1,000 shares (subject to adjustment or substitution pursuant to Section 11 hereof from the date hereof, irrespective of whether such option has been granted) of the Common Stock on each of the grant dates of April 1 of each year beginning on April 1, 1994; provided, however, that such automatic grants shall be made pro rata to all Directors if on the date of a grant there shall not be a number of shares sufficient to make all such grants.

5. SHARES AVAILABLE. The Board of Directors shall reserve for the purposes of the Plan, and by adoption of the Plan does hereby reserve, out of the authorized but unissued Common Stock, a total of 75,000 shares of Common Stock of the Company (subject to adjustment or substitution pursuant to Section 11 hereof). In the event that an Option granted or Award under the Plan to any Director expires or is terminated unexercised or is forfeited as to any shares covered thereby, such shares shall not thereafter be available for the granting of Options or Awards under the Plan and the reserve for such shares shall be terminated.

6. OPTION PRICE. The price at which each share of Common Stock (subject to adjustment pursuant to Section 11 hereof) may be purchased upon the exercise of an Option (the "Option Price") shall be the Fair Market Value of the shares of Common Stock subject to the Option on the date such Option is granted.

7. EXERCISE OF OPTIONS.

(a) Each option granted under the Plan by its terms shall require the Director granted such option to remain available to serve as a Director of the Company for six months from the date of the grant of such option before the right to exercise any part of such option will accrue. A Director may thereafter exercise any or all of such option until the expiration or termination of the option; provided, that not less than 100 shares may be purchased at any one time unless the number of shares purchased is the total number at such time purchasable under the option. Subject to earlier termination as provided herein, all options granted under this Plan shall expire ten years from the date of grant thereof.

(b) If an optionee shall cease to be a Director of the Company otherwise than by reason of such optionee's death or Disability or a Change of Control (as hereinafter defined), then, subject to Subsection 7(a) hereof, the option shall be exercisable at any time prior to the earlier of (i) the expiration date of such option or (ii) that date which is three years from the date such optionee ceases to be a Director, such three year period to include the date on which such termination occurs. If an Optionee ceases to be a Director of the Company as a result of such optionee's death or Disability, then, subject to Subsection 7(a) hereof, the option shall be exercisable at any time prior to the earlier of (i) the expiration date of such option or (ii) that date which is one year from the date such optionee ceases to be a Director. If an optionee ceases to be a Director by reason of a Change of Control, then such option shall be exercisable in full, whether or not it is exercisable on the date of such termination, at any time prior to the earlier of (i) the expiration date of such option or (ii) that date which is one year from the date such optionee ceases to be a Director.

(c) Each Option granted under the Plan by its terms shall not be transferable by the Optionee otherwise than by will, or if the Optionee dies intestate, by the laws of descent and distribution, and such Option shall be exercisable during such Optionee's lifetime only by such Optionee. In the event of the death of an Optionee, then, subject to Subsection 7(a) hereof, such Optionee's Options shall be exercisable to the extent herein provided by the executor or personal representative of the Optionee's estate or by any person who acquired the right to exercise such Option by bequest under the Optionee's will or by inheritance.

(d) Each Option shall be confirmed by a Stock Option Agreement executed by the Company and by the Optionee to whom such Option is granted.

(e) The Option Price for each share of Common Stock purchased pursuant to the exercise of each Option shall, at the time of the exercise of the Option, be paid in full in cash or equivalent. An Option shall be deemed exercised only when written notice of such exercise, together with payment of the Option Price, is received from the Optionee by the Company at its principal office. No Optionee shall have any rights as a shareholder of the Company with respect to Common Stock issuable pursuant to such Optionee's Option until such Option is duly exercised.

(f) To the extent that an Option is not exercised within the period of time prescribed therefor as set forth in the Plan, the Option shall lapse and all rights of the Optionee thereunder shall terminate.

8. ELECTIVE GRANT OF STOCK. In addition, after approval of the Plan as provided in Section 17 hereof, each Director may, in lieu of receiving Compensation in accordance with the prevailing practice of the Company, irrevocably elect each year (the "Election") to receive at least 50% of his Compensation for the next succeeding year in the form of an Award (the "Elective Award"). The Election must be in writing and must be delivered to the Secretary of the Corporation on or about the date of election of the Director to serve the ensuing one-year term. The Election shall be deemed made on the day it is received by the Secretary of the Corporation. Further, the Director may elect to receive any quarterly payment of the Director's annual compensation in the form of an Elective Award to be granted on the quarterly payment date,

provided such Election is made prior to the beginning of the quarterly payment period (except as to the first quarterly payment period, with respect to which a Director may make the Election on or about the date of the Director's election serve the ensuing one-year term).

9. NUMBER OF SHARES IN ELECTIVE AWARD. The total number of shares of Common Stock to be included in each Elective Award shall be determined by dividing the amount of the Director's Compensation that is to be paid in Common Stock by 90% of the Fair Market Value of a share of stock on the Payment Date. In the event that on the Payment Date there is not a sufficient number of shares of Common Stock available to make all of the Awards then elected, such Awards shall be made on a pro rata basis; provided, however, in no event shall an Award be made which, on the date of the Award, is equal to less than 50% of a Director's Compensation for such year. In no event shall the Company be required to issue fractional shares. Whenever under the terms of this Section 9 a fractional share of Common Stock would otherwise be required to be issued, an amount in lieu thereof shall be paid in cash based upon the Fair Market Value of such fractional share on the date of the Award.

10. ELECTIVE AWARD. The Elective Award shall be granted on the April 1 following the Election, or, in the event April 1 is not a business day, on the next business day thereafter (the "Payment Date"). On the Payment Date, the Company shall agree to issue to the Director 1/3 of the total number of shares subject to the Award on the first anniversary of the Payment Date, 1/3 of the total number of shares subject to the Award on the second anniversary of the Payment Date, and the remaining 1/3 of the total number of shares subject to the Award on the third anniversary of the Payment Date. In event that prior to the issuance of such shares to the Director such Director shall cease to be a member of the Board for any reason, the total number of shares subject to the Award, which have not yet been issued to the Director shall be issued to the Director within 30 days of such termination. Each Elective Award under the Plan by its terms shall not be transferable by the Director otherwise than by will, or if such Director dies intestate, by the laws of descent and distribution. In the event of the death of the Director who has made an Election, then any shares issuable to such Director pursuant to such Director's Elective Award shall be issued in the name of such Director's beneficiary designated by the Director in accordance with the Plan, or, in the event no such beneficiary has been designated or such designated beneficiary fails to survive such Director, such shares shall be issued in the name of such Director's estate. Each Award shall be confirmed by an Elective Award Agreement executed by the Company and by the Director to whom such Award is made.

11. ADJUSTMENT OF NUMBER OF SHARES. In the event that a dividend shall be declared upon the Common Stock payable in shares of Common Stock, the number of shares of Common Stock then subject to any Option or Award and the number of shares reserved for issuance pursuant to the Plan but not yet covered by an Option or an Award shall be adjusted by adding to each such share the number of shares which would be distributable thereon if such share had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend. In the event that the outstanding shares of Common Stock generally shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, or changed into or exchanged for cash or property or the right to receive cash or property (but not including any dividend payable in cash or property other than a liquidating distribution), whether through reorganization, recapitalization, stock

split-up, combination of shares, merger or consolidation, then there shall be substituted for each share of Common Stock subject to any Option or Award, and for each share of Common Stock reserved for issuance pursuant to the Plan but not yet covered by an Option or an Award, the number and kind of shares of stock or other securities or cash or property or the right to receive cash or property into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged. In the case of any such substitution or adjustment as provided for in this Section 11, the aggregate Option Price for each share or shares covered thereby prior to such substitution or adjustment shall be the aggregate Option Price for all shares of stock or other securities or cash or property or the right to receive cash or property which shall have been substituted for such share or shares or to which such share or shares shall have been adjusted pursuant to this Section 11. No adjustment or substitution provided for in this Section 11 shall require the Company in any Stock Option Agreement or Elective Award Agreement to issue a fractional share and the total substitution or adjustment with respect to each Stock Option Agreement or Elective Award Agreement shall be limited accordingly.

12. CHANGE OF CONTROL.

(a) In the event of a Change of Control (as defined below) of the Company, (i) all Stock Options then outstanding shall become fully exercisable as of the date of the Change of Control, whether or not then exercisable and (ii) all Awards shall be issued to a Director in full in accordance with Section 10 above, subject to the limitation that any Stock Option which has been outstanding less than six months on the date of the Change of Control shall not be afforded such treatment.

(b) A "Change of Control" of the Company means, and shall be deemed to have occurred upon any of the following events:

(i) The acquisition by any person, individual, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (collectively, Persons) of beneficial ownership (the phrases "beneficial ownership", "beneficial owners" and "beneficially owned" as used herein being within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then outstanding shares of common stock of the Company (the Outstanding Company Common Stock) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); provided, however, that the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company or any of its subsidiaries, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries, (iv) any acquisition by any corporation with respect to which, following such acquisition, more than 75% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors are then beneficially owned by all or substantially all of the Persons who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such acquisition in substantially the same proportions as their beneficial ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

(ii) Individuals who, as of August 2, 1989, constitute the Board of Directors of the Company (the Incumbent Board) cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual who becomes a director subsequent to August 2, 1989 and whose election, or whose nomination for election by the Company's shareholders, to the

Board of Directors was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the Persons who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own more than 75% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation in substantially the same proportions as their beneficial ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

(iv) Approval by the shareholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, more than 75% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned by all or substantially all of the Persons who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their beneficial ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be.

13. AMENDMENT OF PLAN. The Board of Directors shall have the right to amend, suspend or terminate the Plan at any time; provided that, except as and to the extent authorized and permitted by Section 11 above, (a) no amendment, suspension or termination shall adversely affect the rights of any Optionee as to any outstanding Option without the consent of such Optionee, subject to any limitation on such rights set forth in the Plan or such Optionee's Stock Option Agreement except for any amendment the Board deems necessary to preserve or provide exemptions from the applicability of Section 16(b) of the Exchange Act to the grant, lapse,

disposition, cancellation or exercise of Options; and (b) no amendment relating to the determination of the Optionees, the grant dates, the number of Options granted to any Optionee or the Option Price, shall be made more than once every six months, other than to comport with changes in the Internal Revenue Code of 1986, the Employee Retirement Income Security Act or the rules thereunder. In no event shall the Board of Directors have the right to amend the Plan to provide that discretion concerning decisions regarding the Plan shall be afforded to a person who is not a "disinterested person" under Section 16(b) of the Exchange Act.

14. RESALES OF SHARES. The Company may impose such restrictions on the sale or other disposition of shares issued pursuant to the exercise of Options or upon the payment of an Award as the Board deems necessary to comply with applicable securities laws. Certificates for shares issued upon the exercise of Options or the payment of Awards may bear such legends as the Company deems necessary to give notice of such restrictions.

15. COMPLIANCE WITH LAW AND OTHER CONDITIONS. No shares shall be issued pursuant to the exercise of any Option of the payment of any Award granted under the Plan prior to compliance by the Company, to the satisfaction of its counsel, with any applicable laws. The Company shall not be obligated to (but may in its discretion) take any action under applicable federal or state securities laws (including registration or qualification of the Plan, the Options or the Common Stock) necessary for compliance therewith in order to permit the issuance of shares upon the granting of Awards or upon the exercise of Options or the immediate resale thereof by Optionees, except for actions (other than registration or qualification) that may be taken by the Company without unreasonable effort or expense and without the incurrence of any material exposure to liability.

16. NONQUALIFIED OPTIONS. Options granted under the Plan will not be treated as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986.

17. EFFECTIVE DATE AND DURATION. The Plan shall be effective on November 3, 1993, subject to approval of the Plan by the holders of a majority of the shares presented or represented at the 1994 Annual Meeting of Shareholders. The Plan shall terminate on October 31, 2003.

EXHIBIT 13

CONSOLIDATED BALANCE SHEETS

Bassett Furniture Industries, Incorporated and Subsidiaries
November 28, 1998 and November 30, 1997
(dollars in thousands except per share data)

Assets

	1998	1997
CURRENT ASSETS		
Cash and cash equivalents	$ 5,499	$ 14,359
Short-term investments	8,923	61,904
Trade accounts receivable, less allowances for doubtful accounts (1998 - $2,200; 1997 - $1,984)	59,203	57,327
Inventories	47,285	41,714
Prepaid expenses	2,038	1,405
Refundable income taxes	8,018	5,025
Deferred income taxes	12,682	15,476
	143,648	197,210
PROPERTY AND EQUIPMENT		
Buildings	48,956	50,021
Equipment	133,147	114,495
	182,103	164,516
Accumulated depreciation	(129,005)	(124,547)
	53,098	39,969
Land	3,289	3,510
	56,387	43,479
OTHER ASSETS		
Investment securities	50,739	33,196
Investment in affiliated companies	52,769	30,502
Deferred income taxes	--	1,866
Assets held for sale	1,023	3,506
Other	16,948	10,566
	121,479	79,636
	$321,514	$320,325

Liabilities and Stockholders' Equity

	1998	1997
CURRENT LIABILITIES		
Accounts payable	$ 20,221	$ 21,694
Accrued liabilities	24,514	26,213
	44,735	47,907
LONG-TERM LIABILITIES		
Employee benefits	11,272	11,248
Deferred income taxes	595	--
	11,867	11,248
COMMITMENTS AND CONTINGENCIES (NOTES H AND K)		
STOCKHOLDERS' EQUITY		
Common stock, par value $5 a share, 50,000,000 shares authorized	64,425	65,256
Additional paid-in capital	--	2,438
Retained earnings	193,130	188,761
Unrealized holding gains, net of income tax effect	8,286	5,575
Unamortized stock compensation	(929)	(860)
	264,912	261,170
	$321,514	$320,325

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

CONSOLIDATED STATEMENTS OF OPERATIONS

Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 28, 1998, November 30, 1997 and November 30, 1996
(dollars in thousands except per share data)

	1998	1997	1996
NET SALES	$397,557	$446,893	$450,717
COSTS AND EXPENSES			
Cost of sales	323,904	396,875	379,259
Selling, general and administrative	64,002	84,694	64,152
Restructuring and impaired fixed asset charges	--	20,646	--
	387,906	502,215	443,411
INCOME (LOSS) FROM OPERATIONS	9,651	(55,322)	7,306
OTHER INCOME, NET	11,445	13,367	14,982
INCOME (LOSS) BEFORE INCOME TAXES	21,096	(41,955)	22,288
INCOME TAXES	5,379	(22,346)	3,787
NET INCOME (LOSS)	$ 15,717	$ (19,609)	$ 18,501
NET INCOME (LOSS) PER SHARE			
Basic	$ 1.21	$ (1.50)	$ 1.39
Diluted	$ 1.20	$ (1.50)	$ 1.39

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 28, 1998, November 30, 1997 and November 30, 1996
(dollars in thousands)

	Common Stock		Additional paid-in capital	Retained earnings	Unrealized holding gains	Unamortized stock compensation
	Shares	Amount				
BALANCE, DECEMBER 1, 1995	13,658,953	$68,295	$ --	$225,719	$4,890	$ --
Net income	--	--	--	18,501	--	--
Cash dividends	--	--	--	(10,626)	--	--
Issuance of Common Stock to non-employee directors	985	5	20	--	--	--
Purchase and retirement of Common Stock	(584,343)	(2,922)	(20)	(11,177)	--	--
Net change in unrealized holding gains	--	--	--	--	(1,204)	--
BALANCE, NOVEMBER 30, 1996	13,075,595	65,378	--	222,417	3,686	--
Net loss	--	--	--	(19,609)	--	--
Cash dividends	--	--	--	(13,041)	--	--
Issuance of Common Stock to non-employee directors	4,288	21	86	--	--	--
Purchase and retirement of Common Stock	(60,000)	(300)	(44)	(1,006)	--	--
Issuance of Restricted Common Stock to officers	31,396	157	714	--	--	(871)
Amortization of stock compensation	--	--	--	--	--	11
Stock option grants	--	--	1,682	--	--	--
Net change in unrealized holding gains	--	--	--	--	1,889	--
BALANCE, NOVEMBER 30, 1997	13,051,279	65,256	2,438	188,761	5,575	(860)
Net income	--	--	--	15,717	--	--
Cash dividends	--	--	--	(10,393)	--	--
Issuance of Common Stock to non-employee directors	573	3	12	--	--	--
Purchase and retirement of Common Stock	(185,300)	(927)	(2,896)	(955)	--	--
Issuance of Restricted Common Stock to officers	16,836	85	459	--	--	(544)
Forfeitures of Restricted Stock	(9,435)	(47)	(224)	--	--	271
Amortization of stock compensation	--	--	--	--	--	204
Exercise of stock options	11,000	55	211	--	--	--
Net change in unrealized holding gains	--	--	--	--	2,711	--
BALANCE, NOVEMBER 28, 1998	12,884,953	$64,425	--	$193,130	$8,28	$ (929)

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 28, 1998, November 30, 1997 and November 30, 1996
(dollars in thousands except per share data)

Operating Activities	1998	1997	1996
Net income (loss)	$ 15,717	$(19,609)	$ 18,501
Adjustments to reconcile net income to net cash provided by operating activities:			
Unused reserves for impairment of assets	2,000	11,181	--
Depreciation and amortization	6,870	6,192	6,312
Equity in undistributed income of affiliated companies	(5,784)	(5,926)	(5,422)
Provision for losses on trade accounts receivable	216	7,706	241
Net (gain) loss from sales of investment securities	(1,446)	(1,804)	(6,720)
Net (gain) loss from sales of property and equipment	(2,402)	970	(29)
Compensation earned under restricted stock and stock option plans	204	1,693	--
Deferred income taxes	3,516	(18,549)	527
Changes in long-term liabilities	24	413	538
Changes in operating assets and liabilities:			
Trade accounts receivable	(2,092)	384	2,934
Other receivables	--	(168)	127
Inventories	(5,571)	25,368	14,144
Prepaid expenses	(633)	88	265
Accounts payable and accrued liabilities	(3,172)	17,561	(4,144)
Refundable income taxes	(2,993)	(4,180)	(1,747)
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,454	21,320	25,527
Investing Activities			
Purchases of property and equipment	(22,610)	(10,824)	(9,627)
Proceeds from sales of property and equipment	7,717	1,875	91
Purchases of investment securities	(16,176)	(65,385)	(6,588)
Proceeds from sales of investment securities	57,510	4,903	20,793
Dividends from affiliated company	31,517	21,245	--
Investment in affiliated company	(50,000)	--	--
Change in investment in corporate owned life insurance	(3,900)	(1,153)	738
Issuance of notes receivable	(3,383)	--	--
Other	901	(623)	(260)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,576	(49,962)	5,147
Financing Activities			
Proceeds from issuance of Common Stock	281	107	25
Purchases of Common Stock	(4,778)	(1,350)	(14,119)
Cash dividends	(10,393)	(13,041)	(10,626)
NET CASH USED IN FINANCING ACTIVITIES	(14,890)	(14,284)	(24,720)
Change In Cash And Cash Equivalents	(8,860)	(42,926)	5,954
Cash And Cash Equivalents -- beginning of year	14,359	57,285	51,331
Cash And Cash Equivalents -- end of year	$ 5,499	$ 14,359	$ 57,285
Supplemental Disclosure Of Cash Flow Information:			
Interest payments	$ 7,240	$ 8,205	$ 5,495
Income tax payments	$ 4,656	$ 1,402	$ 5,007

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Bassett Furniture Industries, Incorporated and Subsidiaries
(dollars in thousands except per share data)

A. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION AND FISCAL YEAR

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions are eliminated in consolidation. The Company changed its fiscal year effective 1998 to end on the Saturday nearest November 30. Prior to 1998, the fiscal year ended on November 30.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain amounts in the 1997 and 1996 financial statements have been reclassified to conform with the 1998 presentation.

CASH EQUIVALENTS

All temporary, highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The carrying amount approximates fair value.

SHORT-TERM INVESTMENTS

Investments in municipal bonds with original maturities of more than three months and a remaining maturity of one year or less are considered to be short-term investments. The carrying amount approximates fair value.

TRADE ACCOUNTS RECEIVABLE

The Company has only one business segment, the manufacture and sale of household furniture. Substantially all of the Company's trade accounts receivable are due from retailers throughout the United States. The Company performs on-going evaluations of its customers' credit worthiness and generally requires no collateral. There is no disproportionate concentration of credit risk.

INVENTORIES

All inventories are valued at the lower of last-in, first-out (LIFO) cost or market value.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the respective assets utilizing straight-line and accelerated methods. The Company reviews the carrying value of property and equipment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Measurement of any impairment would include a comparison of estimated future operating cash flows anticipated to be generated during the remaining life to the net carrying value of the asset.

INVESTMENT SECURITIES

The Company classifies its investment securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and reported as a separate component of stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income and are determined using the specific identification method for ascertaining the cost of securities sold.

INVESTMENT IN AFFILIATED COMPANIES

The equity method of accounting is used for the Company's investment in affiliated companies in which the Company exercises significant influence but does not maintain control.

ASSETS HELD FOR SALE

Several manufacturing facilities, with their related equipment, were closed during 1997 and 1998, and are being held for sale. Those facilities were written down to their estimated fair market value, and depreciation of the facilities was terminated at the time of closure.

INVESTMENT IN CORPORATE OWNED LIFE INSURANCE (COLI)

The Company is the beneficiary of life insurance policies with a face value of $2,207,334, which are maintained to fund various employee and director benefit plans. Policy loans outstanding of $57,496 and $106,775 at November 28, 1998 and November 30, 1997, respectively, are recorded as a reduction in the policies' cash surrender value, which is included in other assets in the accompanying consolidated balance sheets. The net life insurance expense, which includes premiums and interest on policy loans, net of increases in cash surrender values and death benefits received, is included in other income in the accompanying consolidated statements of operations.

During 1998, the Company elected to discontinue premium payments on a large number of COLI policies and invoke a non-forfeiture provision provided for by the policies. The effect of this election was to increase the face value on the policies to three times the original amount. The Company has elected to pay for the additional insurance through reductions in the policies' cash value.

REVENUE RECOGNITION

Revenue from sales is recognized when furniture is shipped to the customer. Sales to one customer were 15% of net sales in 1998, 1997 and 1996.

INCOME TAXES

Deferred income taxes are provided based on the differences between the financial statement and income tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

EARNINGS PER SHARE

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," in 1998 and has restated prior period earnings per share to conform to this Statement. Basic earnings per share is determined by dividing net income available to common shareholders by the weighted average number of shares of Common Stock outstanding. Diluted earnings per share also considers the dilutive effect for stock options and restricted stock.

(dollars in thousands except per share data)

A. Summary of Significant Accounting Policies
Continued

STOCK-BASED COMPENSATION

As permitted by SFAS No. 123, "Stock-Based Compensation," the Company has continued to measure compensation expense for its stock-based employee/director compensation plans using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Pro forma disclosures of net income and earnings per share are presented as if the fair value-based method prescribed by SFAS No. 123 had been applied in measuring compensation expense for the periods required by the Statement. The Company measures expense for stock options granted to non-employees/directors based on the fair value of the goods or services received.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130, "Reporting Comprehensive Income." This Statement establishes standards for the prominent reporting and display of comprehensive income and its components in a full set of general- purpose financial statements. Comprehensive income is the total of net income and other changes in equity that are excluded from the measurement of income. In June 1997, the Financial Accounting Standards Board issued SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." This Statement establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. In February 1998, the Financial Accounting Standards Board issued SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits". This Statement revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. These Statements are effective for fiscal years beginning after December 15, 1997. The Company plans to adopt the provisions of these Statements in fiscal 1999. Management does not expect the impact of adoption of these Statements on the Company's financial position and results of operations to be material.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This Statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company plans to adopt the provisions of this Statement in fiscal year 2000. Management does not expect the impact of adoption of this Statement on the Company's financial position and results of operations to be material.

B. Inventories

Inventories consist of the following:

	November 28, 1998	November 30, 1997
Finished goods	$37,430	$29,485
Work in process................	9,169	9,025
Raw materials and supplies.....	26,506	28,420
Total inventories on first-in, first-out cost method.....	73,105	66,930
LIFO adjustment................	(25,820)	(25,216)
	$47,285	$41,714

During 1998 and 1997, the Company liquidated certain LIFO inventories, which decreased cost of sales by approximately $800 and $3,450, respectively.

C. Investment Securities

Investment securities by major security type are as follows:

	November 28, 1998			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Equity securities.....	$11,272	$13,161	$15	$24,418
Mutual funds..........	2,277	408	--	2,685
Municipal securities..	23,606	30	--	23,636
	$37,155	$13,599	$15	$50,739

	November 30, 1998			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Equity securities.....	$13,051	$8,249	$1	$21,299
Mutual funds..........	2,277	792	--	3,069
Municipal securities..	8,734	94	--	8,828
	$24,062	$9,135	$1	$33,196

Maturities of the majority of the municipal securities held are five years or less.

D. Investment in Affiliated Companies

The Company has minority equity interests in two entities that provide services and raw materials to various furniture and furniture accessory manufacturers. During 1998, the Company invested $50,000 in a limited partnership. The partnership invests in a variety of other private partnerships which employ a combination of investment strategies including merger arbitrages, convertible arbitrages and other market neutral investments. The recorded investment in these entities at November 28, 1998 and November 30, 1997, exceeded the Company's interest in the underlying net assets of these entities by $9,276 and $9,689, respectively. This difference is being amortized and the related investment balance reduced utilizing the straight-line method over 35 years. Summarized combined financial information for these affiliated companies is as follows:

(dollars in thousands except per share data)

	1998	1997	1996
Total assets	$119,276	$56,794	$93,187
Total liabilities......	84,607	10,212	10,263
Revenues...............	42,203	41,730	40,221
Income from operations.	24,021	23,027	21,099
Net income.............	14,503	15,104	13,992
Dividends received.....	31,517	21,245	--

The Company had net distributions in excess of earnings of $3,854 at November 28, 1998 and $21,467 of undistributed earnings from these investments at November 30, 1997. Deferred income taxes related to these items have been provided in the accompanying consolidated financial statements.

E. Accrued Liabilities

Accrued liabilities consist of the following:

	November 28, 1998	November 30, 1997
Compensation and related benefits...	$ 9,335	$10,016
Severance and related employee benefit costs.....................	1,859	4,910
Advertising and rebates.............	4,132	3,781
Legal and environmental.............	4,615	4,494
Other...............................	4,573	3,012
	$24,514	$26,213

F. Income Taxes

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

	1998	1997	1996
Statutory federal income tax rate.........	35.0%	(35.0%)	35.0%
Dividends received exclusion.............	(1.0)	(0.7)	(1.6)
Tax exempt interest......................	(2.0)	(1.0)	(3.4)
Undistributed affiliate income...........	(7.7)	(4.2)	(6.5)
Corporate owned life insurance...........	(3.2)	(4.3)	(7.0)
State income tax, net of federal benefit.........................	3.1	(6.0)	0.9
Property donation........................	--	(3.2)	--
Other....................................	1.3	1.1	(0.4)
Effective income tax rate..............	25.5%	(53.3%)	17.0%

The components of the income tax provision (benefit) are as follows:

	1998	1997	1996
Federal..............	$1,762	$ (3,968)	$3,140
State................	101	171	268
Deferred.............	3,516	(18,549)	379
Total................	$5,379	$(22,346)	$3,787

The income tax effects of temporary differences that give rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	November 28, 1998	November 30, 1997
Deferred income tax assets:		
Trade accounts receivable................	$ 1,514	$ 1,554

Inventories	1,601	3,488
Impaired asset reserves	2,084	4,634
Retirement benefits	5,135	5,047
Severance and related employee benefit cost	725	1,915
Net operating loss carryforwards	441	900
Distribution from affiliates in excess of income	2,258	--
Contribution carryforward (expires 2002)	820	--
Other liabilities and reserves	6,941	8,768
Total gross deferred income tax assets	21,519	26,306
Deferred income tax liabilities:		
Property and equipment	3,343	2,939
Undistributed affiliate income	541	1,983
Prepaid expenses	250	483
Unrealized holding gains	5,298	3,559
Total gross deferred income tax liabilities	9,432	8,964
Net deferred income tax assets	$12,087	$17,342

The Company has recorded $441 to recognize the deferred income tax benefit related to approximately $6,200 in state income tax loss carryforwards that expire in varying amounts between the years 2003 and 2014. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred income tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of the deferred income tax assets.

G. Long-Term Liabilities and Retirement Plans

The Company has a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers all employees with over one year of service who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched by the Company at the rate of 115% of the first 2% through 5% of the employee's contribution, based on seniority. The Plan incorporates provisions of Section 401(k) of the Internal Revenue Code. The expenses for the Plan for 1998, 1997 and 1996 were approximately $2,273, $2,453 and $2,379, respectively.

The Company has a Supplemental Retirement Income Plan that covers certain senior executives and provides additional retirement and death benefits. Also, the Company has a Deferred Compensation Plan for certain senior executives that provides for voluntary deferral of compensation otherwise payable. The unfunded future liability of the Company under these Plans is included in long-term liabilities.

(dollars in thousands except per share data)

H. Capital Stock and Stock Compensation

The Company has a Long Term Incentive Stock Option Plan that was adopted in 1993 (the 1993 Plan). Under the 1993 Plan, the Company has reserved for issuance 450,000 shares of Common Stock, 2,279 of which were available for grant at November 30, 1997. Options granted under the plan may be for such terms and exercised at such times as determined at the time of grant by the Organization, Compensation and Nominating Committee of the Board of Directors. Options to purchase 360,750 shares of Common Stock were granted during 1997 to officers and key employees. The exercise price of these options is $22.625, which equaled the fair market value of the Company's Common Stock at the date of the grant. However, this exercise price was less than the fair market value at the measurement date for 330,000 of the options granted. All of these options became exercisable in 1997. Compensation expense related to these options of $1,682 is included in selling, general and administrative expenses in the accompanying 1997 consolidated statement of operations. These options expire at various dates through 2007.

The Company adopted a second Employee Stock Plan in 1998 (the 1998 Plan). Under the 1998 Plan, the Company has reserved for issuance 950,000 shares of Common Stock. The terms of the plan also allow for the issuance of the 2,279 options that remained as of December 1, 1997 from the 1993 Plan. In addition, the terms of the 1998 Plan allow for the reissuance of any stock options that have been forfeited before being exercised. Options granted under the 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. Options to purchase 857,259 shares of common stock were granted under the plan during 1998 primarily to officers and key employees. The exercise prices of these options, which equaled the fair market value of the Company's Common Stock at the date of the grant, ranged from $22.50 to $32.25. These options expire at various dates during 2008. Shares available for grant under the 1998 Plan were 153,088 at November 28, 1998.

The Company has a Stock Plan for Non-Employee Directors, which was adopted in 1993. Under this stock option plan, the Company has reserved for issuance 75,000 shares of Common Stock, 26,500 of which are available for grant at November 28, 1998. Under the terms of this plan, each non-employee director will automatically be granted an option to purchase 500 shares of Common Stock on April 1 of each year. The Company awarded 18,500 options in 1998, 22,000 options in 1997 and 4,500 options in 1996, to purchase Common Stock to non-employee directors during 1998. These options are exercisable for ten years commencing six months after the date of grant.

Option activity under these plans is as follows:

	Number of shares	Weighted Average price per share
Outstanding at November 30, 1995...........	332,425	$32.13
Granted in 1996..........................	4,500	$25.75
Exercised in 1996........................	--	--
Cancelled in 1996........................	(15,300)	$32.40
Outstanding at November 30, 1996...........	321,625	$32.02
Granted in 1997..........................	382,750	$22.87
Exercised in 1997........................	(2,000)	$25.97
Cancelled in 1997........................	(49,577)	$31.50
Outstanding at November 30, 1997...........	652,798	$26.80
Granted in 1998..........................	875,759	$30.25
Exercised in 1998........................	(11,000)	$24.18
Cancelled in 1998........................	(126,142)	$31.67
Outstanding at November 28, 1998...........	1,391,415	$28.51
Exercisable at November 28, 1998...........	614,386	$26.17
Exercisable at November 30, 1997...........	602,726	$26.22
Exercisable at November 30, 1996...........	267,770	$31.88

The following table summarizes information about stock options outstanding at November 28, 1998:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding at Nov. 28, 1998	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at Nov. 28, 1998	Weighted average exercisable price
$22.50 - $27.75	585,922	8.4	$23.22	438,922	$23.47

27.76 - 37.40	805,493	8.1	32.36	175,464	32.92
$22.50 - $37.40	1,391,415	8.3	$28.51	614,386	$26.17

The Company has elected to continue to account for stock options granted to employees and directors under APB Opinion No. 25 and is required to provide pro forma disclosures of what net income and earnings per share would have been had the Company adopted the new fair value method for recognition purposes under SFAS No. 123. The following information is presented as if the Company had adopted SFAS No. 123 and restated its results:

	1998	1997	1996
Net income (loss):			
As reported	$ 15,717	$(19,609)	$18,501
Pro Forma	$ 14,863	$(19,945)	$18,481
Basic earnings (loss) per share:			
As reported	$ 1.21	$ (1.50)	$ 1.39
Pro Forma	$ 1.14	$ (1.53)	$ 1.38
Diluted earnings (loss) per share:			
As reported	$ 1.20	$ (1.50)	$ 1.39
Pro Forma	$ 1.14	$ (1.53)	$ 1.38

(dollars in thousands except per share data)

H. Capital Stock and Stock Compensation Continued

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted average assumptions:

	1998	1997	1996
Expected lives	5 years	5 years	5 years
Risk-free interest rate	5.3%	6.6%	6.3%
Expected volatility	34.2%	29.5%	29.6%
Dividend yield	3.0%	3.3%	2.8%

The weighted average fair values of options granted during 1998, 1997 and 1996 were $9.45, $6.15 and $7.23, respectively.

During 1998 and 1997, the Company issued 16,836 and 31,396 shares, respectively, of restricted Common Stock under the Long Term Incentive Stock Option Plans as compensation for certain key salaried employees. These shares carry dividend and voting rights. Sale of these shares is restricted prior to the date of vesting, which is five years from the date of grant. Shares issued under this plan were recorded at their fair market value on the date of the grant with a corresponding charge to stockholders' equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to these grants was $204 in 1998 and $11 in 1997.

The Company's Board of Directors adopted a shareholders rights plan in 1998. If a person or group acquires beneficial ownership of 20% or more of the Common Stock outstanding, each right distributed under the plan will entitle its holder (other than such person or group) to purchase, at the right's exercise price, a number of shares of the Company's Common Stock having a market value of twice such price.

I. Other Income, Net

	1998	1997	1996
Dividends	$ 825	$ 1,141	$ 1,497
Interest (principally tax exempt)	3,195	3,328	2,361
Equity in undistributed income of affiliated companies	5,784	5,926	5,422
Net gain from sales of investment securities	1,446	1,804	6,720
Corporate owned life insurance, net of interest expense	(91)	(1,148)	(2,125)
Other, net	286	2,316	1,107
	$ 11,445	$ 13,367	$ 14,982

Interest expense on corporate owned life insurance policy loans was $5,450 in 1998, $7,295 in 1997, and $6,377 in 1996.

J. Restructuring, Impaired Fixed Asset and Other Unusual and Nonrecurring Charges

During 1997, the Company restructured certain of its operations and recorded restructuring and impaired fixed asset charges of $20,646. The restructuring plan was the result of management's decision to focus on its core Bassett product line and efforts to improve operating efficiencies. The principal actions of the plan included the closure or sale of 14 manufacturing facilities, elimination of three product lines (National/Mt. Airy, Impact and Veneer Production) and the severance of approximately 1,000 employees. The major components of the restructuring and impairment of fixed assets charges and the remaining reserves as of November 28, 1998 and November 30, 1997, are as follows:

	Original charges	Write-down of property and equipment to net realizable value	Reserves utilized in 1997	1997 Reserve balance	Reserves utilized in 1998	1998 Reserve balance
Non-cash write-downs of property and equipment to net realizable value....	$13,362	$13,362	$ --	$ --	$ --	$ --
Severance and						

related employee benefit cost........	5,684	--	774	4,910	3,507	1,403
Lease exit costs......	614	--	--	614	190	424
Other.................	986	--	261	725	63	662
	$20,646	$13,362	$1,035	$6,249	$3,760	$2,489

The Company completed the closure of five of the 14 manufacturing facilities, disposed of one of the facilities and severed approximately 600 employees during 1997. Substantially all remaining restructuring activities were completed in 1998. Net sales and operating income from activities that were discontinued were $2,180 and $0, respectively, in 1998, $46,221 and $(31,602), respectively, in 1997 and $60,119 and $(1,867), respectively, in 1996.

As a result of the plan, additional unusual and nonrecurring charges including moving costs, plant consolidation inefficiencies and inventory write-downs totaling $4,669 were recorded in 1998. Of these costs, $3,887 are included in cost of goods sold and $782 are included in selling, general and administrative expenses in the accompanying 1998 consolidated statement of operations. After an income tax benefit of $1,821, the additional nonrecurring charges of $4,669 reduced fiscal year 1998 net income by $2,848 or $0.22 per share. Additional unusual and nonrecurring charges recorded in 1997 totaled $31,654. Of these costs, $28,325 are included in cost of goods sold and $3,329 are included in selling, general and administrative expenses in the accompanying 1997 consolidated statement of operations. After an income tax benefit of $22,027, the restructuring and impaired fixed asset charges of $20,646 and additional nonrecurring charges of $31,654 reduced fiscal year 1997 net income by $30,273 or $2.32 per share.

In addition, the Company incurred other unusual and nonrecurring charges during 1997 of $12,500 related to customer bankruptcies, environmental matters and issues related to the Mattress Division (Note K). Of these charges, $1,000 are included in cost of goods sold and $11,500 are included in selling, general and administrative expenses in the accompanying 1997 consolidated statement of operations. After an income tax benefit of $4,875, these other unusual and nonrecurring charges reduced fiscal year 1997 net income by $7,625 or $.58 per share.

(dollars in thousands except per share data)

K. Contingencies

A suit was filed in June, 1997, in the Superior Court of the State of California for the County of Los Angeles (the "Superior Court") against the Company, two major retailers and certain current and former employees of the Company. The suit sought certification of a class consisting of all consumers who purchased certain mattresses and box springs from the major retailers that were manufactured by a subsidiary of the Company, E.B. Malone Corporation, with different specifications than those originally manufactured for sale by these retailers. The suit alleged various causes of action, including negligent misrepresentation, breach of warranty, violations of deceptive practices laws and fraud. Plaintiffs sought compensatory damages of $100 million and punitive damages. In 1997, the Superior Court twice sustained the Company's demurrers to several of plaintiffs' causes of action, but granted the plaintiffs leave to amend. In February, 1998, the Superior Court sustained the Company's demurrers to many of the individual claims, this time without granting plaintiffs leave to amend. The Superior Court also sustained the Company's demurrer to the class action allegations in plaintiffs' Third Amended Complaint, without granting leave to amend, and transferred the entire action out of the class action department. Plaintiffs have filed a notice of appeal from the class action ruling. Plaintiffs also filed a petition for a writ of mandamus or other extraordinary relief seeking immediate review of the other demurrer rulings, which petition was denied. The suit was subsequently transferred from the Superior Court for the County of Los Angeles to the Superior Court for Orange County. After the case was transferred to Orange County, the plaintiffs stipulated to a dismissal with prejudice of all individual defendants. Additionally, all remaining claims against the Company were stayed by the Court pending plaintiffs' appeal of the dismissal of their class action allegations. Although it is impossible to predict the ultimate outcome of this litigation, the Company intends to vigorously defend this suit, because it believes that the damages sought are unjustified and because this case is inappropriate for class action treatment. Because the Company believes that the two major retailers were unaware of the changes in specifications, the Company has agreed to indemnify the two major retailers with respect to the above.

Legislation will phase out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately $8,000 as the result of COLI interest deductions through 1998. The Internal Revenue Service (IRS), on a national level, is evaluating its position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. In 1998 and 1999, the IRS issued several Technical Advice Memoranda regarding the deductibility of certain aspects of COLI for taxpayers unrelated to the Company. Management understands that the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in the reversal of the income tax benefits recorded to date plus other potential charges assessed by the IRS and state taxing authorities, which in total could be material to future results of operations.

The Company is also involved in various other claims and actions, including environmental matters at certain of its plant facilities, 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 management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

L. Earnings Per Share

The following table reconciles basic and diluted earnings per share:

	Shares	Net Income (loss)	Earnings (loss) Per Share
1998:			
Basic EPS	12,984,639	$ 15,717	$ 1.21
Add effect of dilutive securities:			
Options and Restricted Stock	80,449	--	(.01)
Diluted EPS	13,065,088	$ 15,717	$ 1.20
1997:			
Basic EPS	13,045,789	$ (19,609)	$ (1.50)
Add effect of dilutive securities:			
Options and Restricted Stock	5,377	--	--
Diluted EPS	13,051,166	$ (19,609)	$ (1.50)
1996:			

Basic EPS	13,351,585	$ 18,501	$ 1.39
Add effect of dilutive securities:			
Options and Restricted Stock	--	--	--
Diluted EPS	13,351,585	$ 18,501	$ 1.39

M. Subsequent Event

In December 1998, the Company signed a letter of intent to sell substantially all of the assets and certain liabilities of its Mattress Division to a new company to be formed by LIS Corporation (NewCo). If the deal is consummated, NewCo will supply mattresses under the Bassett brand name and the Company will receive quarterly royalty fees as part of a five-year licensing agreement. Net sales and operating income for the mattress division were $39,133 and $1,026 in 1998, $53,977 and $1,420 in 1997 and $56,016 and $2,650 in 1996. Net assets for the division approximated $11,000 as of November 28, 1998, and $12,000 at November 30, 1997.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Bassett Furniture Industries, Incorporated:

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated (a Virginia corporation) and subsidiaries as of November 28, 1998 and November 30, 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The accompanying 1996 financial statements of Bassett Furniture Industries, Incorporated and subsidiaries were audited by other auditors whose report dated December 17, 1996, expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with generally accepted auditing standards. 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 1998 and 1997 financial statements referred to above present fairly, in all material respects, the financial position of Bassett Furniture Industries, Incorporated and subsidiaries as of November 28, 1998 and November 30, 1997, and the results of their operations and their cash flows for the years then ended in conformity with generally accepted accounting principles.

/s/ ARTHUR ANDERSEN LLP

Greensboro, North Carolina,
January 12, 1999.

OTHER BUSINESS DATA

Bassett Furniture Industries, Incorporated and Subsidiaries (dollars in thousands except per share data) Selected Financial Data

Selected Financial Data

	1998	1997	1996	1995	1994
Net sales	$ 397,557	$ 446,893	$ 450,717	$ 490,817	$ 510,561
Cost of sales	$ 323,904	$ 396,875	$ 379,259	$ 407,750	$ 419,394
Operating profit (loss)	$ 9,651	$ (55,322)(1)	$ 7,306	$ 17,129	$ 25,123
Other income	$ 11,445	$ 13,367	$ 14,982	$ 1 3,000	$ 9,657
Income (loss) before income taxes	$ 21,096	$ (41,955)(1)	$ 22,288	$ 30,129	$ 34,780
Income taxes	$ 5,379	$ (22,346)	$ 3,787	$ 7,226	$ 9,804
Net income (loss)	$ 15,717	$ (19,609)(1)	$ 18,501	$ 22,903	$ 24,466
Diluted earnings (loss) per share	$ 1.20	$ (1.50)(1)	$ 1.39	$ 1.63	$ 1.71
Cash dividends declared	$ 10,393	$ 13,041	$ 10,626	$ 11,197	$ 11,411
Cash dividends per share	$ .80	$ 1.00	$ .80	$ .80	$ .80
Total assets	$ 321,514	$ 320,325	$ 335,166	$ 346,720	$ 340,498
Current ratio	3.21 to 1	4.12 to 1	6.42 to 1	5.79 to 1	5.67 to 1
Book value per share	$ 20.40	$ 20.01	$ 22.29	$ 21.88	$ 20.96
Weighted average number of shares	12,984,639	13,045,789	13,351,585	14,052,794	14,294,803

Quarterly Results of Operations

	1998			
	FIRST	SECOND	THIRD	FOURTH
Net sales	$98,333	$98,335	$98,093	$102,796
Gross profit	17,582	18,527	17,690	19,854
Net income	3,435	3,959	3,127	5,196
Basic earnings per share	.26	.30	.24	.40
Diluted earnings per share	.26	.30	.24	.40

	1997			
	FIRST	SECOND	THIRD	FOURTH
Net sales	$109,806	$113,198	$110,252	$113,637
Gross profit	18,233	11,840	9,651	10,294
Net income (loss)	3,433	(14,025)(1)	(5,072) (1)	(3,945)(1)
Basic earnings (loss) per share	.26	(1.07)(1)	(.39) (1)	(.30)(1)
Diluted earnings (loss) per share	.26	(1.07)(1)	(.39) (1)	(.30)(1)

(1) See Note J to the Consolidated Financial Statements for a discussion of restructuring and fixed asset impairment charges.

Management's Discussion and Analysis of Financial Condition and Results of Operations
Bassett Furniture Industries, Incorporated and Subsidiaries

OPERATING RESULTS - 1998 COMPARED WITH 1997

Net sales decreased 11% to $397.6 million in 1998, from $446.9 million in 1997. The sales decline reflects the elimination in 1997 of three manufacturing divisions (Impact, National/Mt. Airy and Veneer Production) that did not contribute adequately to earnings. Net sales from discontinued activities were $46.2 million in 1997. Opening 17 Bassett Furniture Direct (BFD) stores highlighted 1998, bringing the total BFD stores open at the end of the year to 36. On a continuing operations basis, Wood Division sales increased 15% during 1998 due to the expansion of BFD stores and improved product offerings. Upholstery Division sales decreased 16% as the Company repositioned its account structure to better serve key customers and improve profitability. Mattress Division sales declined significantly due to the loss of two major customers in 1997.

The gross profit margin was 18.5% in 1998, compared to 11.2% in 1997. Results in 1997 were negatively impacted by the significant restructuring and other nonrecurring charges discussed below. On a continuing operations basis, margins improved from 17.8% in 1997 to 19.5% in 1998 as plant consolidations and better production practices continue to improve operating efficiencies. Nonrecurring charges were $4.7 million in 1998, below the $10.5 million management had estimated, due to a more aggressive schedule of disposing of and selling closed plants. Substantially all restructuring activities were completed in 1998. Operating income was $9.7 million in 1998 compared to an operating loss of $55.3 million in 1997. $64.8 million of restructuring and nonrecurring charges were included in the 1997 results. On a continuing operations basis, operating income improved 51% and operating income margin increased from 2.1% of sales in 1997 to 3.6% of sales in 1998, due principally to gross margin improvement in wood operations and elimination of operations which did not contribute adequately to earnings.

Other income decreased from $13.4 million in 1997 to $11.4 million in 1998. Gains from the sales of investment securities were lower in 1998 as management decided against further liquidations of the investment portfolio in 1998. In addition, the Company recorded a $2 million reserve as an impairment for an investment in an affiliated company. Note I in the "Notes to Consolidated Financial Statements" provides the components of other income for the last three years.

The effective tax rate was 25.5% in 1998 compared to (53.3%) in 1997. The unusual rate for 1997 was a result of the restructuring, impaired fixed asset and other nonrecurring charges incurred in 1997. The 1998 effective tax rate was lower than the statutory federal income tax rate due to exclusions for tax exempt and undistributed affiliate income and the Company's corporate owned life insurance plan. Note F in the "Notes to Consolidated Financial Statements" contains complete disclosure of the Company's income tax status for the past three years.

OPERATING RESULTS - 1997 COMPARED TO 1996

Net sales decreased 0.9% to $446.9 million in 1997 from $450.7 million in 1996. The Company achieved increased sales in the Wood Division, where sales were up 6.9% for the year. This improvement was offset by a decline in sales resulting from the discontinuance of the Impact and National/Mt. Airy product lines and decreases in sales in both the Upholstery and Mattress Divisions. Sales in the discontinued divisions were $9.9 million less than in 1996. Sales for the Upholstery Division decreased 2.9% for the year, while Mattress Division sales decreased 3.9% for the year.

Wood Division sales were strong throughout 1997 and sales growth improved as the year progressed. New management was appointed in both the Upholstery and Mattress Divisions and significant changes in the sales force were undertaken to improve penetration of selected markets.

Throughout the second half of 1997, the Company was engaged in implementing major changes. Three manufacturing divisions (Impact, National/Mt. Airy and Veneer Production) ceased production and plans were developed and initiated to consolidate certain operations in all remaining divisions. As a result, the Company announced the closing of 14 plants, five of which were consummated before fiscal year end, and the remaining which were closed in 1998. Of the 14 closed plants, the production capabilities of 11 were consolidated into ongoing facilities.

As a result of the execution of these plans, the Company recorded a $20.6 million restructuring and asset impairment charge which included asset impairment losses incurred on closed facilities, severance and related employee benefit costs for terminated employees and various other charges as detailed in Note J in the "Notes to Consolidated Financial Statements." Also resulting from these plans, the Company incurred $44.2 million in charges related to consolidation inefficiencies, inventory write-downs, customer bankruptcies, environmental matters and the Mattress Division issue as described in Note K in the "Notes to Consolidated Financial Statements." These unusual and nonrecurring charges are included in cost of sales and selling, general and administrative (SG&A) expenses in the 1997 Statement of Operations.

Gross profit margin decreased from 17.4% in 1996 to 11.2% in 1997. This decrease was attributable primarily to the restructuring and other unusual and nonrecurring charges, with $29.3 million of these charges included in cost of sales. Inventory write-downs and losses resulting from exiting three sales divisions and several plants during 1997, transition costs of consolidating operations, losses incurred in closing facilities and carrying costs of closed facilities were the primary factors driving the cost of sales percentage increase.

The increase in SG&A expenses as a percentage of sales was attributable to several factors. The activities related to the restructuring and unusual and nonrecurring charges resulted in $14.8 million of additional SG&A expenses in 1997. In addition, the Company implemented a co-op advertising program during 1997 and increased its spending for sales promotion. Expenses related to both the Bassett Furniture Direct (BFD) stores and Gallery stores increased significantly. For example, a structured training program for the BFD stores was implemented during the year. Several one-time expenses were incurred during the fourth quarter, including consultants and various professional services, to assist the Company and develop strategies for future operating improvements. Finally, expense associated with the stock options granted during 1997 was incurred in the third and fourth quarters.

Other income was down $1.6 million from the 1996 level. Gains from the sale of investment securities declined $4.9 million as management decided not to further liquidate its investment portfolio until its new investment strategy is formulated and implemented. This decrease in income was offset by increased income from interest-bearing investments, equity in undistributed earnings of affiliates, gains on sales of properties and decreased net cost related to corporate owned life insurance. In late 1997, the Company changed its investment strategy from primarily tax-free municipal securities to selected taxable securities to enhance its overall investment return, which provided some of the above-mentioned increases in investment income.

The effective income tax rate for 1997 was (53.3)% compared with 17.0% in 1996. The unusual rate for 1997 was a result of the restructuring, impaired fixed asset and other unusual and nonrecurring charges incurred, leaving the Company with a loss for the year. Non-taxable income items had a similar impact on the effective tax rate for 1997 as they did in 1996.

LIQUIDITY AND CAPITAL RESOURCES:

Cash provided by operating activities was $4.5 million in 1998 compared with $21.3 million in 1997 and $25.5 million in 1996. The decrease was primarily attributable to the increases in receivables and inventories necessary to fund the BFD expansion discussed above. In addition, expenses related to plant closings and transition costs were paid in 1998. In 1997, inventory decreases, as a result of the discontinued divisions and plants, totaling $25.4 million were a significant source of working capital.

The Company invested $22.6 million in property and equipment in 1998. This significant increase in capital spending included amounts for the first Company owned BFD store, the Company's new enterprise-wide information systems, new manufacturing equipment and replacing certain boilers to enhance the environmental efficiencies of the facilities. The Company plans to invest approximately $50 to $60 million per year over the next few years to aggressively execute its BFD expansion. The Company's solid financial position with significant liquidity and no debt affords it many options. Management intends to examine opportunities to strengthen its balance sheet and increase shareholder value which may require debt financing. The Company has not typically used the debt or equity markets as sources of funds or capital.

The Company purchased and retired 185,300 shares of its Common Stock during 1998. These purchases were part of the Company's stock repurchase program, approved in 1998, which allows the Company to repurchase up to 1.3 million shares for an aggregate purchase price not to exceed $40 million. The average cost of the shares purchased was $25.78, resulting in a total expenditure of $4.8 million. In 1997, the Company purchased and retired 60,000 shares for $1.4 million, while in 1996, 584,343 shares were purchased and retired for $14.1 million.

The current ratio for the past two years was 3.21 to 1 and 4.12 to 1, respectively. Working capital was $98.9 million at November 28, 1998 and $149.3 million at November 30, 1997. This decrease is primarily due to the Company's change in investment strategies during 1998 partially offset by increases in inventories and receivables to fund the BFD expansion. Cash provided by operating activities is expected to be adequate for normal future cash requirements.

The Company's consolidated financial statements are prepared on the basis of historical dollars and are not intended to show the impact of inflation or changing prices. Neither inflation nor changing prices has had a material effect on the Company's consolidated financial position and results of operations in prior years.

CONTINGENCIES:

The Company is involved in various claims and litigation, including a lawsuit concerning a subsidiary, E. B. Malone Corporation, as well as environmental matters at certain plant facilities, which arise in the normal course of business. The details of these matters are described in Note K in the "Notes to Consolidated Financial Statements." Although the final outcome of these legal and environmental matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

As a result of legislation that will phase out interest deductions on certain policy loans related to Company owned life insurance (COLI), the Company expects that its effective income tax rates will increase in future years. The Company has recorded cumulative reductions to income tax expense of approximately $8 million as the result of COLI interest deductions through 1998. The Internal Revenue Service, on a national level, is evaluating its position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. In 1998 and 1999, the IRS issued several Technical Advice Memoranda regarding the deductibility of certain aspects of COLI for taxpayers unrelated to the Company. Management understands that the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in the reversal of the income tax benefits recorded to date plus other potential charges assessed by the IRS and state taxing authorities, which in total could be material to future results of operations.

YEAR 2000:

Over the past few years, the Company has been steadily reengineering its business processes and information systems to prepare for the conversion to year 2000. This effort has incorporated an analysis of Year 2000 issues, and management believes that appropriate and timely actions are being taken. The Year 2000 issue results from the inability of many computer systems and applications to recognize the year 2000 as the year following 1999. This could cause systems to process critical information incorrectly. The Company plans to implement new systems and technologies in 1999 that will provide solutions to these issues. In addition, the Company purchased an enterprise system in 1998, which will be implemented prior to year 2000, which will be in compliance with Year 2000 issues. The most significant step in accomplishing this goal was completed in the first quarter of 1998 when a comprehensive enterprise system (which had been installed in over 4,400 companies and is Year 2000 compliant) was purchased; implementation began immediately and should be completed in the fourth quarter of 1999. Earlier in 1998, the Company engaged a consultant, knowledgeable about the enterprise system being installed, to advise and assist in the installation and implementation of the system. The Company has made a thorough survey to identify all microcontrollers that are embedded within equipment to determine compliance in this area. All microcontrollers that were identified as non-compliant were or will be replaced. The Company now has a verification program to ensure that all microcontrollers have been properly identified and replaced.

The Company continues to work with its customers, suppliers and third-party service providers to identify external weaknesses and provide solutions that will prevent the disruption of business activities at that time; it does not believe that it will be significantly affected by direct suppliers of raw materials or supplies that will be non-compliant. However, the Company cannot guarantee that Year 2000 related systems or hardware issues of its business partners will be corrected in a timely manner or that the failure of its business partners to correct these issues would not have a material adverse effect on its future results of operations or financial condition.

Management believes that the most likely "worst case scenario" will involve the failure of service providers to be compliant, thereby potentially causing business interruptions in the Company's normal channels of supply and distribution. The Company does not believe that it will be significantly affected by non-compliance by countries outside the United States.

The Company is developing a contingency plan in the event that a business interruption caused by Year 2000 problems should occur. Contingency plans are in place for all information technology systems. The Company is preparing to upgrade its existing computer systems in order to ensure compliance. Management is researching key raw materials markets to ensure that the Company is adequately supplied in the event that a key supplier is not compliant.

The Company does not expect the cost of implementation to have a material adverse effect on its future results of operations, liquidity or capital resources. The total cost of the Year 2000 project is estimated at $4.6 million. This total includes the new enterprise system that was purchased during 1998, which was not purchased to achieve Year 2000 compliance in the Company's information systems. Instead it was purchased to provide management with the information and tools that it needs to better manage the Company. The Year 2000 problem has slightly accelerated the timetable for implementation, however. Of the total project cost, $3.5 million represents the purchase of new software and hardware, which will be capitalized. The remaining has been and will be expensed as incurred during 1998 and 1999, respectively. As of the end of the year, the Company has spent approximately $2.3 million on the project.

MARKET RISK

The Company has significant investments in both equity securities and municipal securities. These are summarized in Note C to the Consolidated Financial Statements. The Company does not use these securities for trading purposes and is not a party to any leveraged derivatives. For securities held, the Company utilizes a sensitivity analysis technique to evaluate the effect that hypothetical changes in market prices will have on the Company's investment securities. At November 28, 1998, the potential change in fair value of equity securities, assuming a 10% change in market prices was approximately $5 million. This amount is not significant compared with the overall financial position of the Company.

In addition, the Company has investments in affiliated companies accounted for under the equity method of accounting as described in Note D to the Consolidated Financial Statements.

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. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include, among others, the following possibilities: (I) competitive conditions in the industry in which Bassett operates; and (II) general economic conditions that are less favorable than expected.

INVESTOR INFORMATION

CORPORATE INFORMATION

The company's annual report and proxy statement together contain substantially all 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 contact Grover S. Elliott, Vice President, Finance and Investor Relations at 336-725-7996.

MARKET AND DIVIDEND INFORMATION

Bassett's common stock trades on the NASDAQ national market system under the symbol BSET. The company had approximately 1,752 registered stockholders at November 30, 1998. The range of per share amounts for the closing high and low market prices and dividends declared for the last two fiscal years are listed below.

	MARKET PRICES OF COMMON STOCK				DIVIDENDS DECLARED	
QUARTER	1998		1997		1998	1997
	HIGH	LOW	HIGH	LOW		
First	$31.25	$25.63	$25.50	$22.25	$.20	$.40
Second	33.50	29.34	25.75	22.38	.20	.20
Third	31.88	24.13	30.75	26.00	.20	.20
Fourth	29.69	19.94	29.50	26.63	.20	.20

INVESTOR INQUIRIES

Securities analysts, portfolio managers and other representatives of financial institutions seeking information about the corporation should contact Grover S. Elliott, Vice President, Finance and Investor Relations at 336-725-7996.

STOCKHOLDER INQUIRIES

Stockholders with inquiries relating to stockholder records, stock transfers, change of ownership, change of address or dividend payments should write to Jane Wilson at the corporate headquarters.

ANNUAL MEETING

The Bassett Annual Meeting of Shareholders will be held Tuesday, March 30, 1999, at 11:30 a.m. at the company's showroom building in Thomasville, North Carolina.

WEB SITE

Our web site on the Internet is filled with information about Bassett Furniture, including this annual report, detailed financial information and updates, information about our fine home furnishings products, and a directory of Bassett Furniture Direct stores and other stores that feature Bassett products. Visit us at www.bassettfurniture.com.

EXHIBIT 21 - LIST OF SUBSIDIARIES

(a) Bassett Furniture Industries of North Carolina, Inc. (North Carolina Corporation)

(b) The E.B. Malone Corporation (Delaware Corporation)

(c) Bassett Direct Stores Inc. (Virginia Corporation)

EXHIBIT 23A

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 12, 1999 included in and incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 33-52405, 33-52407 and 333-60327.

/s/ ARTHUR ANDERSEN LLP

Greensboro, North Carolina,
February 26, 1999.

EXHIBIT 23B

CONSENT OF INDEPENDENT AUDITORS

Board of Directors
Bassett Furniture Industries, Incorporated
Bassett, Virginia

We consent to incorporation by reference in the Registration Statements (Nos. 33-52405, 33-52407 and 333-60327) on Form S-8 of Bassett Furniture Industries, Incorporated and subsidiaries of our report dated December 17, 1996, relating to the Bassett Furniture Industries, Incorporated and subsidiaries consolidated statements of income, stockholders' equity and cash flows for the year ended November 30, 1996, which report is incorporated by reference in the November 28, 1998 annual report on Form 10-K of Bassett Furniture Industries, Incorporated and subsidiaries.

KPMG LLP

Greensboro, North Carolina
February 26, 1999

EXHIBIT 23C

CONSENT OF INDEPENDENT AUDITORS

Board of Directors
Bassett Furniture Industries, Incorporated
Bassett, Virginia

We consent to incorporation by reference in the Registration Statements (Nos. 33-52405, 33-52407 and 333-60327) on Form S-8 of Bassett Furniture Industries, Incorporated and subsidiaries of our report dated November 25, 1998, relating to the balance sheets of International Home Furnishings Center Inc. as of October 31, 1998 and 1997, and the related statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1998, which report is incorporated by reference in the November 28, 1998 annual report on Form 10-K of Bassett Furniture Industries, Incorporated and subsidiaries.

DIXON ODOM PLLC

High Point, North Carolina
February 26, 1999

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