

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

FORM 10-K

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

For the fiscal year ended November 24, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-0135270
(I.R.S. Employer
Identification No.)

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

24055
(Zip Code)

Registrant's telephone number, including area code 276/629-6000

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

Title of each class:
Common Stock (\$5.00 par value)

Name of each exchange
on which registered
NASDAQ

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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. 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.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 126-2 of the Exchange Act. (check one)

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of May 26, 2007 was \$166,188,127.

The number of shares of the Registrant's common stock outstanding on January 29, 2008 was 11,811,015.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2008 Annual Meeting of Stockholders to be held April 15, 2008, to be 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.

ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

General

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, “Bassett”, “we”, “our” or the “Company”), based in Bassett, Va., is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through Bassett Furniture Direct® stores, with secondary distribution through Bassett Design Centers and other multi-line furniture stores. Bassettbaby® cribs and casegoods are sold through specialty stores and mass merchants. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 105-year history has instilled the principles of quality, value, and integrity in everything that we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and to meet the demands of a global economy.

Two primary business developments continue to affect our business as they have for nearly a decade.

First, we created and re-channeled sales through a vertically integrated retail sales network. The Bassett Furniture Direct® (“BFD” or “store”) store program was created in 1997 as a single source home furnishings retail store that provides a unique combination of stylish, well-made furniture and accessories with a high level of customer service. This service includes complimentary room planning, in-home design visits, fast delivery, and custom-order furniture. This strategy both builds on our strengths (brand name, balance sheet, product offerings) and better positions us to capitalize on the changing furniture retail environment. This store network currently includes 98 licensee-owned stores and 32 Company-owned and operated stores.

Second, the furniture industry continues to experience a rapid shift from traditional domestic manufacturing to offshore sourcing in lower cost markets, primarily in China and other Pacific Rim countries. This shift in sourcing has resulted in downward pressure on retail prices and reductions in traditional channels of sales distribution. Many retailers now source their own products rather than relying on a traditional domestic manufacturer to supply goods.

We have responded to these changes by reducing our manufacturing production where we can more cost efficiently source product. Over the last seven years, we have reduced our number of facilities from 13 to 3 and reduced our headcount from approximately 4,200 to 1,450. During 2007, we closed a large wood manufacturing facility in Bassett, Va. This resulted in headcount reductions of approximately 280 employees and leaves us with one small wood assembly plant in Martinsville, Va., one fiberboard supply facility in Bassett, Va., and one upholstery facility in Newton, N.C. We have closed and consolidated seven wood factories over the past six years. These consolidations have allowed us to focus our manufacturing efforts on delivering custom upholstery and custom casual dining products within thirty days, while expanding our sourcing efforts to drive selection and value for our customers. We will continue to evaluate the cost effectiveness of domestic production on a product by product basis, as we strive to provide our customers with home furnishings at competitive prices.

Operating Segments

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate.

The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of BFD stores (independently-owned stores and Company-owned retail stores) and independent furniture retailers. The wholesale segment accounted for 70%, 74% and 79%, of net sales during 2007, 2006, and 2005, respectively.

Our retail segment currently consists of 32 Company-owned stores in Florida, Georgia, Massachusetts, New Mexico, New York, North Carolina, South Carolina and Texas. Our retail segment accounted for 30%, 26% and 21% of total net sales in 2007, 2006 and 2005, respectively.

Our investments and real estate business segment consists of a 99.8% interest in the Bassett Industries Alternative Asset Fund (“Alternative Asset Fund”), a portfolio of marketable securities, an investment in the International Home Furnishings Center (“IHFC”) in High Point, N.C. and retail real estate utilized by licensee operated BFD stores.

Wholesale Segment Overview

The wholesale furniture industry is very competitive and there are a large number of manufacturers both within and outside the United States who compete in the market on the basis of product quality, price, style, delivery and service. Additionally, many retailers source imported product directly, thus bypassing domestic furniture manufacturers. We believe that we can be successful in the current competitive environment because our products represent excellent value combining attractive prices, quality and styling; prompt delivery; and courteous service.

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

	2007		2006		2005	
Wood	\$ 137,045	55.3%	\$ 164,030	57.6%	\$ 179,786	59.7%
Upholstery	108,312	43.7%	117,668	41.3%	114,372	38.0%
Other	2,319	1.0%	3,105	1.1%	7,092	2.3%
Total	<u>\$ 247,676</u>	<u>100.0%</u>	<u>\$ 284,803</u>	<u>100.0%</u>	<u>\$ 301,250</u>	<u>100.0%</u>

Approximately 49% of our 2007 wholesale sales were of imported product compared to 44% in 2006. We define imported product as fully finished product that is sourced. Our domestic product includes certain products that contain components which were also sourced. We continue to believe that a blended strategy including domestically produced products primarily of a custom-order nature combined with sourcing of major collections provides the best value and quality of products to our customers. We expect that overall operating margins will be positively impacted as we shift our mix of imported versus domestic product to a 60/40 mix during 2008.

Our backlog of wholesale orders believed to be firm was \$19,972 at November 24, 2007 and \$14,365 at November 25, 2006. We expect that the November 24, 2007 backlog will be filled within the 2008 fiscal year, with the majority of our backlog being filled during the first quarter of 2008.

We use lumber, fabric, leather and other materials in the production of wood and upholstered furniture. These components originate from a variety of domestic and international suppliers and are currently widely available. Overall, prices for these components have been relatively stable over the last several years. We currently assemble and finish these components in our plants in the United States.

Retail Segment Overview—Company Owned Retail Stores

The retail furniture industry remains very competitive and includes local furniture stores, regional furniture retailers and national department and chain stores. Additionally, there are a growing number of single-vendor branded retailers. There are a large number of fairly new entrants into the industry that have approached the industry from more of a consumer lifestyle and home accessory viewpoint. As a whole, our store network with 98 licensee-owned and 32 Company-owned stores, which is smaller than many of our competitors, now ranks in the top 25 in retail furniture sales.

Retail net sales for our company-owned retail stores for the last three fiscal years are summarized below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Retail Net sales	<u>\$ 87,537</u>	<u>\$ 84,401</u>	<u>\$ 70,480</u>

We believe that having a substantial Company-owned retail store group will provide us with better first-hand retail experience that will allow us to make our entire BFD program more successful.

Maintaining and enhancing our brand is critical to our ability to expand our base of customers and drive increased traffic at both company-owned and licensee-owned stores. Our advertising and marketing campaign utilizes television, direct mail, and catalogs, in an effort to maintain and enhance our existing brand equity.

In the fourth quarter of 2007, we unveiled a new store prototype that we believe is critical to our retail success. The design of this store, incorporated in our existing Charlotte store and a new store in Atlanta, is based on extensive research we conducted and assessed over the past several years, including a comprehensive market segmentation study completed in 2006. We believe this design, organized around four targeted lifestyles that portrays a more stylish residential feel, better communicates our interior design and custom furniture capabilities to the consumer. Our lifestyle presentations are Cottage, Contemporary, Casual and Traditional as described below:

- Cottage—Romantic, laid-back lifestyle of a retreat.
- Contemporary—Youthful spirited lifestyle of a sophisticated city life.
- Casual—Family-oriented with a relaxed atmosphere.
- Traditional—Sensible lifestyle of established affluence.

Utilizing the basic tenants of our new prototype as a guideline, we are in the midst of a visual standardization program that will ultimately permeate our entire network of both company-owned and licensee-owned stores. Implementation will occur in stages beginning in 2008 and will logically display not only our styling point of view but also our points of differentiation in the marketplace.

Another major marketing strategy is our direct-to-consumer catalog. This catalog better defines and enhances Bassett®'s brand image while explaining to our consumers our product and service capabilities. We also plan to capitalize on the opportunities that the Internet affords retailers by introducing a commerce-enabled catalog and website with testing planned for 2008 and full rollout in 2009.

Investments/Real Estate Overview

The Company is committed to maintaining a strong balance sheet in order to weather difficult industry conditions, allow it to take advantage of opportunities as market conditions improve, and to execute its long-term retail growth strategies. Our balance sheet includes significant investments (Alternative Asset Fund and marketable securities), The International Home Furnishings Center ("IHFC") and retail real estate related to licensee BFD stores. Our balances at fiscal year-end for the years presented are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Alternative Asset Fund	\$ 51,779	\$ 52,755	\$ 51,593
Other marketable securities	25,145	25,862	25,297
Corporate-store real estate	28,552	25,243	26,285
Licensee-store real estate	31,207	33,501	31,640
IHFC	(12,244)	(12,468)	(12,575)

The Alternative Asset Fund was organized under the Delaware Revised Uniform Limited Partnership Act and commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (the General Partner) of the Alternative Asset Fund. The objective of the Alternative Asset Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi-strategy and other market-neutral strategies. Our marketable securities portfolio is diversified among eleven different money managers and sixteen different medium to large capitalization interests.

The International Home Furnishings Center (“IHFC”) owns and leases showroom space in High Point, North Carolina. Our ownership interest is 46.9% and is accounted for using the equity method. Our investment reflects a credit balance due to our cumulative receipt of dividends exceeding our investment in IHFC and cumulative portion of IHFC’s earnings attributable to our ownership interest. This negative book value resulted from IHFC’s refinancing of its real estate based on the market value of the property and using the proceeds to pay a special dividend to its owners.

As part of our retail growth strategy, we invest in retail store property that is either used by our company-owned stores or leased to our licensees. Real estate for our corporate stores is included in the property, plant and equipment balances in our consolidated balance sheet. Licensee-store real estate is presented as an other long-term asset in our consolidated balance sheet. These real estate holdings are typically in urban, high-traffic retail locations.

Trademarks and Patents

Our trademarks, including “Bassett” and the names of our marketing divisions, products and collections, are significant to the conduct of our business. This importance is due to consumer recognition of the names and identification with our broad range of products. Certain of our trademarks are licensed to independent retailers for use in full store and store gallery presentations of our products. We also own patents, trademarks and copyrights that are important in the conduct of our business.

Research and Development

The furniture industry is considered to be a “fashion” industry subject to constant fluctuations to meet changing consumer preferences and tastes. As such, we are 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. We are not otherwise involved in “traditional” research and development activities nor do we sponsor the research and development activities of any of our customers.

Government Regulations

We believe that we have materially complied with all federal, state and local standards in the areas of safety, health and pollution and environmental controls. We are involved in environmental matters at certain of our plant facilities, which arise in the normal course of business. Although the final outcome of these environmental matters cannot be determined, based on the present facts we do not believe that the final resolution of these matters will have a material adverse effect on our financial position or future results of operations.

We may also be affected by laws and regulations of countries from which we source goods. Labor, environmental, and other laws and regulations change over time, especially in the developing countries from which we source. Changes in these areas of regulation could negatively impact the cost and availability of sourced goods. The timing and extent to which these regulations could have an adverse effect on our financial position or results of operations is difficult to predict. Based on the present facts, we do not believe that they will have a material adverse effect on our financial position or future results of operations.

People

We employed 1,443 people as of November 24, 2007. Approximately 548 people were employed in our retail segment and 895 people were employed in our wholesale segment. None of our employees were subject to collective bargaining arrangements and we have not experienced any recent work stoppages. We consider our relationship with our employees to be good.

Foreign and Domestic Operations and Export Sales

We have no foreign manufacturing or retail operations, and our export sales were approximately \$3.1 million, \$3.7 million and \$4.7 million in 2007, 2006 and 2005, respectively.

Available Information

Through our website www.bassettfurniture.com, we make available free of charge as soon as reasonably practicable after electronically filing or furnishing with the SEC, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto.

ITEM 1A. RISK FACTORS

Our business is subject to a variety of risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this document. These risks are not the only ones we face. Interest rates, consumer confidence, housing starts, and other general economic factors that affect many other businesses are particularly significant to us because our principal products are consumer goods. Additional factors that are presently unknown to us or that we currently believe to be immaterial also could affect our business.

We face a difficult current retail environment and changing economic conditions that may further adversely affect consumer demand and spending.

Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Such uncertainty, as well as other variations in global economic conditions such as consumer confidence, rising fuel costs and slowing housing starts, may continue to cause inconsistent and unpredictable consumer spending habits. Many industry analysts believe the current home furnishings environment is as difficult as the industry has ever experienced. Should consumer demand for home furnishings continue at these current low levels for an extended period of time or further deteriorate, it will be difficult to achieve our planned level of financial improvement in 2008 and it could also impact the performance of our licensees and the ability of a number of them to meet their obligations to us.

Competition from domestic and overseas manufacturers continues to increase and may adversely affect our business, operating results or financial condition.

Our wholesale business segment is involved in the development of our brand, which encompasses the design, manufacture, sourcing, sales and distribution of our home furnishings products, and competes with other U.S. and foreign manufacturers and other wholesalers. Industry globalization and the development of manufacturing capabilities in other countries, particularly within Asia, has led to increased competitive pressures brought about by the increasing volume of imported finished goods and components, particularly for case good products. The increase in overseas production capacity in recent years has created over-capacity for many foreign and U.S. manufacturers, including us, which has led to industry-wide plant consolidation in the U.S. In addition, because many foreign manufacturers are able to maintain substantially lower production costs, including the cost of labor and overhead, imported product is capable of being sold at a lower price to consumers, which, in turn, has led to additional industry-wide price deflation. Governments in the foreign countries where we source our

products also may change their laws, regulations and policies, including those related to tariffs and trade barriers, investments, taxation and exchange controls which could make it more difficult to service our customers resulting in an adverse effect on our earnings.

Our company-owned stores and others we may acquire in the future may not achieve the anticipated growth and profitability.

Our company-owned stores currently operate at a loss. Our short-term goal is to operate these stores at break-even to ultimately protect the operating margins generated by our wholesale operation. To be successful, we need to increase our sales per store while decreasing the support costs as a percentage of sales. As part of our strategy, we must hire, train and retain a qualified staff of design consultants to improve the customer experience. Competition with other furniture retailers for qualified design consultants also continues to increase. We also compete with other retailers for management personnel and appropriate retail locations. Failures and delays in implementing our retail strategies or failure to realize the benefits of these strategies could adversely impact our business and operating results.

Our licensee-owned stores may not be able to meet their obligations to us.

We have a significant amount of accounts and notes receivable from our network of licensee-owned BFD stores. We also own some of the real estate that is leased to the licensees and guarantee some of the debt and/or leases of some of the licensees. If these stores do not generate the necessary level of sales and profits, they may not be able to fulfill their obligations to us resulting in increased bad debt expenses and real estate related losses.

We receive a substantial amount of our earnings and cash flow from our investment in the International Home Furnishings Center (“IHFC”).

We own 46.9% of IHFC which owns and leases permanent exhibition space in High Point, North Carolina to furniture and accessory manufacturers throughout the United States and in many foreign countries, who showcase their products at the International Home Furnishings Market held each April and October. In fiscal 2007, we recognized \$6.3 million in earnings and received \$6.1 million in dividends from our investment in IHFC. There can be no assurance that we will continue to recognize this level of earnings or receive this level of dividends in the future as leases are typically for five years and the lessees may not renew their respective leases. In addition, changes in the overall home furnishings industry as well as the competing home furnishings market in Las Vegas could potentially impact the number of manufacturers showcasing their products at the High Point market, thereby reducing the demand for the exhibition space in High Point.

We receive a substantial amount of our earnings and cash flow from our investments in The Bassett Furniture Industries Alternative Asset Fund LP and our marketable securities portfolio.

We have \$51.8 million invested in The Bassett Industries Alternative Asset Fund L.P. in which we are the only limited partner. The objective of the Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi-strategy and other market-neutral strategies. The general partner has discretion to make all investment and trading decisions, including the selection of investment managers. Our investment in the Fund includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest rates, market currency rates, and liquidity. Risks to these funds arise from possible adverse changes in the market value of such interests and the potential inability of counterparties to

perform under the terms of the contracts. However, the risk to the Fund is limited to the amount of the Fund investment in each of the funds. There can be no assurance that the Fund will continue to produce the levels of returns it has historically provided to support our operating cash flow needs.

At November 24, 2007, we have \$25.1 million in marketable securities on our balance sheet consisting of both equity and debt instruments. This portfolio is diversified among eleven different money managers and sixteen different medium to large capitalization equity interests. There can be no assurance that this portfolio will produce the levels of returns it has historically provided to support our operating cash flow needs as it is subject to those risks inherent in the stock and money markets including:

- changes in trade, monetary and fiscal policies and laws,
- changes in interest rates and the effects of inflation, and
- changes in the outlook for the economy as a whole or shifts in investor attitudes.

Unsuccessful implementation of our new store design, or failure to realize the intended benefits of the new design, may be detrimental to future operating results and financial condition.

In 2007, we unveiled a new store prototype that we believe is critical to our retail success. The design of this store concept is based on extensive research we conducted and assessed over the past several years, including a comprehensive market segmentation study completed in 2006. We believe this design, organized around four targeted lifestyles that portrays a more stylish residential feel, better communicates our interior design and custom furniture capabilities to the consumer. Utilizing the basic tenants of our new prototype as a guideline, we are in the midst of a visual standardization program that will ultimately permeate our entire fleet of stores. Implementation will occur in stages during 2008 and will logically display not only our styling point of view but also our points of differentiation in the marketplace. Failure to successfully implement the new store design, realize the intended benefits of the new design, could prove costly and could adversely impact our operating results and financial condition.

Consolidating variable interest entities into our financial statements may reduce our net income.

Applicable accounting rules categorize an entity that does not have sufficient equity to carry out its business without financial support as a “variable interest entity.” If some of our independent dealers do not generate the necessary level of sales and profits, they could be considered variable interest entities. If we are considered the primary beneficiary of a variable interest entity’s business activities, the rules require us to consolidate its assets, liabilities, and results of operations into our consolidated financial statements. Once consolidated, the rules require us to absorb all of the dealer’s net losses in excess of its equity and to recognize its net earnings, but only to the extent of recouping losses we previously recorded. We continue to assess our licensees to determine whether other subordinated financial support will be required by us to ensure their continued operation, thereby requiring them to be consolidated. Should we be required to consolidate additional variable interest entities, our future earnings would likely be reduced.

Failure to successfully anticipate or respond to changes in consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.

Sales of our furniture are dependent upon consumer acceptance of our designs, styles, quality and price. As with all retailers, our business is susceptible to changes in consumer tastes and trends. We attempt to monitor changes in consumer tastes and home design trends through attendance at international industry events and fashion shows, internal marketing research, and communication with our retailers and design consultants who provide valuable input on consumer tendencies. However, such tastes and trends can change rapidly and any delay or failure to anticipate or respond to changing consumer tastes and trends in a timely manner could adversely impact our business, operating results and financial condition.

Our success depends upon our brand, marketing and advertising efforts and pricing strategies, and if we are not able to maintain and enhance our brand, or if we are not successful in these efforts and strategies, our business and operating results could be adversely affected.

Maintaining and enhancing our brand is critical to our ability to expand our base of customers and drive increased traffic at both company-owned and licensee-owned stores. Our advertising and marketing campaign utilizes television, direct mail, catalogs, newspapers, magazines and radio in an effort to maintain and enhance our existing brand equity. We cannot provide assurance that our marketing, advertising and other efforts to promote and maintain awareness of our brand will not require us to incur substantial costs. If these efforts are unsuccessful or we incur substantial costs in connection with these efforts, our business, operating results and financial condition could be adversely affected.

Manufacturing realignments could result in a decrease in our near-term earnings.

We regularly review and evaluate our domestic manufacturing operations and offshore (import) sourcing capabilities. As a result, we sometimes realign those operations and capabilities and institute cost savings programs. These programs can include the consolidation and integration of facilities, functions, systems and procedures. We also may shift certain products from domestic manufacturing to offshore sourcing. These realignments and cost savings programs generally involve some initial cost and can result in decreases in our near-term earnings until we achieve the expected cost reductions. We may not always accomplish these actions as quickly as anticipated, and we may not fully achieve the expected cost reductions.

Fluctuations in the price, availability and quality of raw materials could result in increased costs or cause production delays which might result in a decline in sales, either of which could adversely impact our earnings.

We use various types of wood, foam, fibers, fabrics, leathers, and other raw materials in manufacturing our furniture. Certain of our raw materials, including fabrics, are purchased both abroad and domestically. Fluctuations in the price, availability and quality of raw materials could result in increased costs or a delay in manufacturing our products, which in turn could result in a delay in delivering products to our customers. For example, lumber prices fluctuate over time based on factors such as weather and demand, which in turn, impact availability. Production delays or upward trends in raw material prices could result in lower sales or margins, thereby adversely impacting our earnings.

In addition, certain suppliers may require extensive advance notice of our requirements in order to produce products in the quantities we desire. This long lead time may require us to place orders far in advance of the time when certain products will be offered for sale, thereby exposing us to risks relating to shifts in consumer demand and trends, and any downturn in the U.S. economy.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES*General*

We own our corporate office building located in Bassett, Va. We also lease office space in Greensboro, NC for our retail and marketing headquarters and lease showroom space in the International Home Furnishings Center, an unconsolidated affiliated entity.

We own the following facilities, by segment:

Wholesale Segment:

<u>Facility</u>	<u>Location</u>
Bassett Wood Division	Martinsville, Va.
Bassett Fiberboard	Bassett, Va.
Bassett Upholstery Division	Newton, N.C.
Warehouse	Bassett, Va.
Warehouse	Mt. Airy, N.C.
Outlet Store	Bassett, Va.

In general, these facilities are suitable and are considered to be adequate for the continuing operations involved. All facilities are in regular use and provide more than adequate capacity for our manufacturing needs.

The following properties have ceased manufacturing operations and are currently held as idle facilities in connection with restructuring efforts:

<u>Facility</u>	<u>Location</u>
J. D. Bassett Manufacturing	Bassett, Va.
Bassett Superior Lines	Bassett, Va.
Bassett Chair	Bassett, Va.
Bassett Table	Bassett, Va.

Retail Segment:

Our interest in retail real estate is as follows:

	<u>Company-Owned Stores</u>	<u>Licensee-Owned Stores</u>	<u>Total Network</u>
Owned properties	7	8	15
Leased properties	25	16	41
Lease guarantees	—	18	18
No real estate involvement	—	56	56
Total	32	98	130

As of November 24, 2007, we had 130 stores in our retail network; 32 Company-owned stores that comprise our retail segment and 98 owned and operated by independent third party licensees. Of the 32 retail store locations owned and operated by us, 7 of the properties are owned and 25 are leased. Of the 7 properties that we own, one property is subject to a land lease.

We also own an additional 8 retail properties that are leased to our licensee dealers. Of these 8 properties, two are subject to land leases. In addition, we lease another 16 properties from third party landlords which we then sublease to our licensee dealers. To further support our licensee dealers, we have also provided lease guarantees on 18 licensee operated stores. See Note 16 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

ITEM 3. LEGAL PROCEEDINGS

On January 18, 2008, Costa Brava Partnership III, L.P. ("Costa Brava"), the beneficial owner of 5.1% of the Company's outstanding shares, submitted to the Company a notice of its intent to nominate seven individuals for election to the Board of Directors at the Company's 2008 Annual Meeting of Shareholders. On January 29, 2008, the Company notified Costa Brava that the notice and purported nominations fail to comply with the Company's Bylaws. Among other things, the Bylaws require that any such notice include a representation that the shareholder is a holder of record of shares entitled to vote at the meeting. In its notice, Costa Brava acknowledged that it was not in fact a holder of record of the Company's shares. On January 29, 2008, the Company also filed suit in the Circuit Court of Henry County, Virginia seeking a declaration that Costa Brava's failure to comply with the Company's Bylaws entitles the chairman of the 2008 Annual Meeting to refuse to acknowledge Costa Brava's purported nominations.

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

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

None.

ITEM 4B. EXECUTIVE OFFICERS OF THE REGISTRANT

John E. Bassett III, 49, has been with the Company since 1981 and served as Vice President of Wood Manufacturing from 1997 to 2001 and as Vice President Global Sourcing since 2001.

Jason W. Camp, 39, joined the Company in 2006 as Senior Vice President of Retail. Prior to joining Bassett, Mr. Camp was with Restoration Hardware, Inc. for nine years advancing to the position of Senior Vice President and General Manager of the Retail Division.

Jay R. Hervey, Esq., 48, has served as the General Counsel, Vice President and Secretary for the Company since 1997.

Matthew S. Johnson, 46, has been with the Company since 1984. Since 2000, he has been serving as Vice President of Merchandising and Design.

Mark S. Jordan, 54, joined the Company in 1999 as Plant Manager. In 2001, he was promoted to Vice President of Upholstery Manufacturing and in 2002 he was promoted to Vice President and General Manager-Upholstery.

Barry C. Safrit, 45, joined the Company as Vice President and Chief Accounting Officer in 1998. He was promoted to Senior Vice President, Finance and Administration, Chief Financial Officer in 2006.

Keith R. Sanders, 63, joined the Company in 1998 as the Vice President of Upholstery Manufacturing . In 1999, he was promoted to Executive Vice President, Operations.

Robert H. Spilman, Jr., 51, has been with the Company since 1984. Since 2000, he has served as Chief Executive Officer and President.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market and Dividend Information:

Bassett's common stock trades on the NASDAQ national market system under the symbol "BSET." We had approximately 1,068 registered stockholders at November 24, 2007. The range of per share amounts for the high and low market prices and dividends declared for the last two fiscal years are listed below:

Quarter	Market Prices of Common Stock				Dividends Declared	
	2007		2006		2007	2006
	High	Low	High	Low		
First	18.80	15.00	19.60	17.99	0.20	0.20
Second	16.71	13.25	19.95	16.59	0.20	0.20
Third	14.53	11.05	18.51	16.56	0.20	0.20
Fourth	11.89	9.41	17.48	15.24	0.20	0.20

Issuer Purchases of Equity Securities

	Total Shares Purchased	Avg Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
August 26 – September 29, 2007	—	—	—	\$ 8,348,587
September 30 – October 27, 2007	—	—	—	\$ 8,348,587
October 28 – November 24, 2007	—	—	—	\$ 8,348,587

(1) The Company's Board of Directors authorized the repurchase of up to \$40,000,000 in Company stock. This repurchase plan was announced on June 23, 1998.

ITEM 6. SELECTED FINANCIAL DATA

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

	2007	2006	2005	2004	2003
Net sales	\$ 295,384	\$ 328,214	\$ 335,207	\$ 315,654	\$ 316,857
Cost of sales	\$ 195,001	\$ 225,319	\$ 236,843	\$ 234,612	\$ 234,861
Operating profit (loss)	\$ (19,916)(1)	\$ (466)	\$ 5,134	\$ 3,727(2)	\$ (1,230)(3)
Other income, net	\$ 5,947	\$ 6,921	\$ 8,061	\$ 7,123	\$ 6,097
Income (loss) before income taxes	\$ (13,969)	\$ 6,455	\$ 13,195	\$ 10,850	\$ 4,867
Income tax expense (benefit)	\$ (4,059)	\$ 1,026	\$ 3,381	\$ 2,641	\$ 462
Net income (loss)	\$ (9,910)	\$ 5,429	\$ 9,814	\$ 8,209	\$ (470)(4)
Diluted earnings (loss) per share	\$ (0.84)	\$ 0.46	\$ 0.82	\$ 0.69	\$ (0.04)
Cash dividends declared	\$ 9,450	\$ 9,449	\$ 9,433	\$ 9,355	\$ 9,261
Cash dividends per share	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80
Total assets	\$ 310,703	\$ 310,223	\$ 313,158	\$ 299,477	\$ 281,891
Long-term debt	\$ 28,850	\$ 23,522	\$ 19,054	\$ 15,604	\$ —
Current ratio	1.96 to 1	2.47 to 1	2.19 to 1	2.66 to 1	2.78 to 1
Book value per share	\$ 16.50	\$ 18.24	\$ 18.61	\$ 18.58	\$ 18.69
Weighted average number of shares	11,810,055	11,808,053	11,785,613	11,686,649	11,608,853

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- (1) See note 13 to the Consolidated Financial Statements related to restructuring and asset impairment charges recorded in 2007, 2006, and 2005. See also note 6 to the Consolidated Financial Statements, with respect to funds received from the Continued Dumping and Subsidy Offset Act in 2007 and 2006.
 - (2) During 2004, we recorded \$4,060 of restructuring and asset impairment charges and a \$3,890 gain on the sale of our California upholstery operation.
 - (3) During 2003, we recorded \$3,200 of restructuring and asset impairment charges.
 - (4) During 2003, we recorded a \$4,875 cumulative effect adjustment related to the adoption of FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities—an Interpretation of ARB No. 51".

Overview

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, "Bassett", "we", "our" or the "Company"), based in Bassett, Va., is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through Bassett Furniture Direct® stores, with secondary distribution through Bassett Design Centers and other multi-line furniture stores. Bassettbaby® cribs and casegoods are sold through specialty stores and mass merchants. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 105-year history has instilled the principles of quality, value, and integrity in everything that we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and to meet the demands of a global economy

Two primary business developments continue to affect our business as they have for nearly a decade.

First, we created and re-channeled sales through a vertically integrated retail store network. The Bassett Furniture Direct® ("BFD" or "store") store program was created in 1997 as a single source home furnishings retail store that provides a unique combination of stylish, well-made furniture and accessories with a high level of customer service. This service includes complimentary room planning, in-home design visits, fast delivery, and custom-order furniture. This strategy both builds on our strengths (brand name, balance sheet, product offerings) and better positions us to capitalize on the changing furniture retail environment. This store network currently includes 98 licensee-owned stores and 32 Company-owned and operated stores.

Second, the furniture industry continues to experience a rapid shift from traditional domestic manufacturing to offshore sourcing in lower cost markets, primarily in China and other Pacific Rim countries. This shift in sourcing has resulted in downward pressure on retail prices and reductions in traditional channels of sales distribution. Many retailers now source their own products rather than relying on a traditional domestic manufacturer to supply goods. Sales of imported products increased to 49% of our total wholesale volume. We expect this to increase to approximately 60% in 2008.

We have responded to these changes by reducing manufacturing production where we can more cost efficiently source product. Over the last seven years, we have reduced the number of facilities from 13 to 3, and reduced our headcount from approximately 4,200 to 1,450. During 2007, we closed a large wood manufacturing facility in Bassett, Va. This resulted in headcount reductions of approximately 280 employees and leaves us with one wood assembly plant in Martinsville, Va., one fiberboard supply facility in Bassett, Va., and one upholstery facility in Newton, N.C. We have closed and consolidated seven wood factories over the past six years.

We intend to execute our strategies in such a way as to preserve our investments while simultaneously minimizing the need for borrowed funds. Maintenance of a strong balance sheet is a stated management goal and vital to our retail growth strategy. The store program entails key business risks, including the realization of receivables and the coverage of both direct and contingent liabilities primarily associated with retail real estate. We have established decision criteria and business disciplines aimed at minimizing potential losses from these risks.

Overall conditions for our industry and our Company have been difficult throughout 2007 with new housing starts down significantly and a deteriorating consumer credit environment. With that as a backdrop, we have continued to invest in the long-term health and future of our retail network. Although we believe 2008 will continue to be difficult, we plan simultaneously to continue to adjust our overall cost structure and further evaluate the performance of our corporate and licensee stores while properly supporting our retail initiatives that are the foundation of the Company's future plans.

Restatement of IHFC Financial Statements

During the fourth quarter of 2007, IHFC determined that the method of accounting for its post-retirement health care plan did not conform to the requirements of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions", and restated its 2006 and 2005 operating results. As a result of this restatement and in accordance with SFAS No. 154, "Accounting Changes and Error Corrections", we have restated the balance of our equity investment as of the beginning of the year ended November 26, 2005 by increasing the negative balance in the investment by \$742 (reflected as "Distributions in excess of affiliate earnings" in the consolidated balance sheet), increasing deferred tax assets by \$296 and reducing retained earnings by \$446. Due to the immateriality of the effects of the IHFC restatement on the Company's statements of operations and cash flows for 2006 and 2005, no adjustments have been recorded in those previously reported statements; however, \$42 was recorded as a reduction to the income recognized in 2007 as the cumulative impact of 2006 and 2005 unrecorded expense.

Critical Accounting Policies and Estimates

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

Consolidation—The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and its majority-owned subsidiaries for whom we have operating control. We also consolidate variable interest entities for which we are the primary beneficiary.

Allowance for Accounts and Notes Receivable—We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts and notes receivable in addition to an overall aging analysis. We evaluate the collectibility of our receivables from our licensees on a quarterly basis. Our allowance for doubtful accounts represents our best estimate of potential losses on our accounts and notes receivables and is adjusted accordingly based on historical experience, current developments and economic trends. Actual losses could differ from those estimates.

Inventories—Inventories are stated at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out method. The cost of imported inventories is determined on a first-in, first-out basis. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Investments—Investments are marked to market and recorded at their fair value. We account for the Alternative Asset Fund by marking it to market value each month based on the net asset values provided by the general partner. Unrealized holding gains and losses, net of the related income tax effect, on available for sale securities are excluded from income and are reported as other comprehensive income in 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.

Goodwill—As specified in Statement of Financial Accounting Standards (SFAS) No. 141, "Accounting for Business Combinations", goodwill represents the excess of the purchase price over the value assigned to tangible assets and liabilities and identifiable intangible assets of businesses acquired. SFAS No. 142, "Goodwill and

Intangible Assets”, requires that goodwill be reviewed for impairment annually or whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Our policy is to perform the annual impairment analysis as of the beginning of our fiscal fourth quarter. SFAS No. 142 also requires that the assets and liabilities acquired and the resulting goodwill be allocated to the entity’s respective reporting units. We have identified three reporting units for our business: Wholesale, Retail and Real Estate/Investments.

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

Impairment of Long-Lived Assets—We periodically evaluate whether events or circumstances have occurred that indicate long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset’s carrying value over its fair value is recorded.

Revenue Recognition—Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This generally occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. Our terms vary from 30 to 60 days. An estimate for returns and allowances has been provided in recorded sales. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us. We are responsible for paying the delivery cost of our products. As part of our efforts to standardize wholesale pricing throughout the country, we began in July 2007 invoicing all of the store network and certain wholesale customers on a fully landed basis such that the invoice price includes the freight charge for delivery. This business change resulted in approximately \$5,232 of additional reported revenue and selling, general and administrative expenses for 2007. We expect the impact on 2008 sales to be significantly higher than that reported for 2007 since 2008 will include a full year under the new practice.

Loss Reserves—We have a number of other potential loss exposures incurred in the ordinary course of business such as environmental claims, product liability, litigation, restructuring charges, and the recoverability of deferred income tax benefits. Establishing loss reserves for these matters requires estimates and judgment with regard to maximum risk exposure and ultimate liability or realization. As a result, these estimates are often developed with the assistance of appropriate advisors, and are based on our current understanding of the underlying facts and circumstances. Because of uncertainties related to the ultimate outcomes of these issues or the possibilities of changes in the underlying facts and circumstances, additional charges related to these issues could be required in the future.

Analysis of Operations

Summarized consolidated operating information is as follows:

	November 24, 2007	November 25, 2006	November 26, 2005
Net sales	\$ 295,384	\$ 328,214	\$ 335,207
Gross profit	100,383	102,895	98,364
SG&A	112,439	103,551	91,270
Restructuring, asset impairment charges and other one-time items, net	7,860	(190)	1,960
Operating income (loss)	(19,916)	(466)	5,134
Other income, net	5,947	6,921	8,061
Tax (expense) benefit	4,059	(1,026)	(3,381)
Net income (loss)	(9,910)	5,429	9,814

Sales for the year ended November 24, 2007 were \$295,384 as compared to \$328,214 for 2006 and \$335,207 in 2005, representing decreases of 10% and 2%, respectively. The 2007 reported sales were positively impacted by a change in our invoicing practices with respect to freight for the delivery of wholesale furniture to our retail stores. During July 2007, we began invoicing these customers on a fully landed basis such that the dealer invoice price includes the freight charge for delivery. This change positively impacted reported revenue by approximately \$5,232. Excluding the effects of the invoicing change, sales decreased 12% for 2007. These shortfalls are primarily due to continued soft furniture retail conditions, which have impacted both retail sales and wholesale shipments in both 2007 and 2006. Gross margins for 2007, 2006, and 2005 were 34.0%, 31.3%, and 29.3%, respectively. Excluding the effects of the above-mentioned invoicing change, gross margins would have been 32.8% for 2007. The 2007 increase over 2006 is due primarily to improved retail margins and a shift in wood product mix from domestic to imported, partially offset by the wind-down costs and inventory markdowns associated with the closure of the Bassett plant and lower volumes in our two domestic production facilities. The gross margin increase in 2006 as compared to 2005 is due primarily to the inclusion of more retail stores which carry a higher gross margin and improved wholesale import product mix. Selling, general and administrative expenses increased \$8,888 for 2007, primarily due to the inclusion of \$5,232 from the change in our invoicing practices described above, the additional expense associated with more company-owned stores, spending to support our key retail initiatives and increases to recorded reserves primarily for bad debts. Selling, general and administrative expenses increased \$12,281 during 2006, primarily due to stores acquired in 2005, as we consolidated a complete year of the Dallas, Atlanta and upstate New York retail operations in 2006. Other income was \$5,947, \$6,921, and \$8,061 in 2007, 2006, and 2005, respectively. We reported a net loss of \$(9,910) in 2007 as compared to net income of \$5,429 and \$9,814 in 2006 and 2005, respectively.

Certain items affecting comparability between periods are noted below in "Investment and Real Estate Segment and Other Items Affecting Net Income (Loss)".

Our 2007, 2006, and 2005 results were negatively (positively) impacted by certain restructuring and non-recurring items totaling \$7,860, (\$190), and \$1,960, respectively, and are detailed below:

	November 24, 2007	November 25, 2006	November 26, 2005
Income from CDSOA	(2,135)	(1,549)	—
LRG settlement and debt restructuring	2,154	—	—
Lease exit costs	2,297	—	—
Restructuring & impaired asset charges	5,544	1,359	1,960
Total, net	<u>\$ 7,860</u>	<u>\$ (190)</u>	<u>\$ 1,960</u>

During 2007 and 2006, we recorded several restructuring and other non-recurring items. In the first quarter of 2007, we announced the closing of our wood manufacturing facility in Bassett, Va. As a result, we recorded \$3,609 of asset impairment charges and \$960 of restructuring charges largely related to severance. We have begun to experience gross margin improvement as we have effectively sourced certain of the products previously produced at the plant from overseas vendors.

We also took a number of other actions to reduce our overall expense structure. These included making a decision to exit four store locations and reducing the size of our wholesale showroom by more than half. We recorded pretax non-cash charges of \$2,297 related to lease exit costs and \$975 for an asset impairment charge related to the downsizing of our wholesale showroom. We have negotiated subleases on two of the closed store locations and are actively marketing the other locations.

During the fourth quarter of 2007, we recorded a pretax charge of \$2,154 related to a settlement and debt restructuring with the minority interest partners of LRG Furniture, LLC. This charge is recorded in LRG settlement and debt restructuring in the consolidated statement of operations. As part of the settlement, we purchased the remaining 20% interest in LRG and restructured certain debt obligations to be paid out over the next six years.

Earnings for 2007 and 2006 were positively impacted by \$2,135 and \$1,549, respectively, of income related to subsidies received in connection with the Continued Dumping and Subsidy Offset Act (CDSOA) for wooden bedroom furniture imported from China.

During the fourth quarter of 2006, we recorded a \$1,359 charge associated with the impairment of previously recorded goodwill.

During fiscal year 2005, we closed our wood manufacturing facility in Mt. Airy, N.C., due to excess domestic capacity as we continued to experience a shift in demand from domestically produced products to imported products. This resulted in a charge of \$1,960 for impaired assets and severance.

Segment Information

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (licensee-owned stores and Company-owned retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both corporate and licensee owned stores. During the second quarter of 2006, we sold our contemporary furniture business (Weiman), which was previously included in this segment.

Our retail segment consists of Company-owned stores. Our retail segment includes the revenues, expenses, assets and liabilities (including real estate) and capital expenditures directly related to these stores.

Our investments/real estate segment consists of our investments (Alternative Asset Fund and marketable securities), distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee stores.

Wholesale Segment

	2007		2006		2005	
Net sales	\$247,676	100.0%	\$284,803	100.0%	\$301,250	100.0%
Gross profit	60,471	24.4%	68,374	24.0%	68,646	22.8%
SG&A	(61,435)	-24.8%	(56,278)	-19.8%	(59,099)	-19.6%
Operating earnings (loss)	\$ (964)	-0.4%	\$ 12,096	4.2%	\$ 9,547	3.2%

Fiscal 2007 as Compared to Fiscal 2006

Wholesale net sales for the year ended November 24, 2007 were \$247,676 as compared to \$284,803 for the year ended November 25, 2006. Excluding the \$5,232 increase in recorded revenue due to the invoicing change described above, sales decreased \$42,359 or 15% year over year. Approximately 49% of wholesale shipments during 2007 were imported products compared to 44% for 2006. We expect sales of imported products to increase to approximately 60% for 2008. Gross margins were 24.4% for the year ended November 24, 2007. Excluding the effects of the invoicing change described above, gross margins would have been 22.8% as compared to 24.0% for 2006. Margins have been negatively impacted by the wind-down costs and inventory markdowns associated with the closure of the Bassett plant and lower volumes in our two domestic production facilities. We experienced increased margins, particularly during the fourth quarter of 2007, as a greater portion of our wholesale shipments were of higher margin imported product. We expect improved wholesale operating results in 2008 from a full year of improved product mix, the absence of any Bassett Plant closing costs and efforts to reduce variable spending in the remaining facilities and corporate support areas. With the continued difficult furniture retail environment, we will continue to assess and adjust our wholesale cost structure to match associated demand.

Fiscal 2006 as Compared to Fiscal 2005

In 2006, wholesale sales were \$284,803 as compared to \$301,250, 5% below sales levels attained in 2005. Approximately 44% of wholesale shipments during 2006 were imported products compared to 34% for 2005. Gross margins for 2006 were 24.0% as compared to 22.8% for 2005. This improvement was primarily driven by an improved mix of imported products and the performance of the upholstery division. Upholstery shipments and operating earnings continued to improve due to the retail acceptance of our custom programs and the new imported leather products introduced over the past several years.

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

	2007		2006		2005	
Wood	\$ 137,045	55.3%	\$ 164,030	57.6%	\$ 179,786	59.7%
Upholstery	108,312	43.7%	117,668	41.3%	114,372	38.0%
Other	2,319	0.9%	3,105	1.1%	7,092	2.3%
Total	<u>\$ 247,676</u>	<u>100.0%</u>	<u>\$ 284,803</u>	<u>100.0%</u>	<u>\$ 301,250</u>	<u>100.0%</u>

Retail Segment—Company Owned Stores

	2007		2006		2005	
Net sales	\$ 87,537	100.0%	\$ 84,401	100.0%	\$ 70,480	100.0%
Gross profit	37,930	43.3%	35,146	41.6%	30,512	43.3%
SG&A	(48,710)	-55.6%	(47,272)	-56.0%	(32,173)	-45.6%
Operating earnings (losses)	<u>\$(10,780)</u>	<u>-12.3%</u>	<u>\$(12,126)</u>	<u>-14.4%</u>	<u>\$ (1,661)</u>	<u>-2.3%</u>

Fiscal 2007 as Compared to Fiscal 2006

Our 32 corporate stores made progress despite difficult conditions at retail. Net sales increased \$3,136 from \$84,401 in 2006 to \$87,537 in 2007. This sales increase primarily resulted from the additional Company-owned stores acquired in 2007 and increases in comparable store sales (sales for stores open for longer than one year). Comparable store sales for Company-owned stores increased 2% for the year. Gross margins for the year increased 1.7%, due to improved pricing and promotional strategies, coupled with less clearance sales activity as compared to 2006. We believe that the combination of new product introductions, store prototype retrofits, better hiring and training of design consultants and continued improved marketing efforts will lead to the further improvement in retail operating results.

Effective November 1, 2007, we acquired the operations of two stores in the Charleston, South Carolina area from a licensee for its net book value. Immediately upon acquisition, we began the process of closing one of the stores. Subsequent to year-end, we entered into an agreement to acquire the real estate for these stores from this licensee for \$6,800. These acquisitions will be funded through a combination of the existing licensee's accounts payable to us and additional debt of between \$4,500 and \$5,000.

Fiscal 2006 as Compared to Fiscal 2005

Our 27 corporate stores experienced soft conditions at retail. Net sales for the retail segment increased nearly 20% in 2006 from 2005, primarily due to having a full year of sales from the 15 additional stores purchased in 2005. For our 11 stores that were in operation in both 2006 and 2005, we experienced slight sales decreases, primarily due to overall soft retail conditions. Our gross margin decreased 1.7 percentage points in 2006 from 2005, primarily due to selling selected products at clearance prices in order to prepare for the arrival of new products and featured catalog products, promotions geared to respond to the overall soft market conditions, and the discounting related to the clearance events at the two stores that were closed. Retail SG&A increased from \$32,173 in 2005 to \$47,272 in 2006. This increase was anticipated and was due almost entirely to adding the expense structure of the stores acquired during 2005. Sales in 2006 were more than 10% below the levels anticipated which resulted in a higher SG&A percentage as a large majority of these costs are relatively fixed in nature.

Investment and Real Estate Segment and Other Items Affecting Net Income (Loss)

Our investments and real estate segment consists of our investments (Alternative Asset Fund and marketable securities), distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee BFD stores. Although this segment does not have operating earnings, income from the segment is included in income from investments in our consolidated statements of operations. Our equity investment in IHFC is not included in the identifiable assets of this segment since it has a negative book value and is therefore included in the long-term liabilities section of our consolidated balance sheet. Income and expense items for fiscal 2007, 2006 and 2005 are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income from investments	5,921	7,318	6,743
Income from unconsolidated affiliated companies, net	5,298	4,464	6,045
Interest expense	(3,671)	(3,864)	(3,242)

Income from investments for 2007 was below the levels realized in 2006 and 2005, primarily due to a decrease in investment return from the Alternative Asset Fund. Even though the fund's performance for 2007 was below our expectations, for a period of high volatility and intense risk aversion, we believe that the fund held up well. We also believe that the fund's orientation toward capital preservation is prudent in a market characterized by increased volatility, deteriorating consumer credit, prolonged weakness in the residential real estate market, and mounting concern over the degree of economic slowdown.

Income from unconsolidated affiliated companies, net includes income from our investment in IHFC as well as income (loss) from other equity method investments. We recognized income from IHFC of \$6,316, \$6,666 and \$6,367 in 2007, 2006 and 2005, respectively. Significant fluctuations have been primarily caused by losses recognized related to our previous investment in BFD Northeast, LLC ("BFDNE") of \$595 and \$1,954 in 2007 and 2006, respectively. On February 28, 2007, we entered into an agreement with BFDNE whereby we contributed our 30% interest in BFDNE to BFDNE in exchange for certain assets (primarily inventory and leasehold improvements) of BFDNE's two stores in Boston, Massachusetts.

Income taxes

Our effective income tax rate was (29.1%), 15.9% and 25.7% for 2007, 2006 and 2005. The effective tax rate in all years was lower than the statutory rate primarily due to exclusions for dividends received from our investment in IHFC. In addition, we recorded a tax charge of \$2,383 in 2007 associated with the write-off of deferred tax assets due to the termination of the LRG partnership. Our effective rate for 2006 was also increased by the write-off of goodwill associated with our retail segment as it was not tax-deductible.

Liquidity and Capital Resources

The Company is committed to maintaining a strong balance sheet in order to weather difficult industry conditions, allow it to take advantage of opportunities as market conditions improve, and to execute its long-term retail growth strategies. We have \$10 million outstanding on our revolving line of credit. As we have \$15,331 of availability under our revolving line of credit and a sizeable investment portfolio, our balance sheet remains strong and continues to bolster our retail growth strategy, which includes entering into operating leases and lease and loan guarantees for our licensees. Our primary sources of funds in 2007 and 2006 have been income from investments, including dividends from IHFC, revolver borrowings, and cash received on the sale of certain assets associated with the closed facilities. Cash was primarily used to fund operations and pay dividends. In 2005, our primary sources of funds were from operations and dividends from IHFC which were used to pay dividends and make capital investments.

The current ratio at November 24, 2007 and November 25, 2006 was 1.96 to 1 and 2.47 to 1, respectively. Working capital was \$54,528 and \$63,918 at November 24, 2007 and November 25, 2006, respectively.

Net cash generated by (used in) operating activities was \$(8,462), \$(6,150) and \$10,903 in fiscal 2007, 2006 and 2005, respectively. The cash deficit for 2007 was driven by the net operating loss and the increase in net working capital. The deficit for 2006 was primarily driven by increases in net working capital, partially offset by positive net earnings. The cash flow from operations in 2005 was primarily due to the net income recognized.

During 2007 and 2006, decreased customer traffic and retail sales trends negatively impacted our licensees' cash flow and in turn the timing of our wholesale collections. As part of the improvement plans with certain of our licensees, we converted approximately \$4,953 of trade accounts receivable to long-term interest bearing notes during the year ended November 24, 2007. We continually assess our levels of bad debt reserves and increased those reserves by \$3,852 during 2007. Our allowance for doubtful accounts represents our best estimate of potential losses on our accounts and notes receivables and is adjusted accordingly based on historical experience, current business levels, individual developments with certain licensees and economic trends. Although we believe we have adequate reserves for bad debts, we will continue to aggressively work to improve the long-term viability of our dealer network and our actions could result in additional store closings in 2008.

We also experienced a significant increase in our accounts payable balance during 2007. These were timing related inventory increases during November in preparation for our January 2008 new product introductions. We expect both reduced inventory and accounts payable levels by the end of the first quarter of 2008.

As noted on the accompanying consolidated balance sheet and statement of cash flows, we segregate property and equipment into two groups: (1) property and equipment utilized by our wholesale and retail segments, and (2) retail real estate utilized by BFD licensees. Over the past three years we have continued to invest in our company-owned retail stores and machinery, equipment and technology utilized by our wholesale segment in the amounts of \$5,544, \$3,344, and \$4,804, respectively. A significant portion of our 2007 spending was related to the retrofitting of our Charlotte store and the build-out of the new Atlanta store. Spending in 2007 associated with retail real estate utilized by BFD licensees consisted only of minor leasehold improvements.

Both purchases of investments and proceeds from the sales of investments relate primarily to the active management of a portion of our overall investment portfolio. During the year, marketable securities are bought and sold generating proceeds, purchases, gains and losses. For 2007, 2006 and 2005 net proceeds from sales of

investments were \$6,569, \$6,870 and \$3,479, respectively, which were primarily used to fund operations and pay dividends. Dividends from an affiliate represent cash distributions from our investment in the International Home Furnishings Center (“IHFC”). Our investment in IHFC reflects a credit balance and is shown in the liabilities section of our balance sheet as distributions in excess of affiliate earnings. Based on current and expected future earnings of IHFC, we believe that the market value of this investment is positive and substantially greater than its current negative book value. The financial statements of IHFC are included as an attachment to this Form 10-K.

We amended our existing revolving credit facility in October 2007 by extending the agreement by two years and amending certain covenants. The credit facility provides for borrowings of up to \$40,000 at a variable interest rate of LIBOR plus 1.5% (6.19% on November 24, 2007). The facility is secured by a pledge on certain marketable securities and substantially all of our receivables and inventories. Borrowings under the facility, which matures November 30, 2009, totaled \$10,000 and \$4,000 at November 24, 2007 and November 25, 2006, respectively. After coverage for letters of credit and loan guarantees, we had \$15,331 available for borrowing under the facility at November 24, 2007.

This facility contains, among other provisions, certain defined financial requirements including a maximum ratio of debt to equity and a minimum level of net worth. We were in compliance with these covenants as of November 24, 2007. As in previous years, we have paid \$0.80 per share in annual dividends representing an approximate annual cash requirement of \$9,450. Although we have experienced operating cash flow deficits in 2007 and 2006, we plan for improved cash flow in 2008, primarily due to a combination of improved operating performance and working capital management.

Our 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 our consolidated financial position and results of operations in prior years.

We currently anticipate that total capital expenditures for fiscal 2008 will be approximately \$7,000 most of which is intended for retrofits for the new prototype design primarily at Company-owned stores and information systems to support e-commerce initiatives. We have plans to continue to invest in store remodels, conversions, and new store real estate over the next three to four years and at potentially greater levels of up to \$10,000 to \$12,000 per year. The funding for this retail growth could come from multiple sources, including our investment portfolio, our borrowing capacity, and/or our expected cash flow from operations. Our capital expenditure and working capital requirements in the foreseeable future may change depending on many factors, including but not limited to our rate of growth, our operating results and any unplanned adjustments to our operating plan in response to economic, competitive or other circumstances. We believe that our existing cash and investment portfolio, and our borrowing capacity, together with cash expected to be provided by operations, will be more than sufficient to meet our capital expenditure and working capital requirements for the foreseeable future.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 provides a comprehensive model for the recognition, measurement, presentation, and disclosure in a company’s financial statements of uncertain tax positions taken, or expected to be taken, on a tax return. If an income tax position exceeds a more likely than not (i.e., greater than 50%) probability of success upon tax audit, we are to recognize an income tax benefit in its financial statements. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures consistent with the respective jurisdictional tax laws. This interpretation is effective for fiscal years beginning after December 15, 2006, our fiscal year ending November 30, 2008. We are currently in the process of inventorying and evaluating our uncertain tax positions to determine what impact FIN 48 will have on our results of operations or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” which defines fair value, establishes a framework for measuring fair value in generally accepted

accounting principles (“GAAP”) and expands disclosure about fair value measurements. SFAS No.157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted, our fiscal 2008 first quarter ending March 1, 2008. We are currently in the process of determining the impact, if any, that the implementation of SFAS No. 157 will have on our results of operations or financial condition.

Contractual Obligations and Commitments:

We enter into contractual obligations and commercial commitments in the ordinary course of business (See Note 16 to the Consolidated Financial Statements for a further discussion of these obligations). The following table summarizes our contractual payment obligations and other commercial commitments.

	2008	2009	2010	2011	2012	Thereafter	Total
Post employment benefit obligations(1)	\$ 1,736	\$ 1,703	\$ 1,680	\$ 1,633	\$ 1,510	\$ 10,280	\$ 18,542
Real estate notes payable	672	729	8,379	5,447	172	4,123	19,522
Long-term debt	—	10,000	—	—	—	—	10,000
Interest payable	2,156	2,098	896	517	284	2,254	8,205
Letters of credit	4,230	—	—	—	—	—	4,230
Operating leases(2)	13,811	13,423	13,057	12,383	12,086	31,633	96,393
Lease guarantees	7,032	1,593	1,626	1,069	311	1,041	12,672
Loan guarantees	4,197	3,077	1,444	338	—	—	9,056
Purchase obligations(3)	—	—	—	—	—	—	—
Total	<u>\$ 33,834</u>	<u>\$ 32,623</u>	<u>\$ 27,082</u>	<u>\$ 21,387</u>	<u>\$ 14,363</u>	<u>\$ 49,331</u>	<u>\$ 178,620</u>

- (1) Does not reflect a reduction for the impact of any company owned life insurance proceeds to be received. See Note 11 to the Consolidated Financial Statements for more information.
- (2) Does not reflect a reduction for the impact of sublease income to be received. See Note 16 to the Consolidated Financial Statements for more information.
- (3) The Company is not a party to any long-term supply contracts with respect to the purchase of raw materials or finished goods. At the end of fiscal year 2007, we had \$29,366 in open purchase orders, primarily for imported inventories, which are in the ordinary course of business.

Off-Balance Sheet Arrangements:

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of BFD stores. We have guaranteed certain lease obligations of licensee operators of the BFD stores as part of our retail expansion strategy. We also have guaranteed loans of certain of our BFD dealers to finance initial inventory packages for these stores. See Contractual Obligations and Commitments table above and Note 16 to the Consolidated Financial Statement for further discussion of operating leases, lease guarantees and loan guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

Contingencies:

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

Safe-harbor, forward-looking statements:

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

- competitive conditions in the home furnishings industry
- general economic conditions
- overall retail traffic levels and consumer demand for home furnishings
- Bassett store openings
- Store closings and the profitability of the stores (independent licensees and Company-owned retail stores)
- ability to implement our Company-owned retail strategies and realize the benefits from such strategies as they are implemented
- fluctuations in the cost and availability of raw materials, labor and sourced products (including fabrics from troubled suppliers)
- results of marketing and advertising campaigns
- information and technology advances
- ability to execute new global sourcing strategies
- performance of our marketable securities portfolio and our investment in BIAAF
- future tax legislation, or regulatory or judicial positions
- ability to efficiently manage the import supply chain to minimize business interruption
- effects of profit improvement initiatives in our domestic wood operations
- continued profitability of our unconsolidated affiliated companies, particularly IHFC

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk for changes in market prices of our various types of investments. Our investments include marketable securities and an investment partnership (Alternative Asset Fund). Our marketable securities portfolio, which totaled \$25,145, at November 24, 2007, is diversified among eleven different money managers and sixteen different medium to large capitalization equity interests. Although there are no maturity dates for our equity investments, we will liquidate these holdings as necessary to fund operations or other growth strategies. Maturity dates on other investments in the portfolio range from one to six years. As part of our current debt facility, we have pledged certain of these securities as collateral.

The Bassett Industries Alternative Asset Fund L.P was organized under the Delaware Revised Uniform Limited Partnership Act and commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (the General Partner) of the Alternative Asset Fund. We and the General Partner are currently the only two partners. The objective of the Alternative Asset Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi-strategy and other market-neutral strategies. The General Partner has discretion to make all investment and trading decisions, including the selection of investment managers. The General Partner selects portfolio managers on the basis of various criteria, including, among other things, the manager's investment performance during various time periods and market cycles, the fund's infrastructure, and the manager's reputation, experience, training and investment philosophy. Typically, the General Partner requires that each portfolio manager have a substantial personal investment in the investment program. Our investment in the Alternative Asset Fund, which totaled \$51,779 at November 24, 2007, includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest rates, market currency rates, and liquidity. Risks to these funds arise from possible adverse changes in the market value of such interests and the potential inability of counterparties to perform under the terms of the contracts. However, the risk to the Company is limited to the amount of the Alternative Asset Fund investment in each of the funds. We believe that the Alternative Asset Fund did not hold any investments that have a material exposure, individually or in aggregate, to residential subprime loans either directly or through structured finance entities, such as collateralized debt obligations. However, in the future, managers incorporating a multi-strategy investing mandate may participate in these securities through their distressed portfolios if the risk/return characteristics are deemed attractive.

We account for our investments by marking them to market value each month based on the net asset values provided by the General Partner. The hedge funds and portfolio managers provide the General Partner with estimated net asset values on a monthly basis that represent the amount the partnership would receive if it were to liquidate its investments in the investee funds. We are entitled to affect partial withdrawals from our capital account in the Alternative Asset Fund at the end of any calendar quarter or any calendar year provided that Bassett shall be subject to the withdrawal provisions and notice periods required by the underlying managers. These notice periods range from 65 days to six months and may be subject to lockup periods of up to one year. (See Note 5 of the Consolidated Financial Statements).

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Bassett Furniture Industries, Incorporated:

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated and subsidiaries as of November 24, 2007 and November 25, 2006, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended November 24, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The financial statements of International Home Furnishings Center, Inc. (a corporation in which the Company has a 47% interest), have been audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for International Home Furnishings Center, Inc., is based solely on the report of the other auditors. In the consolidated financial statements, the Company's investment in International Home Furnishings Center, Inc. is stated at \$(12,244,000) and \$(12,468,000), respectively, at November 24, 2007 and November 25, 2006, and the Company's equity in the net income of International Home Furnishings Center, Inc. is stated at \$6,316,000, \$6,666,000, and \$6,367,000 for each of the three years in the period ended November 24, 2007.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bassett Furniture Industries, Incorporated and subsidiaries at November 24, 2007 and November 25, 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended November 24, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As more fully described in Note 8 to the consolidated financial statements, the financial statements of International Home Furnishings Center, Inc., which were audited by other auditors, were restated. Accordingly, the Company has restated its consolidated balance sheet as of November 25, 2006, and its consolidated statements of stockholders' equity for each of the two years in the period ended November 25, 2006 to reflect the effect of the restatement of the financial statements of International Home Furnishings Center, Inc. on the Company's accounting for this equity method investee.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bassett Furniture Industries, Incorporated's internal control over financial reporting as of November 24, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Greensboro, North Carolina
February 6, 2008

Consolidated Balance Sheets
Bassett Furniture Industries, Incorporated and Subsidiaries
November 24, 2007 and November 25, 2006 (Restated)
(In thousands, except share and per share data)

	2007	As restated 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 3,538	\$ 6,051
Accounts receivable, net of allowance for doubtful accounts of \$7,661 and \$5,746 as of November 24, 2007 and November 25, 2006, respectively	38,612	38,253
Inventories	50,550	48,880
Deferred income taxes	6,001	6,391
Assets held for sale	—	1,091
Other current assets	12,421	6,812
Total current assets	<u>111,122</u>	<u>107,478</u>
Property and equipment, net		
Investments	76,924	78,617
Retail real estate	31,207	33,501
Notes receivable, net of allowance for doubtful accounts of \$1,700 and \$2,855 as of November 24, 2007 and November 25, 2006, respectively	14,128	13,391
Deferred income taxes	9,902	5,953
Other	14,195	12,368
	<u>146,356</u>	<u>143,830</u>
Total assets	<u>\$ 310,703</u>	<u>\$ 310,233</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 26,104	\$ 16,927
Accrued compensation and benefits	5,611	5,561
Customer deposits	8,894	8,310
Dividends payable	2,363	2,361
Other accrued liabilities	13,622	10,401
Total current liabilities	<u>56,594</u>	<u>43,560</u>
Long-term liabilities		
Post employment benefit obligations	14,493	15,263
Long-term debt	10,000	4,000
Real estate notes payable	18,850	19,522
Other long-term liabilities	3,670	—
Distributions in excess of affiliate earnings	12,244	12,468
	<u>59,257</u>	<u>51,253</u>
Commitments and Contingencies		
Stockholders' equity		
Common stock, par value \$5 a share, 50,000,000 shares authorized, issued and outstanding 11,806,592 in 2007 and 11,803,656 in 2006	59,033	59,018
Retained earnings	131,725	151,089
Additional paid-in-capital	2,180	1,993
Accumulated other comprehensive income	1,914	3,320
Total stockholders' equity	<u>194,852</u>	<u>215,420</u>
Total liabilities and stockholders' equity	<u>\$ 310,703</u>	<u>\$ 310,233</u>

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 24, 2007, November 25, 2006, and November 26, 2005
(In thousands, except per share data)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net sales	\$295,384	\$328,214	\$335,207
Cost of sales	195,001	225,319	236,843
Gross profit	100,383	102,895	98,364
Selling, general and administrative expenses	112,439	103,551	91,270
Income from Continued Dumping & Subsidy Offset Act	(2,135)	(1,549)	—
Restructuring and asset impairment charges	5,544	1,359	1,960
Lease exit costs	2,297	—	—
LRG settlement and debt restructuring	2,154	—	—
Income (loss) from operations	<u>(19,916)</u>	<u>(466)</u>	<u>5,134</u>
Income from investments	5,921	7,318	6,743
Income from unconsolidated affiliated companies, net	5,298	4,464	6,045
Interest expense	(3,671)	(3,864)	(3,242)
Other expense, net	<u>(1,601)</u>	<u>(997)</u>	<u>(1,485)</u>
Income (loss) before income taxes	(13,969)	6,455	13,195
Income tax (provision) benefit	4,059	(1,026)	(3,381)
Net income (loss)	<u>\$ (9,910)</u>	<u>\$ 5,429</u>	<u>\$ 9,814</u>
Net income (loss) per share			
Basic earnings (loss) per share:	<u>\$ (0.84)</u>	<u>\$ 0.46</u>	<u>\$ 0.83</u>
Diluted earnings (loss) per share:	<u>\$ (0.84)</u>	<u>\$ 0.46</u>	<u>\$ 0.82</u>

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

Consolidated Statements of Stockholders' Equity
Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 24, 2007, November 25, 2006 (Restated), and November 26, 2005 (Restated)
(In thousands, except share and per share data)

	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total
	Shares	Amount				
Balance, November 27, 2004 as previously reported	11,735,967	\$58,680	\$ 1,373	\$155,174	\$ 2,818	\$ 218,045
IHFC restatement adjustment (see Note 8)				(446)		(446)
Balance, November 28, 2004, as restated	11,735,967	58,680	1,373	154,728	2,818	217,599
Net income	—	—	—	9,814	—	9,814
Net change in unrealized holding gains	—	—	—	—	(166)	(166)
Comprehensive income						9,648
Dividends (\$.80 per share)	—	—	—	(9,433)	—	(9,433)
Issuance of common stock	75,584	377	761	—	—	1,138
Purchase and retirement of common stock	(7,093)	(35)	(89)	—	—	(124)
Tax benefit from exercise of options	—	—	49	—	—	49
Unamortized stock compensation	—	—	(26)	—	—	(26)
Balance, November 26, 2005, as restated	11,804,458	59,022	2,068	155,109	2,652	218,851
Net income	—	—	—	5,429	—	5,429
Excess of additional pension liability over unamortized transition obligation	—	—	—	—	(205)	(205)
Net change in unrealized holding gains	—	—	—	—	873	873
Comprehensive income						6,097
Dividends (\$.80 per share)	—	—	—	(9,449)	—	(9,449)
Issuance of common stock	55,637	278	561	—	—	839
Purchase and retirement of common stock	(56,439)	(282)	(702)	—	—	(984)
Stock-based compensation	—	—	66	—	—	66
Balance, November 25, 2006, as restated	11,803,656	59,018	1,993	151,089	3,320	215,420
Net loss	—	—	—	(9,910)	—	(9,910)
Excess of additional pension liability over unamortized transition obligation	—	—	—	—	(28)	(28)
Net change in unrealized holding gains	—	—	—	—	(833)	(833)
Comprehensive loss						(10,771)
Dividends (\$.80 per share)	—	—	—	(9,454)	—	(9,454)
Issuance of common stock	42,236	211	365	—	—	576
Purchase and retirement of common stock	(39,300)	(196)	(350)	—	—	(546)
Stock-based compensation	—	—	172	—	—	172
Adjustment to initially apply SFAS 158, net	—	—	—	—	(545)	(545)
Balance, November 24, 2007	<u>11,806,592</u>	<u>\$59,033</u>	<u>\$ 2,180</u>	<u>\$131,725</u>	<u>\$ 1,914</u>	<u>\$ 194,852</u>

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

Consolidated Statements of Cash Flows
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 24, 2007, November 25, 2006, and November 26, 2005
(In thousands)

	2007	2006	2005
Operating Activities			
Net income (loss)	\$ (9,910)	\$ 5,429	\$ 9,814
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	9,089	9,253	9,674
Equity in undistributed income of investments and unconsolidated affiliated companies	(8,323)	(9,594)	(11,011)
Provision for restructuring and asset impairment costs	5,544	1,359	920
Provision for lease exit costs	2,297	—	—
LRG settlement and debt restructuring	2,154	—	—
Provision for losses on trade accounts receivable	3,852	3,364	2,603
Realized income from investments	(2,937)	(2,121)	(1,743)
Deferred income taxes	(2,963)	(1,437)	60
Other, net	669	(353)	(192)
Changes in operating assets and liabilities, exclusive of assets and liabilities impacted by business combinations:			
Accounts receivable	(10,919)	(7,417)	(7,666)
Inventories	(315)	2,503	4,625
Other current assets	(5,662)	(1,477)	587
Accounts payable and accrued liabilities	8,962	(5,659)	3,232
Net Cash Provided By (Used In) Operating Activities	(8,462)	(6,150)	10,903
Investing Activities			
Purchases of property and equipment	(5,544)	(3,344)	(4,804)
Purchases of retail real estate	(375)	(3,594)	(6,286)
Proceeds from sales of property and equipment	3,176	1,736	1,644
Proceeds from sale of Weiman	—	1,300	—
Proceeds from sales of investments	16,982	21,618	17,818
Purchases of investments	(10,413)	(14,748)	(14,339)
Dividends from an affiliate	6,091	6,559	5,623
Net cash received on licensee notes	1,029	411	828
Acquisition of retail licensee stores, net of cash acquired	120	(430)	67
Other, net	(177)	833	761
Net Cash Provided By Investing Activities	10,889	10,341	1,312
Financing Activities			
Net borrowings under revolving credit arrangement	6,000	1,000	3,000
Repayments of long-term debt	(770)	(910)	(3,145)
Borrowings (repayments) under real estate notes payable	(622)	4,378	(460)
Issuance of common stock	448	745	1,065
Repurchases of common stock	(546)	(1,013)	(155)
Cash dividends	(9,450)	(9,449)	(9,433)
Net Cash Used In Financing Activities	(4,940)	(5,249)	(9,128)
Change In Cash And Cash Equivalents	(2,513)	(1,058)	3,087
Cash And Cash Equivalents—beginning of year	6,051	7,109	4,022
Cash And Cash Equivalents—end of year	\$ 3,538	\$ 6,051	\$ 7,109

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

1. Description of Business

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, “Bassett”, “we”, “our”, “the Company”) based in Bassett, Va., is a leading manufacturer, marketer and retailer of branded home furnishings. Bassett’s products, designed to provide quality, style and value, are sold through Bassett Furniture Direct® stores, Bassett Design Centers, and other furniture stores. Bassett’s full range of furniture products and accessories are primarily sold through an exclusive nation-wide network of 130 retail stores known as Bassett Furniture Direct (“BFD” or “store”), of which 98 are independently owned (“licensee operated”) and 32 are controlled and consolidated by the Company (“Company-owned retail stores”). The Company sourced 49% of its wholesale products to be distributed through the store network from various countries, with the remaining volume produced at its two domestic manufacturing facilities.

2. Significant Accounting Policies

Principles of Consolidation and Fiscal Year

The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and our majority-owned subsidiaries for whom we have operating control. We also consolidate variable interest entities for which we are the primary beneficiary. All significant intercompany balances and transactions are eliminated in consolidation. Our fiscal year ends on the Saturday nearest November 30.

Cash Equivalents

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

Accounts Receivable and Notes Receivable

Substantially all of our trade accounts receivable and notes receivable are due from customers located within the United States. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates. Allowances for doubtful accounts were \$7,661 and \$5,746 at November 24, 2007 and November 25, 2006, respectively. Notes receivable reserves were \$1,700 and \$2,855 at November 24, 2007 and November 25, 2006, respectively. Accounts and notes receivable are generally secured by liens on merchandise sold to licensees.

Concentrations of Credit Risk and Major Customers

Financial instruments that subject us to credit risk consist primarily of investments, accounts and notes receivable and financial guarantees. Investments are managed within established guidelines to mitigate risks. Accounts and notes receivable subject us to credit risk partially due to the concentration of amounts due from customers. In 2007 and 2006, no customer accounted for more than 10% of total net sales or total accounts receivable in the periods presented.

Inventories

Inventories (retail merchandise, finished goods, work in process and raw materials) are stated at the lower of cost or market. Cost is determined for domestic manufactured furniture inventories using the last-in, first-out (“LIFO”) method. The cost of imported inventories is determined on a first-in, first-out (“FIFO”) basis.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

Inventories accounted for under the LIFO method represented 19% and 29% of total inventory before reserves at November 24, 2007 and November 25, 2006, respectively. We estimate inventory reserves for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Property and Equipment

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

Retail Real Estate

Retail real estate is comprised of owned and leased properties utilized by licensee operated BFD stores. These properties are located in high traffic, upscale locations that are normally occupied by large successful national retailers. This real estate is stated at cost and depreciated over the useful lives of the respective assets utilizing the straight line method. Buildings and improvements are generally depreciated over a period of 10 to 39 years. Leasehold improvements are amortized based on the underlying lease term, or the asset's estimated useful life, whichever is shorter. As of November 24, 2007 and November 25, 2006, the cost of retail real estate included land totaling \$6,451 and building and leasehold improvements of \$31,293 and \$32,267, respectively. As of November 24, 2007 and November 25, 2006, accumulated depreciation of retail real estate was \$6,796 and \$5,217, respectively. Depreciation expense was \$1,745, \$1,765, and \$1,200 in 2007, 2006, and 2005, respectively.

Goodwill

As specified in Statement of Financial Accounting Standards (SFAS) No. 141, "Accounting for Business Combinations", goodwill represents the excess of the purchase price over the value assigned to tangible assets and liabilities and identifiable intangible assets of businesses acquired. SFAS No. 142, "Goodwill and Intangible Assets", requires that goodwill be reviewed for impairment annually or whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Our policy is to perform the annual impairment analysis as of the beginning of our fiscal fourth quarter. SFAS No. 142 also requires that the assets and liabilities acquired and the resulting goodwill be allocated to the entity's respective reporting units. We have identified three reporting units for our business; Wholesale, Retail and Real Estate/Investments.

Impairment of Long Lived Assets

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

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

Investments

Our investments consist of a portfolio of marketable securities and the Bassett Industries Alternative Asset Fund (“Alternative Asset Fund”). We classify our marketable 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 are reported as other comprehensive income in 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. All investments are marked-to-market and recorded at their fair value. Gains and losses on financial instruments that do not qualify as accounting hedges are recorded as other income or expense. Investments in the Alternative Asset Fund are valued on the basis of net asset value, with the resultant difference from the prior valuation included in other income or expense in the accompanying statements of operations. The net asset value is determined by the investee fund based on its underlying financial instruments as provided by the general partner.

Unconsolidated Affiliated Companies

The equity method of accounting is used for our investments in affiliated companies in which we exercise significant influence but do not maintain operating control. For equity investments that have been reduced to zero through equity method losses, additional equity losses incurred have reduced notes receivable from the investee.

Revenue Recognition

Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. We offer terms varying from 30 to 60 days for wholesale customers. Estimates for returns and allowances for advertising and promotional arrangements have been recorded as a reduction to revenue. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us. We are responsible for paying the delivery cost of our products. As part of our efforts to standardize wholesale pricing throughout the country, we began in July 2007 invoicing all of the store network and certain wholesale customers on a fully landed basis such that the invoice price includes the freight charge for delivery. This business change resulted in approximately \$5,232 of additional reported revenue and selling, general and administrative expenses for 2007.

Income Taxes

Income taxes are accounted for under the asset and liability method in accordance with SFAS 109, “Accounting for Income Taxes”. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company provides valuation allowances against the net deferred tax asset for amounts that are not considered more likely than not to be realized.

Significant judgment is required in evaluating the Company’s federal, state and foreign tax positions and in the determination of its tax provision. Despite management’s belief that the Company’s tax return positions are fully supportable, the Company may establish and has established reserves when it believes that certain tax

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

positions are likely to be challenged and it may not fully prevail in overcoming these challenges. The Company may adjust these reserves as relevant circumstances evolve, such as guidance from the relevant tax authority, its tax advisors, or resolution of issues in the courts. The Company's tax expense includes the impact of reserve provisions and changes to reserves that it considers appropriate, as well as related interest.

Earnings (loss) per Share

Basic earnings (loss) per share is determined by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share also considers the dilutive effect for stock options and restricted stock.

Shipping and Handling Costs

Costs incurred to deliver retail merchandise to customers are recorded in selling, general and administrative expense and totaled \$2,300 for 2007, \$2,775 for 2006, and \$2,385 for 2005. In order to drive price consistency throughout the store network, in July 2007, we began invoicing all of the store network and certain other wholesale customers on a fully landed basis such that the invoice price includes the freight charge for delivery. This business change resulted in approximately \$5,232 of additional reported revenue and selling, general and administrative expenses for 2007.

Advertising

Costs incurred for producing and distributing advertising and advertising materials are expensed when incurred and are included in selling, general and administrative expenses. Advertising costs totaled \$12,482, \$11,194, and \$9,278, in 2007, 2006, and 2005, respectively.

Fair Value of Financial Instruments

Our financial instruments include cash and cash equivalents, accounts receivable, notes receivable, investment securities, cost and equity method investments, accounts payable and long-term debt. Because of their short maturity, the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value. Our cost and equity method investments generally involve entities for which it is not practical to determine fair values. The carrying amounts of notes receivable approximate fair value as the effective rates for these instruments are comparable to market rates at year-end.

Business Insurance Reserves

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

Variable Interest Entities

In 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses the consolidation of certain business enterprises ("variable interest entities" or "VIEs"), to which the usual condition of consolidation, a controlling financial interest, does not apply. FIN 46R requires an entity to assess its equity investments, among other interests, to determine if they are variable interest entities. As

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

defined in FIN 46R, VIEs are contractual, ownership or other interests in entities that change with the changes in the entities' net asset value. Variable interests in an entity may arise from guarantees, leases, borrowings and other arrangements with the VIE. An entity that will absorb a majority of the variable interest entity's expected losses or expected residual returns, as defined in FIN 46R, is considered the primary beneficiary of the VIE. Under FIN 46R, the primary beneficiary must include the VIE's assets, liabilities and results of operations in its consolidated financial statements.

We analyzed our partnership licensee and our independent licensees under the requirements of FIN 46R. All of these licensees operate as Bassett Furniture Direct stores and are furniture retailers. We sell furniture to these licensees, and in some cases have extended credit beyond normal terms, made lease guarantees, guaranteed loans, or loaned directly to the licensees. Consistent with our critical accounting policies, we have recorded reserves for potential exposures related to these licensees. See Note 16 for disclosure of leases, lease guarantees and loan guarantees. Based on financial projections and best available information, all licensees have sufficient equity to carry out their principal operating activities without subordinated financial support. We completed our assessment for other potential VIEs, and concluded that these entities were not required to be consolidated by us. Since adoption of FIN 46R, we have and will continue to reassess the status of potential VIEs including when facts and circumstances surrounding each potential VIE change.

Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides a comprehensive model for the recognition, measurement, presentation, and disclosure in a company's financial statements of uncertain tax positions taken, or expected to be taken, on a tax return. If an income tax position exceeds a more likely than not (i.e., greater than 50%) probability of success upon tax audit, we are to recognize an income tax benefit in its financial statements. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures consistent with the respective jurisdictional tax laws. This interpretation is effective for fiscal years beginning after December 15, 2006, our fiscal year ending November 29, 2008. We are currently in the process of inventorying and evaluating our uncertain tax positions to determine what impact FIN 48 will have on our results of operations or financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP") and expands disclosure about fair value measurements. SFAS No.157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years, with early adoption permitted, our fiscal 2008 first quarter ending March 1, 2008. We are currently in the process of determining the impact, if any, that the implementation of SFAS No. 157 will have on our results of operations or financial condition.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "Fair Value Option" which provides companies with an irrevocable option to report certain assets and liabilities at fair value. SFAS No. 159 is intended to reduce the volatility in earnings and the complexity in accounting caused by differences in existing accounting rules. In addition, SFAS No. 159, helps achieve further convergence with the International Accounting Standards Board, which previously adopted a fair value option for financial instruments. It is effective for an entity's fiscal year that begins after November 15, 2007, our fiscal year ending November 29, 2008. We are currently in the process of determining the impact, if any, the irrevocable option and subsequent implementation of SFAS No. 159 would have on our results of operations or financial condition.

Notes to Consolidated Financial Statements—Continued
(In thousands, except share and per share data)

Use of Estimates

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

Reclassifications

For comparative purposes, certain amounts in the 2006 and 2005 financial statements have been reclassified to conform to the 2007 presentation.

3. Inventories

Inventories consist of the following:

	November 24, 2007	November 25, 2006
Finished goods	\$ 36,102	\$ 34,159
Work in process	247	987
Raw materials and supplies	7,887	10,111
Retail merchandise	13,723	14,472
Total inventories on first-in, first-out cost method	57,959	59,729
LIFO adjustment	(7,409)	(10,849)
	<u>\$ 50,550</u>	<u>\$ 48,880</u>

During 2007 and 2006, we liquidated certain LIFO inventories, which decreased cost of sales by \$3,440 and \$3,516, respectively. We source a significant amount of our wholesale product from other countries. During 2007, we purchased \$26,063 and \$20,014 from two vendors, respectively, located in China.

4. Property and Equipment

	November 24, 2007	November 25, 2006
Land	\$ 9,195	\$ 9,195
Buildings and leasehold improvements	57,825	58,568
Machinery and equipment	86,975	101,337
	153,995	169,100
Less accumulated depreciation	(100,770)	(110,175)
	<u>\$ 53,225</u>	<u>\$ 58,925</u>

Depreciation expense for property and equipment was \$6,625, \$7,142, and \$8,268, in 2007, 2006, and 2005, respectively. Net book value of property and equipment utilized by Company-owned stores for 2007, 2006 and 2005, was \$28,552, \$25,243 and \$26,285, respectively.

Notes to Consolidated Financial Statements—Continued
(In thousands, except share and per share data)

5. Investments

Our investments consist of a 99.95% interest in the Alternative Asset Fund and a portfolio of marketable securities.

	November 24, 2007	November 25, 2006
Alternative Asset Fund	\$ 51,779	\$ 52,755
Marketable Securities	25,145	25,862
	<u>\$ 76,924</u>	<u>\$ 78,617</u>

The Alternative Asset Fund commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (General Partner) of the Alternative Asset Fund. Bassett and the General Partner are the only two partners. The objective of the Alternative Asset Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi- strategy and other market—neutral strategies. The General Partner has discretion to make all investment and trading decisions, including the selection of investment managers. The General Partner selects portfolio managers on the basis of various criteria, including, among other things, the manager's investment performance during various time periods and market cycles, the fund's infrastructure, and the manager's reputation, experience, training and investment philosophy. Typically, the General Partner requires that each portfolio manager have a substantial personal investment in the investment program. Our investment in the Alternative Asset Fund, which totaled \$51,779 at November 24, 2007, includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk.

These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest rates, market currency rates, and liquidity. We account for the investments by marking them to market value each month based on the net asset values provided by the General Partner. The hedge funds and portfolio managers provide the General Partner with estimated net asset values on a monthly basis that represents the amount the partnership would receive if it were to liquidate its investments in the investee funds. We are entitled to affect partial withdrawals from our capital account in the Alternative Asset Fund at the end of any calendar quarter or any calendar year provided that Bassett shall be subject to the withdrawal provisions and notice periods required by the underlying managers. These notice periods range from 65 days to six months and may be subject to lockup periods of up to one year.

The Alternative Asset Fund was comprised of the following investments. All investments are at fair value and all are below five percent of the respective portfolio manager's total fund investment.

	November 24, 2007	November 25, 2006
Styx Partners, L.P.	\$ 13,974	\$ 22,698
HBK Fund, L.P.	13,589	13,094
Contrarian Capital Trade Claims, L.P.	5,983	5,640
Drawbridge Special Opportunities Fund, L.P.	12,400	6,099
DB Zwirn Special Opportunities Fund, L.P.	5,735	5,031
Cash and Other	98	193
	<u>\$ 51,779</u>	<u>\$ 52,755</u>

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

Our earnings from the Alternative Asset Fund were \$3,024, \$5,162, and \$5,000 for 2007, 2006 and 2005, respectively. We received distributions of \$4,000 from the sales of investments in the Alternative Asset Fund in both 2007 and 2006.

Cost and unrealized holding gains of marketable securities are as follows:

	November 24, 2007	November 25, 2006
Fixed income securities	\$ 1,361	\$ 3,666
Equity securities	19,371	16,738
Total cost	20,732	20,404
Unrealized holding gains	4,413	5,458
Fair value	\$ 25,145	\$ 25,862

Investments in marketable securities are considered “available for sale”. The realized earnings from our marketable securities portfolio which includes realized gains or losses and dividend and interest income were \$2,897, \$2,121 and \$1,743 for 2007, 2006 and 2005, respectively. The change in unrealized holding gains of \$(1,045), \$1,314, and \$(259) is recorded in accumulated other comprehensive income, net of taxes of \$212 for 2007, \$(441) for 2006, and \$93 for 2005.

6. Income from the Continued Dumping and Subsidy Offset Act

In 2000, the United States Congress passed the Continued Dumping and Subsidy Offset Act (CDSOA). The Act requires that revenues from antidumping and countervailing duties on designated imports be distributed, on an annual basis, to the domestic producers that were either petitioners or interested parties supporting the petition that resulted in duties being levied. The CDSOA originally targeted the steel industry and eventually spread to other industries, including the furniture industry, specifically targeting wooden bedroom furniture produced in China. We supported the petition on wooden bedroom furniture produced in China. We recognized \$2,135 and \$1,549 of CDSOA income in 2007 and 2006, respectively. Amounts received in 2005 were insignificant.

In early 2006, legislation was enacted that ends CDSOA distributions for monies collected after September 30, 2007. Therefore, we expect that distributions after 2007 will be reduced and will eventually cease.

7. Goodwill

The Company had \$3,548 and \$3,463 of goodwill as of November 24, 2007 and November 25, 2006, respectively, recorded as part of other long-term assets in the accompanying consolidated balance sheets.

In 2006, we performed our annual goodwill impairment review and determined that the goodwill associated with our retail reporting unit was impaired and recorded a \$1,359 charge to write-off all of the retail goodwill. The overall retail furniture environment and the markets in which our Company-owned stores operated, in particular, softened considerably more than anticipated. In addition, our strategy to streamline and standardize operations to reduce overhead and other costs took more time to implement than expected. Higher gasoline costs and interest rates combined with decreased housing starts contributed to the difficult retail furniture environment. These factors led to increased promotional discounts on our products in an attempt to maintain sales volumes that resulted in a significant increase in the operating losses for our Company-owned stores.

Our discounted cash flow analysis for 2007 on the goodwill associated with our wholesale reporting unit indicated that the carrying value was realizable from future cash flows and that the fair value of the reporting unit was in excess of 110% of the book value.

Notes to Consolidated Financial Statements—Continued
(In thousands, except share and per share data)

The carrying value of our goodwill by reporting unit and the activity for fiscal 2007 and 2006 is as follows:

	<u>Wholesale</u>	<u>Retail</u>	<u>Real Estate/ Investments</u>	<u>Total</u>
Balance as of November 26, 2005	\$ 3,127	\$ 1,145	\$ —	\$ 4,272
Goodwill from acquisitions	278	109	—	387
Other activity	58	105	—	163
Fourth quarter impairment charge	—	(1,359)	—	(1,359)
Balance as of November 25, 2006	\$ 3,463	\$ —	\$ —	\$ 3,463
Goodwill from acquisitions	120	—	—	120
Other activity	(35)	—	—	(35)
Balance as of November 24, 2007	\$ 3,548	\$ —	\$ —	\$ 3,548

8. Unconsolidated Affiliated Companies

International Home Furnishings Center:

The International Home Furnishings Center (“IHFC”) owns and leases showroom space in High Point, North Carolina. Our ownership interest is 46.9% and is accounted for using the equity method. During the fourth quarter of 2007, IHFC determined that the method of accounting for its post-retirement health care plan did not conform to the requirements of SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other than Pensions”, and restated its 2006 and 2005 operating results. As a result of this restatement and in accordance with SFAS No. 154, “Accounting Changes and Error Corrections”, we have restated the balance of our equity investment as of the beginning of the year ended November 26, 2005 by increasing the negative balance in the investment by \$742 (reflected as “Distributions in excess of affiliate earnings” in the consolidated balance sheet), increasing deferred tax assets by \$296 and reducing retained earnings by \$446. Due to the immateriality of the effects of the IHFC restatement on the Company’s statements of operations and cash flows for 2006 and 2005, no adjustments have been recorded in those previously reported statements; however, \$42 was recorded as a reduction to the income recognized in 2007 as the cumulative impact of 2006 and 2005 unrecorded expense.

Our investment reflects a credit balance due to our cumulative receipt of dividends exceeding our cumulative portion of IHFC’s earnings. The credit balance was \$12,244 and \$12,468 at November 24, 2007 and November 25, 2006, respectively, and is reflected in the liabilities section in the accompanying consolidated balance sheets. This negative book value resulted from IHFC’s refinancing of its real estate based on the market value of the property and using the proceeds to pay a special dividend to its owners. The carrying value of our investment in IHFC is greater than the underlying deficit in the IHFC financial statements by \$16,997.

Our share of earnings and dividends from this investment were as follows:

	<u>Earnings Recognized</u>	<u>Dividends Received</u>
Fiscal 2007	\$ 6,316	\$ 6,091
Fiscal 2006	6,666	6,560
Fiscal 2005	6,367	5,623

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

Summarized financial information for IHFC is as follows:

	<u>2007</u>	<u>Restated 2006</u>	<u>Restated 2005</u>
Current assets	\$ 16,935	\$ 19,871	\$ 25,015
Non-current assets	48,284	47,535	46,229
Current liabilities	15,243	19,566	17,756
Long-term liabilities	112,625	110,906	117,695
Revenues	47,089	46,764	46,411
Net income	13,570	14,198	13,533

The complete financial statements of IHFC are included in our annual report on Form 10-K. Based on current and expected future earnings of IHFC, we believe that the market value of this investment is positive and substantially greater than its book value of negative \$12,244 at November 24, 2007.

We also lease 28,576 square feet of showroom space from IHFC at what we believe to be competitive market rates.

Other affiliates:

We own 49% of Zenith Freight Lines, LLC, (“Zenith”) which hauls freight for many of our customers. Our investment balance was \$4,842 at November 24, 2007 and \$5,264 at November 25, 2006 and is recorded in other long-term assets. Company-owned retail stores paid Zenith approximately \$3,518, \$3,700, and \$2,589, for freight expense in 2007, 2006, and 2005, respectively. We recorded the following income (losses) in other income, net in our consolidated statements of operations:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income (losses) in other income, net	\$(422)	\$(248)	\$500

On February 28, 2007, we entered into an agreement with BFD Northeast, LLC (“BFDNE”) whereby we contributed our 30% interest in BFDNE to BFDNE in exchange for certain assets (primarily inventory and leasehold improvements) of BFDNE’s two stores in Boston, Massachusetts with an estimated fair value of \$2,031, and the assumption of \$770 of BFDNE’s outstanding bank debt. As part of the transaction, we also restructured amounts BFDNE previously owed us including converting \$3,400 of accounts receivable into a long-term note receivable. No goodwill or identified intangible assets were recorded as part of this transaction. The consolidated statements of operations include the results of these two stores since March 1, 2007.

Prior to the BFDNE transaction, we accounted for our 30% investment in BFDNE using the equity method of accounting. Accordingly, we recorded the following losses in other income, net in our consolidated statements of operations:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Losses in other income, net	\$(595)	\$(1,954)	\$(166)

Notes to Consolidated Financial Statements—Continued
(In thousands, except share and per share data)

9. Income Taxes

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

	November 24, 2007	November 25, 2006	November 26, 2005
Statutory federal income tax rate	(35.0)%	35.0%	35.0%
Dividends received deduction	(13.9)	(33.2)	(14.2)
Adjustment to deferred tax asset related to			
LRG investment becoming wholly owned	17.1	—	—
Goodwill impairment	—	7.4	—
Change in income tax valuation allowance	1.9	6.3	3.8
Change in income tax reserves	0.6	1.1	(2.8)
State income tax, net of federal benefit	(1.5)	—	4.4
Other	1.7	(0.7)	(0.5)
Effective income tax rate	<u>(29.1)%</u>	<u>15.9%</u>	<u>25.7%</u>

During the fourth quarter of 2007, we recorded a pretax charge of \$2,154 related to a settlement and debt restructuring with the minority interest parties of LRG Furniture, LLC. As part of the settlement and debt restructuring, we purchased the remaining 20% interest in LRG and restructured certain debt obligations to be paid out over the next six years. In conjunction with the acquisition, the Company recorded a tax charge of \$2,383 associated with the write-off of deferred tax assets due to the termination of the LRG partnership.

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

	November 24, 2007	November 25, 2006	November 26, 2005
Current:			
Federal	\$ (2,012)	\$ 1,608	\$ 2,739
State	916	855	582
Deferred:			
Federal	(2,417)	(1,411)	(137)
State	(546)	(26)	197
Total	<u>\$ (4,059)</u>	<u>\$ 1,026</u>	<u>\$ 3,381</u>

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

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

	November 24, 2007	(As restated) November 25, 2006
Deferred income tax assets:		
Trade accounts receivable	\$ 2,988	\$ 3,344
Inventories	1,600	1,466
Property and equipment	1,561	—
Retirement benefits	5,888	5,651
State net operating loss carryforwards	1,227	1,499
Net distributions from affiliates in excess of income	3,270	4,918
Lease termination accruals	843	
Other	1,404	1,671
Gross deferred income tax assets	18,781	18,549
State net operating loss carryforward valuation allowance	(1,047)	(1,406)
Total deferred income tax assets	17,734	17,143
Deferred income tax liabilities:		
Property and equipment	—	2,679
Prepaid expenses and other	110	155
Unrealized holding gains	1,721	1,965
Total gross deferred income tax liabilities	1,831	4,799
Net deferred income tax assets	\$ 15,903	\$ 12,344

The valuation allowance for deferred tax assets decreased on a net basis by \$359 in 2007 primarily due to a change in tax law for one state whereby previously generated net operating loss carry-forwards have been effectively eliminated and converted to tax credits of nominal value to be used against the new state taxing methodology. This decrease has no impact on tax expense. The decrease was partially offset by losses in certain states generated in the current year for which we have concluded it is more likely than not that these tax benefits would not be realized prior to expiration and resulted in additional valuation allowance of \$265 which increased tax expense. We have state net operating loss carryforwards for tax purposes available to offset future taxable state income of \$28,102, which expire in varying amounts between 2008 and 2027. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. When realization of any of these previously-reserved carryforwards is more likely than not to occur, the benefit would be recognized as a reduction to income tax expense in that period. The Company is currently in the process of performing a legal entity reorganization that may result in the ability to more readily realize certain state tax carryforwards on a prospective basis.

We have \$733 and \$1,040 in tax contingency reserves as of November 24, 2007 and November 25, 2006, respectively. Despite our belief that our tax return positions are fully supportable, reserves are established in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies", where we believe that certain tax positions are likely to be challenged and we may not fully prevail in overcoming these challenges. We may adjust these tax contingency reserves as relevant circumstances evolve, such as guidance from the relevant tax authority, our tax advisors, or resolution of issues in the courts. Our tax expense includes the impact of tax contingency reserve positions and changes to tax reserves that we consider appropriate, as well as related interest. In fiscal 2007, our tax expense was increased by \$83 relating to the accrual of interest on existing tax reserve positions. The \$390 decrease to the tax contingency reserve primarily related to the

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

resolution and payment of certain state tax matters and did not impact tax expense. In fiscal 2006, our tax expense was increased \$439 related to certain state tax matters and interest on certain timing differences and was decreased \$370 related to the resolution of certain partnership accounting issues resulting in a net increase to the tax reserves of \$69. In fiscal 2005, our tax expense was increased \$139 related to interest on certain timing differences and was decreased \$697 primarily related to the resolution of certain partnership accounting issues, state tax matters and permanent deductions resulting in net decrease to the tax reserves of \$558. We cannot predict when or if any other future tax payments related to these tax positions may occur. Therefore, all of the reserves for these positions are classified as current liabilities in our balance sheet.

Income taxes paid, net of refunds received, during 2007, 2006, and 2005 were \$1,785, \$3,579, and \$1,570, respectively.

10. Real Estate Notes Payable and Other Long-Term Debt

Certain of our retail real estate properties have been financed through commercial mortgages which are payable over periods of six to twenty years and have interest rates ranging from 6.73% to 9.18%. These mortgages are collateralized by the respective properties with net book value of \$25,767 at November 24, 2007. The current portion of these mortgages, \$672 and \$622 as of November 24, 2007 and November 25, 2006, respectively, has been included as a current liability in other accrued liabilities in the accompanying consolidated balance sheet. The long-term portion, \$18,850 and \$19,522 as of November 24, 2007, and November 25, 2006, respectively, is presented as real estate notes payable in the consolidated balance sheet. The fair value of our real estate notes payable was \$20,044 and \$21,026 at November 24, 2007 and November 25, 2006, respectively. Our weighted average interest rate was 7.94% at November 24, 2007 and November 25, 2006. Interest paid on our mortgages during 2007, 2006 and 2005 was \$1,587, \$1,293 and \$1,384, respectively.

Maturities of real estate notes payable are as follows:

2008	\$ 672
2009	729
2010	8,379
2011	5,447
2012	172
Thereafter	4,123
	<u>\$ 19,522</u>

We amended our existing revolving credit facility in October 2007 by extending the agreement by two years and amending certain covenants. The credit facility provides for borrowings of up to \$40,000 at a variable interest rate of LIBOR plus 1.5% (6.19% on November 24, 2007). The facility is secured by a pledge of certain marketable securities and substantially all of our receivables and inventories. Borrowings under the facility, which matures November 30, 2009, totaled \$10,000 and \$4,000 at November 24, 2007 and November 25, 2006, respectively. After coverage for letters of credit, we had \$15,331 available for borrowing under the facility at November 24, 2007. The average interest rate was 6.78% for the year ended November 24, 2007. Interest paid on our credit facility during 2007, 2006, and 2005 was \$1,187, \$873, and \$619, respectively.

This facility contains, among other provisions, certain defined financial requirements including a maximum ratio of debt to equity and a minimum level of net worth. We were in compliance with these covenants as of November 24, 2007.

Total interest paid during 2007, 2006 and 2005 was \$2,774, \$2,166 and \$2,003, respectively.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

11. Post-Employment Benefit Obligations

Supplemental Retirement Income Plan

We have an unfunded Supplemental Retirement Income Plan (the “Supplemental Plan”) that covers one current and certain former executives. Upon retirement, the Supplemental Plan provides for lifetime monthly payments in an amount equal to 65% of the participant’s final average compensation as defined in the Supplemental Plan, which amount is reduced by certain social security benefits to be received and other benefits provided by us. The Supplemental Plan also provides a death benefit that is divided into (a) prior to retirement death, which pays the beneficiary 50% of final average annual compensation for a period of 120 months, and (b) post-retirement death, which pays the beneficiary 200% of final average compensation in a single payment. We own life insurance policies with a current net death benefit of \$6,598 on these executives and expect to substantially fund this death benefit through the proceeds received upon the death of the executive. Funding for the remaining cash flows is expected to be provided through operations. There are no benefits payable as a result of a termination of employment for any reason other than death or retirement, other than a change of control provision which provides for the immediate vesting and payment of the retirement benefit under the Supplemental Plan in the event of an employment termination resulting from a change of control.

We have adopted Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)” (“SFAS 158”), as of November 24, 2007. In accordance with SFAS 158, our fiscal year 2006 accounting and related disclosures were not affected by the adoption of the new standard. The table below summarizes the incremental effects of SFAS 158 adoption on the individual line items in our Consolidated Balance Sheet at November 24, 2007 (in thousands):

	<u>Pre-SFAS 158 Adoption</u>	<u>SFAS 158 Adjustment</u>	<u>Post-SFAS 158 Adoption</u>
Assets:			
Long-Term deferred income taxes	9,538	\$ 364	\$ 9,902
Other	14,662	(467)	14,195
Liabilities:			
Other accrued liabilities	12,638	984	13,622
Post-employment benefit obligations	15,077	(584)	14,493
Stockholders’ Equity:			
Accumulated other comprehensive income	2,459	(545)	1,914

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

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

	<u>2007</u>	<u>2006</u>	
Change in Benefit Obligation:			
Projected benefit obligation at beginning of year	\$ 12,819	\$ 12,036	
Service cost	101	89	
Interest cost	676	631	
Actuarial losses (gains)	(579)	1,101	
Benefits paid	(983)	(1,038)	
Projected benefit obligation at end of year (Funded Status)	<u>\$ 12,034</u>	<u>\$ 12,819</u>	
Accumulated Benefit Obligation	\$ 11,634	\$ 11,730	
Unrecognized transition obligation	\$ —	\$ (511)	
Unrecognized actuarial loss	—	(1,432)	
Additional minimum liability recorded as intangible asset	—	511	
Additional minimum liability recorded in accumulated other comprehensive income	—	343	
Net amount recorded as post employment benefit obligations	<u>\$ 23,668</u>	<u>\$ 23,460</u>	
Amounts recognized in the consolidated balance sheet:			
Current liabilities	(984)	—	
Noncurrent liabilities	(11,050)	(11,730)	
	<u>\$(12,034)</u>	<u>\$(11,730)</u>	
Amounts recognized in accumulated other comprehensive income:			
Additional minimum liability	\$ —	\$ 343	
Transition obligation	455	—	
Actuarial loss	842	—	
Net amount recognized	<u>\$ 1,297</u>	<u>\$ 343</u>	
Total recognized in net periodic benefit cost and accumulated other comprehensive income:	<u>\$ 2,128</u>	<u>\$ 1,105</u>	
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Components of Net Periodic Pension Cost:			
Service cost	\$ 101	\$ 89	\$ 88
Interest cost	676	631	661
Amortization of transition obligation	42	42	42
Amortization of unrecognized actuarial loss	12	—	—
Net periodic pension cost	<u>\$ 831</u>	<u>\$ 762</u>	<u>\$ 791</u>
Assumptions used to determine net periodic pension cost:			
Discount rate	5.50%	5.75%	5.50%
Increase in future compensation levels	3.00%	6.00%	6.00%
Estimated Future Benefit Payments (with mortality):			
Fiscal 2008	\$1,193		
Fiscal 2009	1,160		
Fiscal 2010	1,124		
Fiscal 2011	1,084		
Fiscal 2012	1,041		
Fiscal 2013 through 2017	4,469		

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

Deferred Compensation Plan

We have an unfunded Deferred Compensation Plan that covers two current and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or benefits permitted. We recognized expense of \$450, \$454, and \$458 in fiscal 2007, 2006, and 2005, respectively, associated with the plan. Our liability under this plan was \$3,443 and \$3,533 as of November 24, 2007 and November 25, 2006, respectively, and is reflected in post employment benefit obligations.

Defined Contribution Plan

We have a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers substantially all employees who elect to participate and have fulfilled the necessary service requirements. Prior to October 1, 2006, employee contributions to the Plan were matched by us at the rate of 115% of the first 2% through 5% of the employee's contribution, based on years of service. Beginning October 1, 2006, employee contributions are matched at the rate of 50% of up to 8% of gross pay, regardless of years of service. The Plan incorporates provisions of Section 401(k) of the Internal Revenue Code. Employer matching contributions to the Plan for 2007, 2006, and 2005 were approximately \$783, \$875, and \$1,059, respectively.

12. Capital Stock and Stock Compensation

In the first quarter of fiscal 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," ("SFAS No. 123R") which revises SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" for our stock-based employee and director compensation plans. SFAS 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). Prior to the adoption of SFAS No. 123R, as permitted by SFAS No. 123, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, no compensation expense was recognized in the statements of income for options granted with exercise prices equal to the fair value of the Company's common stock on the date of grant.

Effective for the first quarter of fiscal 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, using the modified prospective approach to transition. Accordingly, prior year amounts have not been restated. Under the modified prospective approach, the provisions of SFAS No. 123R are to be applied to new awards granted after November 27, 2005, and the Company is required to recognize compensation expense for stock options granted prior to the adoption of SFAS No. 123R under the fair value method and recognize those amounts over the remaining vesting period of the stock options. The Company's results of operations for the years ending November 24, 2007 and November 25, 2006, include \$228 and \$151, respectively of compensation expense related to restricted stock and stock options.

We had a Long Term Incentive Stock Option Plan that was adopted in 1993 (the "1993 Plan") and expired in 2003. Under the 1993 Plan, we had reserved for issuance 450,000 shares of common stock. Options outstanding under the 1993 Plan expire at various dates through 2007. Under the Employee Stock Plan adopted in 1997 (the "1997 Plan"), we reserved for issuance 950,000 shares of common stock. In addition, the terms of the 1997 Plan allow for the re-issuance of any stock options which have been forfeited before being exercised. An additional 500,000 shares of common stock were authorized for issuance in 2000. Options granted under the 1997 Plan may be for such terms and exercised at such times as determined by the Organization, Compensation, and Nominating Committee of the Board of Directors. Vesting periods typically range from one to three years. We have approximately 691,432 shares available for grant under the 1997 Plan at November 24, 2007.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

We had a Stock Plan for Non-Employee Directors, adopted in 1993 and amended in 2000, which expired in 2003. Under this stock option plan, we reserved for issuance 125,000 shares of common stock, including an additional 50,000 shares of common stock that were authorized for issuance in 2001. No shares were available for grant under the plan at November 24, 2007. These options are exercisable for 10 years commencing six months after the date of grant.

During 2005, we adopted a Non-Employee Directors Stock Incentive Plan (the "Incentive Plan"). The Incentive Plan authorized incentive awards in the form of restricted stock or stock grants. All Directors of the Company who are not full-time employees of the Company are eligible to receive incentive awards under the Incentive Plan. There were 100,000 shares of common stock reserved for grant under the Incentive Plan. Shares available for grant under the Incentive Plan were 82,705 and 89,059 at November 24, 2007 and November 25, 2006, respectively.

Option activity under the foregoing plans is as follows:

	Number of shares	Weighted average price per share
Outstanding at November 27, 2004	1,468,031	\$ 20.43
Granted	—	—
Exercised	(62,362)	14.28
Forfeited	(79,259)	23.53
Outstanding at November 26, 2005	1,326,410	20.54
Granted	150,000	16.96
Exercised	(22,500)	15.83
Forfeited	(38,000)	23.67
Outstanding at November 25, 2006	1,415,910	20.15
Granted	213,500	11.71
Exercised	(19,000)	13.79
Forfeited	(119,725)	24.83
Outstanding at November 24, 2007	1,490,685	\$ 18.64
Exercisable at November 24, 2007	1,164,685	\$ 20.08
Exercisable at November 25, 2006	1,262,577	\$ 20.54
Exercisable at November 26, 2005	1,318,744	\$ 20.57

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies, the expected life is based on the estimated average of the life of options, and forfeitures are estimated on the date of grant based on certain historical data. The weighted average for key assumptions used in determining the fair value of options granted during 2007 and 2006 are as follows:

	2007	2006
Expected life of options in years	5	5
Risk-free interest rate	4.2%	5.1%
Expected volatility	25.0%	30.0%
Dividend yield	7.0%	4.5%

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

As of November 24, 2007 and November 25, 2006, there were 326,000 and 153,333 unvested stock options, respectively and \$640 and \$504, respectively, of total unrecognized compensation cost related to nonvested stock options granted under the Plans. Substantially all of these options vest over four years with 25% vesting on each anniversary date. The weighted average grant date fair value of these unvested options at November 24, 2007 and November 25, 2006 was \$2.22 and \$3.70, respectively. As of November 24, 2007 and November 25, 2006, there were 1,164,685 and 1,262,577 vested stock options with a weighted average grant date fair value of \$5.43 and \$5.60, respectively. The weighted average grant date fair value of forfeited options at November 24, 2007 and November 25, 2006 was \$6.90 and \$6.56, respectively.

The weighted average fair value of options granted during 2007 and 2006 were \$1.44 and \$3.71, respectively. No options were granted during 2005. The aggregate intrinsic value of options outstanding and exercisable at November 24, 2007 and November 25, 2006 was \$0 and \$1,407, respectively. The aggregate intrinsic value of options exercised during 2007 and 2006 was \$50 and \$47, respectively.

The following pro forma information is presented as if we had adopted the fair value method for recognition purposes under SFAS No. 123R for all outstanding and unvested awards in the prior year comparable periods.

	Year Ended November 26, 2005
Net income:	
As reported	\$ 9,814
Less: pro forma expense, net of tax, related to stock options	(49)
Pro forma net income	<u>\$ 9,765</u>
Earnings per share:	
As reported	
Basic	\$ 0.83
Diluted	0.82
Pro forma	
Basic	0.83
Diluted	0.82

We implemented an Employee Stock Purchase Plan (“ESPP”) in the fourth quarter of fiscal year 2000. This plan allows eligible employees to purchase a limited number of shares of our stock at 85% of market value. Under the plan we sold 16,882, 14,213 and 13,713 shares to employees in 2007, 2006 and 2005, respectively, which resulted in an immaterial amount of compensation expense.

We issued 7,800 shares of restricted stock in 2006, under the 1997 Plan. These shares vest over a two year period with half vesting after one year of service and the other half vesting after two years of service. As of November 24, 2007 and November 25, 2006, there was \$38 and \$66 of total unrecognized compensation expense related to the restricted shares.

Our 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 certain number of shares of our Common Stock, other securities or property.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

For various price ranges, weighted-average characteristics of outstanding stock options at November 24, 2007, were as follows:

<u>Range of exercise prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number outstanding</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>	<u>Number exercisable</u>	<u>Weighted average exercise price</u>
\$9.68 - \$12.90	174,000	9.2	\$ 10.70	18,000	\$ 11.56
12.91 - 16.12	573,638	3.6	14.98	516,138	15.00
16.13 - 19.35	161,500	8.2	16.91	49,000	16.79
19.36 - 22.57	369,000	4.7	21.38	369,000	21.38
22.58 - 25.80	10,000	1.3	22.81	10,000	22.81
25.81 - 29.02	9,500	0.4	29.00	9,500	29.00
29.03 - 32.25	193,047	0.3	32.21	193,047	32.21
	<u>1,490,685</u>			<u>1,164,685</u>	

13. Restructuring, Asset Impairment, and Other Charges

In the first quarter of 2007, we announced the closure of our wood manufacturing facility in Bassett, Va. The closure of the 323,000 square foot facility was completed during June of 2007 and affected approximately 280 employees or 15 percent of the Company's workforce. As a result, we recorded \$3,609 of asset impairment charges and \$960 of restructuring charges, largely related to severance. We have experienced margin improvement as we have effectively sourced certain of the products previously produced at the plant from overseas vendors. As of November 24, 2007, we have disbursed \$828 leaving \$132 to be paid primarily during the first half of 2008.

During the second quarter of 2007, we also reduced our leased showroom space in the International Home Furnishings Center by approximately 60%. In connection with this decision, we recorded a \$975 charge to writeoff the net book value of the corresponding capitalized tenant improvements. Beginning in May of 2007, we began incurring reduced rental expenses for the remaining showroom space.

As part of our expense reduction initiatives, we concluded during 2007 that four of our leased store locations would no longer be used by us as retail furniture locations. We have finalized sublease agreements for two of the stores thereby reducing our future cash outlays. Although no sublessee has been identified for the other store leases, we are actively marketing these locations. In accordance with FASB Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", we recorded a \$2,297 charge to recognize the future obligations associated with the leases, net of estimated sublease income. This charge was recorded in restructuring and asset impairment charges in the consolidated statement of operations.

During the fourth quarter of 2007, we recorded a pretax charge of \$2,154 related to a settlement and debt restructuring with the minority interest partners of LRG Furniture, LLC. This \$2,154 liability bears interest at 6.0% and is payable quarterly with principal amounts ranging from \$50 to \$75 depending on available cash flow, as defined, from LRG. As part of the settlement, we purchased the remaining 20% interest in LRG for an additional \$100. In conjunction with the settlement and debt restructuring, we recorded a tax charge of \$2,383 associated with the write-off of deferred taxes due to the termination of the LRG partnership.

During the first quarter of 2007, we completed the sale of the Macon plant which was previously recorded in assets held for sale. Net cash proceeds, which were all received in the first quarter of 2007, were \$1,009.

During fiscal year 2005, we closed our wood manufacturing facility in Mt. Airy, N.C. and recorded an asset impairment charge of \$920 and a restructuring charge of \$1,040, largely related to employee severance.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

14. Acquisition of Retail Licensee Stores

During the second quarter of 2005, we acquired a 76% ownership interest in our Dallas, Texas BFD store operation (“BFD-Dallas”). BFD-Dallas consisted of eight BFD stores in the greater Dallas, Texas metropolitan area. We accounted for this transaction using the purchase method of accounting. As such, as of the end of our fiscal 2005 second quarter, we began consolidating BFD-Dallas results of operations into our consolidated statements of operations.

During the third quarter of 2005, we acquired 100% of the assets of our BFD licensee in upstate New York (“BFD-UNY”) and an additional 36% interest in our BFD licensee in Atlanta, Georgia (“BFD-Atlanta”) bringing our total ownership interest to 66%. BFD-UNY consists of two BFD stores in Rochester, N.Y., and one store in Buffalo, N.Y. BFD-Atlanta consisted of four BFD stores in the greater Atlanta, Ga., metropolitan area. We accounted for these transactions using the purchase method of accounting. We began consolidating BFD-UNY’s results of operations into our consolidated statements of operations in August 2005. We began consolidating BFD-Atlanta’s results of operations into our consolidated statements of operations in September 2005.

The aggregate purchase consideration for these three transactions was \$3,550, which included \$1,050 of cash and \$2,500 of notes receivable converted to equity. The acquisitions included assets of \$16,768 comprised of cash of \$946, inventory of \$8,336, notes receivable of \$4,100, fixed assets of \$2,415 and other assets of \$971. We assumed liabilities of \$22,481 comprised of various accounts and notes payable to the Company of \$13,555, other accounts payable of \$6,512 and long-term debt of \$2,414.

The following table summarizes the estimated fair market values of the assets acquired and liabilities assumed at the respective dates of acquisition which were consolidated into our balance sheet:

Fair value of assets acquired	\$ 16,768
Fair value of liabilities assumed	22,481
Net liabilities assumed	<u>5,713</u>
Purchase consideration	3,550
Goodwill and other intangibles before adjustments	<u>9,263</u>
Less identifiable intangible assets	(710)
Reversal of specific reserves associated with these licensees	<u>(4,586)</u>
Goodwill	<u>\$ 3,967</u>

Prior to the acquisitions, we had \$8,968 of accounts and notes receivable from the licensees net of bad debt reserves of \$4,586. At the time of the acquisition, those reserves were used to reduce the amount of goodwill associated with the acquisitions. In addition, because of the negative book value of the acquired licensees, the resulting asset associated with minority interest for the Dallas and Atlanta licensees was recorded as an increase to goodwill. The identifiable intangible assets primarily consist of the value of the licensees’ customer bases and will be amortized over five years.

The acquisitions discussed above are central to our overall retail strategies and the purchase consideration paid for these transactions was based on both maintaining distribution for our wholesale business and generating a reasonable store level retail return from these operations. Therefore, we allocated \$1,116 of the goodwill to our retail segment and \$2,851 to our wholesale segment.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

The following unaudited pro forma financial information for 2005 is presented to illustrate what the estimated effect of the 2005 acquisitions of BFD-Dallas and BFD-Atlanta would have been if the transactions had occurred as of the beginning of each period presented below. The pro forma results do not include the acquisition of BFD-UNY as complete and accurate financial information was not available for those periods. The pro forma information shows sales net of elimination of inter-company sales and profit. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed date nor is it necessarily indicative of future results.

	Unaudited Pro Forma November 26, 2005
Net sales	\$ 344,415
Net income	\$ 7,282
Diluted earnings per share	\$ 0.61

During the first quarter of 2006, we purchased the remaining 34% interest in BFD-Atlanta for \$200 and recorded an additional \$137 of goodwill. During the second quarter of 2006, we purchased an additional 15% interest in BFD-Dallas for \$230 and recorded an additional \$222 of goodwill. During the first quarter of 2007, we acquired the remaining 9% of BFD-Dallas for \$120.

Effective November 1, 2007, we acquired the operations of two stores in the Charleston, South Carolina area from a licensee for its net book value. Immediately upon acquisition, we began the process of closing one of the stores. Subsequent to year-end, we entered into an agreement to acquire the real estate for these stores from this licensee for \$6,800.

15. Contingencies

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

In cooperation with the Consumer Product Safety Commission, we announced in November 2007 the voluntary recall of certain Wendy Bellissimo Collection convertible cribs sold exclusively at Babies "R" Us. During the fourth quarter, the Company recorded a \$819 charge largely for product to be returned, crib repair kits, customer refunds and other costs associated with the recall. The Company plans to have newly-designed Wendy Bellissimo cribs on the floor at Babies "R" Us early in the second quarter of 2008.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

16. Leases, Lease Guarantees and Loan Guarantees

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of independent and partnership licensee BFD stores. Our decision to exercise renewal options is primarily dependent on the level of business conducted at the location and the profitability thereof. Some store leases contain contingent rental provisions based upon sales volume. Additionally, we lease showroom space from IHFC, which is priced at what we believe to be a market rate. Lease terms range from one to 15 years and generally have renewal options of between five and 15 years. The following schedule shows future minimum lease payments under non-cancelable leases having remaining terms in excess of one year as of November 24, 2007:

2008	\$ 13,811
2009	13,423
2010	13,057
2011	12,383
2012	12,086
Thereafter	31,633
	<u>\$ 96,393</u>

Lease expense was \$12,679, \$11,507, and \$7,726 for 2007, 2006, and 2005, respectively.

In addition to subleasing certain of these properties, we own retail real estate which we in turn lease to licensee operators of BFD stores. The following schedule shows minimum future rental income related to pass-through rental expense on subleased property as well as rental income on real estate owned by Bassett, excluding subleases based on a percentage of sales.

2008	\$ 5,387
2009	5,535
2010	5,380
2011	4,756
2012	4,792
Thereafter	12,340
	<u>\$38,190</u>

Real estate expense (including lease costs, depreciation, insurance, and taxes), net of rental income, was \$838 in 2007, \$775 in 2006, and \$684 in 2005 and is reflected in other expense, net in the accompanying consolidated statements of operations.

As part of the expansion strategy for our BFD program, we have guaranteed certain lease obligations and real estate loan obligations of licensee operators. Lease guarantees range from one to ten years. The guarantee party is generally required to make periodic fee payments to us in exchange for the guarantee. We were contingently liable under licensee lease obligation guarantees in the amount of \$12,672 and \$20,566 at November 24, 2007 and November 25, 2006, respectively.

We have also guaranteed loans of certain of our BFD dealers to finance initial inventory packages for those stores. Loan guarantees have three year terms, are collateralized by the inventory and generally carry a personal guarantee of the independent dealer. The total contingent liability with respect to these loan guarantees as of November 24, 2007, and November 25, 2006, was \$9,056 and \$10,047, respectively.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

In the event of default by an independent dealer under the guaranteed lease or loan, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral, and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are estimated to cover the maximum amount of our future payments under the guarantee obligations. The fair value of guarantees at November 25, 2007 and November 25, 2006, were \$428 and \$410, respectively, and are recorded in accrued liabilities in the accompanying consolidated balance sheets.

17. Earnings Per Share

The following table reconciles basic and diluted earnings per share:

	<u>Shares</u>	<u>Net Income (loss)</u>	<u>Earnings (loss) Per Share</u>
2007:			
Basic EPS	11,810,055	\$ (9,910)	\$ (0.84)
Effect of Options	—	—	—
Diluted EPS	<u>11,810,055</u>	<u>\$ (9,910)</u>	<u>\$ (0.84)</u>
2006:			
Basic EPS	11,808,053	\$ 5,429	\$ 0.46
Effect of Options	93,530	—	—
Diluted EPS	<u>11,901,583</u>	<u>\$ 5,429</u>	<u>\$ 0.46</u>
2005:			
Basic EPS	11,785,613	\$ 9,814	\$ 0.83
Effect of Options	137,112	—	(0.01)
Diluted EPS	<u>11,922,725</u>	<u>\$ 9,814</u>	<u>\$ 0.82</u>

Due to the net loss in 2007, the potentially dilutive securities would have been antidilutive and are therefore excluded.

Options to purchase 1,490,685 shares of common stock in 2007, 701,272 shares of common stock in 2006, and 732,272 shares of common stock in 2005 were outstanding at the end of each such fiscal year and were excluded from the computation as their effect is antidilutive.

18. Segment Information

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of BFD stores (independently-owned stores, Company-owned retail stores and partnership licensees) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses. During the second quarter of 2006, we sold our contemporary furniture business (Weiman), which was previously included in this segment.

Our retail segment consists of Company-owned BFD stores. Our retail segment includes the revenues, expenses, assets and liabilities (including real estate) and capital expenditures directly related to these stores.

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

Our investments/real estate segment consists of our investments (Alternative Asset Fund and marketable securities), distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee BFD stores. Although this segment does not have operating earnings, income from the segment is significant to our consolidated statements of operations. Our equity investment in IHFC is not included in the identifiable assets of this segment since it has a negative book value and is therefore included in the long-term liabilities section of our consolidated balance sheet. See Note 8 for a further discussion of IHFC.

Inter-Company net sales elimination represents the elimination of wholesale sales to our Company-owned BFD stores. Inter-company income elimination represents the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is delivered to the retail consumer.

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

	November 24, 2007	November 25, 2006	November 26, 2005
Net Sales			
Wholesale	\$ 247,676	\$ 284,803	\$ 301,250
Retail	87,537	84,401	70,480
Inter-company elimination	(39,829)	(40,990)	(36,523)
Consolidated	<u>\$ 295,384</u>	<u>\$ 328,214</u>	<u>\$ 335,207</u>
Income(loss) from Operations			
Wholesale	\$ (964)	\$ 12,096	\$ 9,547
Retail	(10,780)	(12,126)	(1,661)
Inter-company elimination	(312)	(626)	(792)
Restructuring and impaired asset charges	(5,544)	(1,359)	(1,960)
Income from CDSOA	2,135	1,549	—
Lease exit costs	(2,297)	—	—
LRG settlement and debt restructuring	(2,154)	—	—
Consolidated	<u>\$ (19,916)</u>	<u>\$ (466)</u>	<u>\$ 5,134</u>
Identifiable Assets			
Wholesale	\$ 149,627	\$ 147,557	\$ 150,072
Retail	52,624	50,558	54,852
Investments and real estate	108,452	112,118	108,530
Consolidated	<u>\$ 310,703</u>	<u>\$ 310,233</u>	<u>\$ 313,454</u>
Depreciation and Amortization			
Wholesale	\$ 5,570	\$ 5,695	\$ 7,032
Retail	1,706	1,793	1,442
Investments and real estate	1,813	1,765	1,200
Consolidated	<u>\$ 9,089</u>	<u>\$ 9,253</u>	<u>\$ 9,674</u>
Capital Expenditures			
Wholesale	\$ 1,818	\$ 2,822	\$ 3,722
Retail	3,726	522	1,082
Investments and real estate	375	3,594	6,286
Consolidated	<u>\$ 5,919</u>	<u>\$ 6,938</u>	<u>\$ 11,090</u>

Notes to Consolidated Financial Statements—Continued

(In thousands, except share and per share data)

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

	<u>November 24, 2007</u>	<u>November 25, 2006</u>	<u>November 26, 2005</u>
Wood	56%	58%	60%
Upholstery	44%	42%	40%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

19. Quarterly Results of Operations (unaudited)

	<u>2007</u>			
	<u>First(1)</u>	<u>Second(2)</u>	<u>Third</u>	<u>Fourth(3)</u>
Net sales	\$73,420	\$75,432	\$70,497	\$76,035
Gross profit	22,311	23,946	24,650	29,476
Net income (loss)	(4,188)	(2,420)	676	(3,978)
Basic earnings (loss) per share	(0.35)	(0.20)	0.06	(0.35)
Diluted earnings (loss) per share	(0.35)	(0.20)	0.06	(0.35)

	<u>2006</u>			
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth(4)</u>
Net sales	\$86,489	\$87,663	\$77,560	\$76,502
Gross profit	27,338	27,776	23,334	24,447
Net income	2,180	2,833	57	359
Basic earnings per share	0.18	0.24	0.01	0.03
Diluted earnings per share	0.18	0.24	0.01	0.03

(1) Includes asset impairment charge of \$3,609 related to the closure of the Bassett plant. See Note 13 for further details.

(2) Includes charges of \$1,934 for lease exit costs, \$975 write-off leasehold improvements for our showroom and \$960 of severance charges associated with the closure of the Bassett plant. See Note 13 for further details.

(3) Includes charges of \$2,154 for the LRG settlement and debt restructuring, \$2,383 for the write-off of deferred tax assets associated with LRG, and income of \$2,135 associated with the Continued Dumping & Subsidy Offset Act. See Note 6 for further details.

(4) Includes a liquidation of LIFO inventories that increased gross profit by \$1,958. See Note 3 for further details.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES**Evaluation of our Disclosure Controls.**

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

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

Management’s Report of Internal Control over Financial Reporting .

We are responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15. With the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of November 24, 2007 based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 24, 2007, based on those criteria. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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

Changes in internal control over financial reporting.

There have been no changes in our internal controls over financial reporting during our fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Bassett Furniture Industries, Incorporated:

We have audited Bassett Furniture Industries, Incorporated's internal control over financial reporting as of November 24, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Bassett Furniture Industries, Incorporated's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Bassett Furniture Industries, Incorporated maintained, in all material respects, effective internal control over financial reporting as of November 24, 2007 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Bassett Furniture Industries, Incorporated as of November 24, 2007 and November 25, 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended November 24, 2007, and our report dated February 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Greensboro, North Carolina

February 6, 2008

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information to be contained in the Proxy Statement under the captions “Election of Directors”, “Corporate Governance” and “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference thereto. Please see section entitled “Executive Officers of the Registrant” in Item 4b of Part I of this report for information concerning executive officers.

The Registrant has a code of ethics that applies to all of its employees, officers and directors. The code of ethics is available on the Registrant’s website at www.bassettfurniture.com and the Registrant will post any amendments to, or waivers, from, the code of ethics on that website.

ITEM 11. EXECUTIVE COMPENSATION

The information to be contained in the Proxy Statement under the captions “Organization, Compensation and Nominating Committee Report,” “Compensation Discussion and Analysis”, “Executive Compensation,” and “Director Compensation” is incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information to be contained in the Proxy Statement under the headings “Principal Stockholders and Holdings of Management” and “Election of Directors” is incorporated herein by reference thereto.

The information to be included in the Proxy Statement under the caption “Equity Compensation Plan Information” is incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information to be contained in the Proxy Statement under the headings “Other Transactions” and “Corporate Governance” is incorporated herein by reference thereto.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information to be contained in the Proxy Statement under the caption “Audit and Other Fees” is incorporated herein by reference thereto.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a)(1) International Home Furnishings Center, Inc. and Subsidiaries Consolidated Financial Statements for the Years Ended October 31, 2007, 2006 and 2005.
- (2) Financial Statement Schedule:
Schedule II—Analysis of Valuation and Qualifying Accounts for the years ended November 24, 2007 November 25, 2006 and November 26, 2005.
- (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. Amendment to By-laws including By-laws as amended to date is incorporated herein by reference to Form 8-K filed on December 21, 2004.
 - 4A. Third Amended and Restated Credit Agreement and General Security Agreement with Branch Banking & Trust Company dated October 31, 2007 among the Registrant, certain subsidiaries of the Registrant, the banks listed therein and Branch Banking and Trust Company, as agent.
 - 4B. Third Amended and Restated General Security Agreement dated October 31, 2007 among the Registrant, certain subsidiaries of the Registrant and Branch Banking and Trust Company, as agent.
 - **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 as amended is incorporated herein by reference to Form 10-K for the fiscal year ended November 25, 2000.
 - **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.
 - **10F. Bassett Furniture 2005 Non-Employee Directors Stock Incentive Plan is incorporated herein by reference to the Registrant's definitive proxy statement on Schedule 14A filed on January 28, 2005.
 - **10G. Bassett Furniture 2005 Non-Employee Directors Stock Incentive Form Grant Letter for Restricted Stock Award is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.
 - **10H. Bassett Furniture Directors Compensation is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.
 - **10I. Bassett Furniture Industries, Inc. 1997 Employee Stock Plan Form Stock Option Award Agreement is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.
 - **10J. Bassett Furniture Industries, Inc. 1997 Employee Stock Plan Form Grant Letter for Restricted Stock Award is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.
 - 21. List of subsidiaries of the Registrant
 - 23A. Consent of Independent Registered Public Accounting Firm

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- 23B. Consent of Independent Registered Public Accounting Firm
 - 31A. Certification of Robert H. Spilman, Jr., President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31B. Certification of Barry C. Safrit, Senior Vice President, Finance and Administration, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32A. Certification of Robert H. Spilman, Jr., President and Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32B. Certification of Barry C. Safrit, Senior Vice President, Finance and Administration, Chief Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

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/ ROBERT H. SPILMAN, JR. Date: February 7, 2008
Robert H. Spilman, Jr.
President and Chief Executive Officer
Director

Pursuant to the requirements of the Securities Exchange 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/ PAUL FULTON Date: February 7, 2008
Paul Fulton
Chairman of the Board of Directors

By: /s/ PETER W. BROWN Date: February 7, 2008
Peter W. Brown
Director

By: /s/ HOWARD H. HAWORTH Date: February 7, 2008
Howard H. Haworth
Director

By: /s/ GEORGE W. HENDERSON, III Date: February 7, 2008
George W. Henderson, III
Director

By: /s/ KRISTINA K. HERBIG Date: February 7, 2008
Kristina K. Herbig
Director

By: /s/ DALE C. POND Date: February 7, 2008
Dale C. Pond
Director

By: /s/ WILLIAM C. WAMPLER, JR. Date: February 7, 2008
William C. Wampler, Jr.
Director

By: /s/ WILLIAM C. WARDEN, JR. Date: February 7, 2008
William C. Warden, Jr.
Director

By: /s/ BARRY C. SAFRIT Date: February 7, 2008
Barry C. Safrit
Senior Vice President, Finance and Administration, Chief Financial Officer
(Principal Financial and Accounting Officer)

**International Home Furnishings
Center, Inc. and Subsidiaries**

Consolidated Financial Statements

Years Ended October 31, 2007, 2006 and 2005



DIXON HUGHES P.L.L.C.

Certified Public Accountants and Advisors

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of International Home Furnishings Center, Inc. and Subsidiaries as of October 31, 2007 and 2006 and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended October 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Home Furnishings Center, Inc. and Subsidiaries at October 31, 2007 and 2006 and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note L, the Company restated previously reported results to account for the Company's health care plan and other items in accordance with accounting principles generally accepted in the United States of America.

/s/ Dixon Hughes PLLC
Dixon Hughes PLLC

High Point, North Carolina
January 12, 2008

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
October 31, 2007 and 2006

	2007	2006 As Restated (Note L)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,383,356	\$ 10,830,899
Restricted cash	143,750	143,750
Short-term investments	921,323	1,041,745
Receivables		
Trade	1,966,144	2,399,062
Interest	1,323	1,247
Deferred income tax benefit	3,942,000	4,903,000
Prepaid expenses	577,383	551,542
TOTAL CURRENT ASSETS	16,935,279	19,871,245
PROPERTY AND EQUIPMENT, at cost		
Land and land improvements	3,640,498	3,640,498
Buildings, exclusive of theater complex	98,116,360	94,758,584
Furniture and equipment	4,248,714	4,234,312
Construction-in-progress	137,000	557,604
	106,142,572	103,190,998
Accumulated depreciation	(62,031,837)	(59,276,658)
	44,110,735	43,914,340
OTHER ASSETS		
Prepaid rent	630,814	674,069
Deferred income tax benefit	3,069,000	2,311,000
Deferred financing costs, net of accumulated amortization of \$335,431 and \$173,698 at October 31, 2007 and 2006, respectively	473,252	634,985
	4,173,066	3,620,054
TOTAL ASSETS	\$ 65,219,080	\$ 67,405,639
LIABILITIES LESS STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 648,538	\$ 1,642,896
Accrued property taxes	2,412,940	2,342,129
Other accrued expenses	923,101	864,836
Rents received in advance	9,982,409	12,416,302
Income taxes payable	1,275,539	2,300,190
TOTAL CURRENT LIABILITIES	15,242,527	19,566,353
LONG-TERM LIABILITIES		
Long-term debt	107,000,000	106,000,000
Supplemental retirement benefits	2,414,479	1,917,107
Postretirement health benefits	3,210,112	2,988,695
	112,624,591	110,905,802
COMMITMENTS (Notes F and K)		
STOCKHOLDERS' DEFICIT		
Common stock, \$5 par value, 1,000,000 shares authorized, 481,628 shares issued in 2007 and 2006	2,408,140	2,408,140
Additional paid-in capital	154,592	154,592
Accumulated deficit	(64,976,172)	(65,545,879)
Accumulated other comprehensive loss	(234,598)	(83,369)
	(62,648,038)	(63,066,516)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 65,219,080	\$ 67,405,639

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended October 31, 2007, 2006 and 2005

	2007	2006 As Restated (Note L)	2005 As Restated (Note L)
OPERATING REVENUES			
Rental income	\$40,750,253	\$40,231,432	\$39,229,054
Other revenues	6,338,592	6,532,130	7,182,321
TOTAL OPERATING REVENUES	<u>47,088,845</u>	<u>46,763,562</u>	<u>46,411,375</u>
OPERATING EXPENSES			
Compensation and benefits	5,598,026	5,684,616	6,190,297
Market and promotional	2,634,814	2,500,395	2,503,038
Maintenance and building costs	1,966,684	1,290,097	952,712
Depreciation expense	3,160,454	2,873,755	2,802,712
Rent	163,689	163,689	163,689
Property taxes and insurance	3,258,439	3,174,248	2,930,665
Utilities	1,996,604	1,741,321	1,538,809
Other operating costs	626,617	669,387	577,467
TOTAL OPERATING EXPENSES	<u>19,405,327</u>	<u>18,097,508</u>	<u>17,659,389</u>
INCOME FROM OPERATIONS	<u>27,683,518</u>	<u>28,666,054</u>	<u>28,751,986</u>
NONOPERATING INCOME (EXPENSE)			
Interest income	187,760	221,181	459,546
Dividend income	—	—	6,114
Interest expense	(5,451,569)	(5,484,792)	(6,994,449)
Other expense	—	(315)	(82)
TOTAL NONOPERATING EXPENSES	<u>(5,263,809)</u>	<u>(5,263,926)</u>	<u>(6,528,871)</u>
INCOME BEFORE INCOME TAXES	22,419,709	23,402,128	22,223,115
PROVISION FOR INCOME TAXES	8,850,000	9,204,000	8,690,000
NET INCOME	<u>\$13,569,709</u>	<u>\$14,198,128</u>	<u>\$13,533,115</u>
BASIC EARNINGS PER COMMON SHARE	<u>\$ 28.17</u>	<u>\$ 29.48</u>	<u>\$ 28.10</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>481,628</u>	<u>481,628</u>	<u>481,628</u>

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years Ended October 31, 2007, 2006 and 2005

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
BALANCE (DEFICIT), OCTOBER 31, 2004, AS RESTATED (NOTE L)	\$2,408,140	\$154,592	\$(67,277,120)	\$ (381,617)	\$(65,096,005)
Dividends paid (\$24.915 per common share)	—	—	(12,000,001)	—	(12,000,001)
Comprehensive income:					
Net income, as restated (Note L)	—	—	13,533,115	—	13,533,115
Other comprehensive income (loss):					
Amount related to minimum pension liability, net of deferred tax of \$8,000, as restated (Note L)	—	—	—	(12,655)	(12,655)
Change in fair value of interest rate floor hedging activity, net of deferred tax of \$80,396	—	—	—	125,747	125,747
Reclassification adjustment for losses recognized in net income, net of deferred tax benefit of \$110,193	—	—	—	172,354	172,354
Total comprehensive income					13,818,561
BALANCE (DEFICIT), OCTOBER 31, 2005, AS RESTATED (NOTE L)	2,408,140	154,592	(65,744,006)	(96,171)	(63,277,445)
Dividends paid (\$29.068 per common share)	—	—	(14,000,001)	—	(14,000,001)
Comprehensive income:					
Net income, as restated (Note L)	—	—	14,198,128	—	14,198,128
Other comprehensive income:					
Amount related to minimum pension liability, net of deferred tax of \$8,000, as restated (Note L)	—	—	—	12,802	12,802
Total comprehensive income					14,210,930
BALANCE (DEFICIT), OCTOBER 31, 2006, AS RESTATED (NOTE L)	2,408,140	154,592	(65,545,879)	(83,369)	(63,066,516)
Dividends paid (\$26.992 per common share)	—	—	(13,000,002)	—	(13,000,002)
Comprehensive income:					
Net income	—	—	13,569,709	—	13,569,709
Other comprehensive income:					
Amount related to minimum pension liability, net of deferred tax of \$46,000	—	—	—	72,048	72,048
Total comprehensive income					13,641,757
Adjustment to initially apply FASB Statement No. 158, net of deferred tax of \$143,000	—	—	—	(223,277)	(223,277)
BALANCE (DEFICIT), OCTOBER 31, 2007	<u>\$2,408,140</u>	<u>\$154,592</u>	<u>\$(64,976,172)</u>	<u>\$ (234,598)</u>	<u>\$(62,648,038)</u>

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended October 31, 2007, 2006 and 2005

	2007	2006 As Restated (Note L)	2005 As Restated (Note L)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 13,569,709	\$ 14,198,128	\$ 13,533,115
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	3,361,308	3,074,610	3,520,800
Decrease in fair value of interest rate cap agreements	—	—	82
Provision for losses on accounts receivable	22,308	3,671	24,232
(Gain) loss on disposal of property and equipment	(16,979)	1,778	—
Non-cash compensation	—	38,040	—
Supplemental retirement benefits expense	329,019	445,840	1,169,123
Postretirement health benefits expense	221,417	196,695	222,000
Deferred income taxes	299,000	(523,000)	(1,637,000)
Change in assets and liabilities			
(Increase) decrease in trade and interest receivables	410,534	332,064	(272,889)
Increase in prepaid expenses	(25,841)	(148,559)	(132,374)
Increase (decrease) in accounts payable and accrued expenses	(953,017)	628,561	(380,828)
Increase (decrease) in rents received in advance	(2,433,893)	1,200,409	1,912,880
Increase (decrease) in income taxes payable	(1,024,651)	(609,437)	730,850
Increase (decrease) in supplemental retirement benefits	(78,876)	(2,602,135)	(78,876)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,680,038</u>	<u>16,236,665</u>	<u>18,611,115</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase and construction of property and equipment	(3,248,001)	(2,676,083)	(1,045,562)
Purchases of short-term investments	(15,582,606)	(23,033,500)	(26,652,016)
Proceeds from sales of short-term investments	15,703,028	29,214,939	24,092,071
Decrease in restricted cash	—	—	20,579,914
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(3,127,579)</u>	<u>3,505,356</u>	<u>16,974,407</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	(11,000,000)	(16,000,000)	(138,515,718)
Proceeds from long-term debt	12,000,000	11,000,000	125,000,000
Dividends paid	(13,000,002)	(14,000,001)	(12,000,001)
Financing costs paid	—	—	(808,683)
NET CASH USED BY FINANCING ACTIVITIES	<u>(12,000,002)</u>	<u>(19,000,001)</u>	<u>(26,324,402)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,447,543)	742,020	9,261,120
CASH AND CASH EQUIVALENTS, BEGINNING	10,830,899	10,088,879	827,759
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 9,383,356</u>	<u>\$ 10,830,899</u>	<u>\$ 10,088,879</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes	\$ 9,575,651	\$ 10,336,437	\$ 9,596,150
Interest, net of amount capitalized	5,287,791	4,860,719	6,779,023

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended October 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u> <u>As Restated</u> <u>(Note L)</u>	<u>2005</u> <u>As Restated</u> <u>(Note L)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Accounts payable incurred for acquisition of property and equipment	\$ 87,735	\$ 498,954	\$ —
Increase (decrease) in accrued minimum pension liability including the effects of FASB Statement No. 158 in 2007, net of tax of \$96,000, \$(8,000) and \$8,000 in 2007, 2006 and 2005, respectively	\$247,229	\$ (20,802)	\$ 20,655
Decrease in fair value of interest rate floor agreement, net of deferred income taxes of \$190,589	\$ —	\$ —	\$(298,101)

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE A - DESCRIPTION OF BUSINESS

International Home Furnishings Center, Inc. and its wholly-owned subsidiaries, IHFC Holdings, LLC and IHFC Properties, LLC, (collectively, the "Company") are the lessors 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 (the "Market") held each April and October. The details of the operating leases with the Company's tenants are described in Note H.

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 policy relative to the carrying values of property and equipment is indicated in the caption on the consolidated balance sheet. Other significant accounting policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of International Home Furnishings Center, Inc. and its wholly-owned subsidiaries, IHFC Holdings, LLC, organized on October 4, 2005 and IHFC Properties, LLC, a company organized on December 21, 2000. All material intercompany transactions have been eliminated.

Operating Revenues

Rental income consists entirely of rentals from exhibition space which are recognized on the straight-line basis over the lives of the leases.

Other revenues consist principally of advertising revenue generated from the Company's various Market publications and service revenue generated from various services provided to the Company's tenants. Advertising revenue is recognized in the period the related Market publications are published and service revenue is recognized when the related service has been provided.

Cash and Cash Equivalents

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

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-Term Investments

Management determines the appropriate classification of securities 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 nor 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, net of the related deferred tax effect, are reported as a separate component of accumulated other comprehensive income in 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.

Property, Equipment and Depreciation

Expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. Major renewals and betterments are capitalized. 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

In accordance with the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, the Company periodically reviews long-lived assets when indications of impairment exist, and if the value of the assets is impaired, an impairment loss would be recognized.

Deferred Financing Costs

Costs associated with obtaining long-term financing have been deferred and are being amortized to interest expense on the interest method over the term of the related debt. Amortization of deferred financing costs during the years ended October 31, 2007, 2006 and 2005 was \$161,734, \$161,734 and \$678,967, respectively.

Reporting Comprehensive Income

Comprehensive income is the total of net income and other comprehensive income. Other comprehensive income represents changes in equity, other than net income, from transactions and other events and circumstances from non-owner sources. Accordingly, comprehensive income includes all changes in equity during a period except those resulting from investments by stockholders and distributions to stockholders.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments

The Company may hold and issue derivative instruments for the purpose of hedging the risks related to the variability of cash flows caused by changes in interest rates. The Company's objectives are to decrease the volatility of earnings and cash flows associated with changing interest rates by entering into interest rate floor and cap agreements that effectively limit the range of interest rate exposure on its debt (see Note D).

The Company designates its derivatives based upon criteria established by Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. For a derivative designated as a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income net of tax and subsequently reclassified into earnings when the hedged exposure affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated 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 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. The Company provides valuation allowances against net deferred tax assets for amounts that are not considered more likely than not to be realized.

Earnings Per Common Share

The Company follows the provisions of Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, which specifies the computation, presentation and disclosure requirements for earnings per share ("EPS"). Basic EPS excludes all dilution and has been computed using the weighted average number of common shares outstanding during the year. Diluted EPS reflects 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 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.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

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 60% of the participant's average compensation during his or her 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.

Postretirement Health Benefits

The Company provides health coverage for active employees and postretirement coverage. The coverage is comprehensive with standard exclusions and operated through a preferred provider network, with provision for those who seek services outside the network. All full-time employees who are scheduled to work 30 or more hours per week are eligible. Spouses are eligible as well as children until the age of 19 (or 26 if unmarried and a full-time student). A retired employee is eligible when they have achieved 15 years of service and age 62. Retired dependents will also be covered if they were covered prior to retirement. The plan is not contractual in nature and the Company maintains the right to alter it at any time.

For years prior to 2007, the plan was accounted for on a cash basis without recognition of the liability for the postretirement obligations. For the year ended October 31, 2007, the Company has accounted for the plan in accordance with SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*. As a result, the Company has restated prior fiscal years to reflect actuarially-determined postretirement obligations (see Note L).

Fair Value of Financial Instruments

The carrying amounts of the Company's significant financial instruments, none of which are held for trading purposes, approximate fair value at October 31, 2007 and 2006. Cash and cash equivalents, restricted cash, trade receivables, trade payables, accrued property taxes, other accrued expenses, and income taxes payable approximate fair value because of the short maturities of these instruments. Variable rate long-term debt approximates fair value because of its floating interest rate terms. Fixed rate long-term debt approximates fair value because the interest rate approximates current rates available in the market for loans of similar terms and risks.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS No. 158), an amendment of FASB Statements No. 87, 88, 106, and 132 (R). For fiscal years ending after December 15, 2006, SFAS No. 158 requires an employer to recognize the funded status of a benefit plan on its balance sheet and to recognize the gains or losses and prior service costs, not already recognized, as a component of other comprehensive income, net of taxes. The Company has elected to adopt SFAS No. 158 effective as of the end of its fiscal year ending October 31, 2007. At October 31, 2007, the Company's nonqualified supplemental retirement plan was underfunded by approximately \$2,493,355 and recorded in other liabilities. The portion of the liability resulting from the adoption of SFAS No. 158 has been charged to accumulated other comprehensive loss, net of tax, in the amount of \$223,277 at October 31, 2007 (see Note G).

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN No. 48), was issued in June 2006 to clarify the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. The interpretation defines a criterion that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. It also provides guidance on measurement, underecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. During 2007, FASB delayed the Interpretation to be effective for fiscal years beginning after December 15, 2007. The Company has not determined the effect, if any, that the adoption of FIN No. 48 will have on the Company's financial position or results of operation.

NOTE C - SHORT-TERM INVESTMENTS

The Company's short-term investments in available-for-sale securities consist of obligations of state and local governments with short-term maturities ranging from seven to 39 days. Fair market value of short-term investments approximates amortized cost at October 31, 2007 and 2006.

	<u>Amortized Cost</u>	
	<u>2007</u>	<u>2006</u>
Debt securities	<u>\$921,323</u>	<u>\$1,041,745</u>

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE D - LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
IXIS Real Estate Capital, Inc.		
Revolving credit agreement with a maximum availability of \$25,000,000, maturing on November 1, 2010. Interest is payable monthly at the LIBOR rate plus .6% (5.3063% at October 31, 2007).	\$ 7,000,000	\$ 6,000,000
Term loan payable with interest-only payments due monthly at 4.99%. All principal and unpaid interest is payable in full on November 1, 2010.	<u>100,000,000</u>	<u>100,000,000</u>
	107,000,000	106,000,000
Less current maturities	<u>—</u>	<u>—</u>
	<u>\$ 107,000,000</u>	<u>\$ 106,000,000</u>

The loans payable to IXIS Real Estate Capital, Inc. are secured by substantially all the Company's real estate and a security interest in the Company's restricted cash account. The term loan requires that the Company maintain compliance with certain financial ratios. The Company was in compliance with these covenants at October 31, 2007.

Interest costs for the years ended October 31, 2007, 2006 and 2005 in the amount of \$17,404, \$17,667 and \$7,790, respectively, were capitalized as part of the building construction costs.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE E - INCOME TAXES

The provision for income taxes consists of the following for the years ended October 31, 2007, 2006 and 2005:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Federal:			
Current	\$7,052,000	\$8,029,000	\$ 8,532,000
Deferred	247,000	(432,000)	(1,359,000)
	<u>7,299,000</u>	<u>7,597,000</u>	<u>7,173,000</u>
State:			
Current	1,499,000	1,698,000	1,795,000
Deferred	52,000	(91,000)	(278,000)
	<u>1,551,000</u>	<u>1,607,000</u>	<u>1,517,000</u>
TOTAL	<u>\$8,850,000</u>	<u>\$9,204,000</u>	<u>\$ 8,690,000</u>

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:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income taxes computed at the federal statutory rate	\$7,847,000	\$8,191,000	\$7,778,000
State taxes, net of federal benefit	1,005,000	1,046,000	987,000
Nontaxable investment income	(40,000)	(37,000)	(42,000)
Other, net	38,000	4,000	(33,000)
	<u>\$8,850,000</u>	<u>\$9,204,000</u>	<u>\$8,690,000</u>

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE E - INCOME TAXES (Continued)

The components of deferred income taxes consist of the following:

	<u>2007</u>	<u>2006</u>
Deferred income tax assets:		
Rents received in advance	\$3,942,000	\$4,902,000
Adjustment for restatement of loss	—	19,000
Depreciation	324,000	—
Postretirement benefits	1,307,000	1,205,000
Supplemental retirement benefits	1,438,000	1,268,000
TOTAL DEFERRED TAX ASSETS	<u>7,011,000</u>	<u>7,394,000</u>
Deferred income tax liabilities:		
Depreciation	—	(180,000)
TOTAL DEFERRED TAX LIABILITIES	<u>—</u>	<u>(180,000)</u>
TOTAL NET DEFERRED TAX ASSETS	<u>\$7,011,000</u>	<u>\$7,214,000</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences at October 31, 2007.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE F - COMMITMENTS AND CONTINGENCIES

Land Lease

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 \$163,689 as of October 31, 2007 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. The unamortized cost of the theater and office complex is reported on the consolidated balance sheet as prepaid rent. 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.

Future minimum lease payments due under the terms of the lease are as follows:

Year Ending October 31,	
2008	\$ 124,568
2009	124,568
2010	124,568
2011	124,568
2012	124,568
Due after five years	1,318,345
	<u>\$1,941,185</u>

Other Commitments

At October 31, 2007, the Company has outstanding commitments for building improvements of approximately \$ 500,000.

The Company has entered into a noncancelable elevator maintenance contract that expires January 31, 2012. The contract requires monthly payments of \$21,000, with a 4% escalation cap over the life of the contract.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE F - COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies

Financial Accounting Standards Board Statement 143, *Accounting for Conditional Asset Retirement Obligations*, requires that the Company evaluate its assets to determine the existence of future retirement liabilities resulting from statutory or contractual responsibilities. As of October 31, 2007, the Company was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation asset retirement obligations (AROs). These conditional AROs are primarily related to fireproofing material containing asbestos installed on portions of its skeletal steel in one exhibition building totaling approximately 376,000 square feet. The asbestos is not subject to abatement unless the buildings are either demolished or the company undertakes major renovations. Because these conditional obligations have indeterminate settlement dates, the Company could not develop a reasonable estimate of their fair values. The Company will continue to assess its ability to estimate fair values at each future reporting date. The liability will be recognized once sufficient additional information becomes available.

NOTE G - PENSION AND POSTRETIREMENT BENEFIT PLANS

Effective October 31, 2007, the Company adopted SFAS No. 158, which requires the recognition in pension obligations and accumulated other comprehensive income of actuarial gains and losses, prior service costs and transition obligations that had previously been deferred under the reporting requirements of SFAS No. 87, SFAS No. 106 and SFAS No. 132 R. The following table reflects the effects of the adoption of SFAS No. 158 on the Company's consolidated balance sheet as of October 31, 2007.

	Before Application of SFAS No. 158	Adjustments	After Application of SFAS No. 158
Deferred income tax asset (non-current portion)	\$ 2,926,000	\$ 143,000	\$ 3,069,000
Total assets	65,076,080	143,000	65,219,080
Supplemental retirement liability	2,127,078	366,277	2,493,355
Total liabilities	127,500,841	366,277	127,867,118
Accumulated other comprehensive loss	(11,321)	(223,277)	(234,598)
Total stockholders' deficit	(62,424,761)	(223,277)	(62,648,038)

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE G - PENSION AND POSTRETIREMENT BENEFIT PLANS (Continued)

Summarized information for the Company's defined benefit plan and post retirement healthcare plan is as follows:

	Supplemental Retirement Plan		Postretirement Health Care Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligations at November 1	\$ 2,305,175	\$ 4,562,873	\$ 3,088,695	\$ 2,892,000
Service cost	156,969	283,842	131,296	128,000
Interest cost	135,748	138,737	186,373	174,195
Actuarial (gain) loss	(25,661)	(78,142)	—	—
Benefit payments	(78,876)	(2,602,135)	(96,252)	(105,500)
Benefit obligations at October 31	<u>\$ 2,493,355</u>	<u>\$ 2,305,175</u>	<u>\$ 3,310,112</u>	<u>\$ 3,088,695</u>
Change in plan assets				
Fair value of plan assets at November 1	\$ —	\$ —	\$ —	\$ —
Employer contributions	78,876	2,602,135	96,252	105,500
Benefit payments	(78,876)	(2,602,135)	(96,252)	(105,500)
Fair value of plan assets at October 31	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status				
Funded status at October 31	\$(2,493,355)	\$(2,305,175)	\$(3,310,112)	\$(3,088,695)
Unrecognized transition asset	—	(87,047)	—	—
Unrecognized actuarial loss	—	533,608	—	—
Net amount recognized	<u>\$(2,493,355)</u>	<u>\$(1,858,614)</u>	<u>\$(3,310,112)</u>	<u>\$(3,088,695)</u>
Amounts recognized in balance sheets				
Noncurrent assets	\$ —	\$ 54,000	\$ —	\$ —
Current liabilities	(78,876)	(78,876)	100,000	100,000
Noncurrent liabilities	(2,414,479)	(1,917,107)	3,210,112	2,988,695
Accumulated other comprehensive loss	—	83,369	—	—
Net amount recognized	<u>\$(2,493,355)</u>	<u>\$(1,858,614)</u>	<u>\$ 3,310,112</u>	<u>\$ 3,088,695</u>
Amounts recognized in accumulated other comprehensive loss, net of tax				
Transition asset	\$ (48,269)	\$ —	\$ —	\$ —
Actuarial loss	282,867	—	—	—
Additional minimum pension liability	—	83,369	—	—
Net amount recognized	<u>\$ 234,598</u>	<u>\$ 83,369</u>	<u>\$ —</u>	<u>\$ —</u>

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE G - PENSION AND POSTRETIREMENT BENEFIT PLANS (Continued)

The net periodic benefit cost for the plans includes the following components:

	Supplemental Retirement Plan			Postretirement Health Care Benefits		
	2007	2006	2005	2007	2006	2005
Service cost	\$ 156,969	\$ 283,842	\$ 914,656	\$ 131,296	\$ 128,000	\$ 125,000
Interest cost	135,748	138,737	206,495	186,373	177,195	162,000
Amortization of net transition asset	(7,914)	(7,914)	(7,914)	—	—	—
Amortization of unrecognized loss	44,216	21,018	22,266	—	—	—
Net periodic benefit cost	<u>\$329,019</u>	<u>\$435,683</u>	<u>\$1,135,503</u>	<u>\$317,669</u>	<u>\$305,195</u>	<u>\$287,000</u>

During 2005, the Company granted additional retirement benefits to one of its key employees covered under the nonqualified supplemental retirement plan in recognition of years of service provided to the Company beyond normal retirement age as defined in the plan. This change resulted in a significant increase in expense for the year.

The following amounts represent the benefit payments, which reflect expected future service expected to be paid during the ten-year period ended October 31, 2017:

Supplemental Retirement Plan		Postretirement Health Care Benefits	
2008	\$ 78,876	2008	\$ 104,572
2009	78,876	2009	128,347
2010	78,876	2010	137,883
2011	116,275	2011	152,828
2012	189,628	2012	177,617
2013-2017	1,263,048	2013-2017	1,060,000

Because the plans are unfunded, the Company's expected contributions are equal to the benefit payment schedules above.

The weighted average actuarial assumptions used to determine benefit obligations for the plan are as follows:

	Supplemental Retirement Plan			Postretirement Health Care Benefits		
	2007	2006	2005	2007	2006	2005
Discount rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Rate of salary increase	5.0	5.0	5.0	N/A	N/A	N/A
Rate of inflation	N/A	N/A	N/A	3.5	3.5	3.5
Rate of healthcare inflation	N/A	N/A	N/A	6.0-9.0	6.0-9.0	6.0-9.0

Amounts in accumulated other comprehensive income expected to be recognized as components of net periodic pension cost in 2008 are as follows:

Transition asset	\$ (7,914)
Actuarial loss	23,457
	<u>\$15,543</u>

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE G - PENSION AND POSTRETIREMENT BENEFIT PLANS (Continued)

Amounts expensed under the Company's 401(k) qualified retirement plan amounted to \$182,224, \$189,861 and \$185,407 for the years ended October 31, 2007, 2006 and 2005, respectively.

NOTE H - 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 consolidated balance sheets. 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, 2007, exclusive of amounts due under escalation provisions of lease agreements:

Year Ending October 31,	
2008	\$31,221,605
2009	27,416,577
2010	18,012,185
2011	8,525,138
2012	1,858,112
Total minimum future rentals	<u>\$87,033,617</u>

Rental income includes contingent rentals under escalation provisions of leases of \$1,689,065, \$1,719,212 and \$1,399,479 for the years ended October 31, 2007, 2006 and 2005, respectively.

The Company leases exhibition space to one of the Company's stockholders. Rental income from this related party amounted to \$367,334, \$530,824 and \$621,380 for the years ended October 31, 2007, 2006 and 2005, respectively.

NOTE I - 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, 2007, the Company's bank balances exceeded federally insured limits by \$8,946,706. The Company's trade accounts receivable are generally collateralized by merchandise in leased exhibition spaces which is in the Company's possession.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE J - STOCKHOLDERS' DEFICIT

The stockholders' deficit resulted from the payment of dividends substantially in excess of accumulated earnings. The dividends in excess of accumulated earnings were financed, in part, with the proceeds of long-term debt. Although interest on this debt will negatively impact future earnings, management believes, based on projections of future operations and cash flows, that future earnings will provide adequate equity capital for the Company and that operating cash flows will be sufficient to provide for debt service and for the Company's other financing and investing needs.

NOTE K - SUBSEQUENT EVENT

On December 7, 2007, the Board of Directors authorized payment of a cash dividend totaling \$6,000,000 to stockholders of record as of December 13, 2007.

NOTE L - RESTATEMENTS OF PREVIOUSLY REPORTED RESULTS

During 2007, management determined that the method of accounting for its health care plan did not conform to the requirements of SFAS No. 106, *Employers' Accounting for Postretirements Benefits Other than Pensions*. The Company had not reported the actuarially determined obligation under the plan in previously issued financial statements; therefore, these financial statements have been restated. In addition, the Company elected to correct errors relating to reporting amortization of past service costs and actuarial losses for the Company's supplemental retirement plan, and correct an error in under reporting of income relating to billing for tenant utilities. In accordance with the requirements of SFAS No. 154, *Accounting Changes and Error Corrections*, the effects of correcting these errors is reported as a prior period adjustment as of November 1, 2004, the first day of the fiscal year ended October 31, 2005 as follows:

	Increase (Decrease)
Deferred income tax asset	\$ 1,159,000
Other accrued expenses	(166,358)
Income tax payable	92,000
Supplement retirement obligation	232,415
Postretirement healthcare obligation	2,670,000
Accumulated deficit	(1,585,541)
Accumulated other comprehensive loss	(83,516)

The effects of these corrections on the Company's consolidated balance sheets, statements of changes in stockholder's deficit and statements of income as of and for the years ended October 31, 2006 and 2005 are as follows:

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE L - RESTATEMENTS OF PREVIOUSLY REPORTED RESULTS (Continued)

Consolidated Balance Sheet – October 31, 2006

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Deferred income tax benefit	\$ 1,087,000	\$ 1,224,000	\$ 2,311,000
Other assets	2,396,054	1,224,000	3,620,054
Total assets	66,181,639	1,224,000	67,405,639
Other accrued expenses	893,918	(29,082)	864,836
Income taxes payable	2,199,190	101,000	2,300,190
Total current liabilities	19,494,435	71,918	19,566,353
Postretirement obligation - healthcare	—	2,988,695	2,988,695
Long-term liabilities	107,995,983	2,909,819	110,905,802
Accumulated deficit	(63,871,511)	(1,674,368)	(65,545,879)
Accumulated other comprehensive loss	—	(83,369)	(83,369)
Total stockholder's deficit	(61,308,779)	(1,757,737)	(63,066,516)
Total liabilities less stockholders' deficit	66,181,639	1,224,000	67,405,639

Consolidated Statement of Income – October 31, 2006

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Compensation and benefits	\$ 5,624,995	\$ 59,621	\$ 5,684,616
Other operating costs	679,287	(9,900)	669,387
Total operating expenses	18,047,787	49,721	18,097,508
Income from operations	28,715,775	(49,721)	28,666,054
Income before income taxes	23,451,849	(49,721)	23,402,128
Provision for income taxes	9,223,000	(19,000)	9,204,000
Net income	14,228,849	(30,721)	14,198,128
Earnings per share	\$ 29.54	\$ (.06)	\$ 29.48

Consolidated Statement of Changes in Stockholders' Deficit – October 31, 2006

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Deficit at October 31, 2005	\$ (61,537,627)	\$ (1,739,818)	\$ (63,277,445)
Net income	14,228,849	(30,721)	14,198,128
Other comprehensive income	—	12,802	12,802
Total comprehensive income	14,228,849	(17,919)	14,210,930
Deficit at October 31, 2006	(61,308,779)	(1,757,737)	(63,066,516)

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2007, 2006 and 2005

NOTE L - RESTATEMENTS OF PREVIOUSLY REPORTED RESULTS (Continued)

Consolidated Statement of Cash Flow – October 31, 2006

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Net income	\$ 14,228,849	\$ (30,721)	\$ 14,198,128
Increase in postretirement healthcare benefits	—	196,695	196,695
Deferred income taxes	(504,000)	(19,000)	(523,000)
Increase in accounts payable and accrued expenses	648,461	(19,900)	628,561
Increase in supplemental retirement benefits	(2,602,135)	(127,074)	(2,729,209)

Consolidated Statement of Income – October 31, 2005

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Compensation and benefits	\$ 6,083,491	\$ 106,806	\$ 6,190,297
Other operating costs	589,167	(11,700)	577,467
Total operating expenses	17,564,283	95,106	17,659,389
Income from operations	28,847,092	(95,106)	28,751,986
Income before income taxes	22,318,221	(95,106)	22,223,115
Provision for income taxes	8,727,000	(37,000)	8,690,000
Net income	13,591,221	(58,106)	13,533,115
Earnings per share	\$ 28.22	\$ (.12)	\$ 28.10

Consolidated Statement of Changes in Stockholders' Deficit – October 31, 2005

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Deficit at October 31, 2004	\$(63,426,948)	\$(1,669,057)	\$(65,096,005)
Net income	13,591,221	(58,106)	13,533,115
Other comprehensive income			
Amount related to minimum pension liability, net of deferred tax	—	(12,655)	(12,655)
Total comprehensive income	13,889,322	(70,761)	13,818,561
Deficit at October 31, 2005	(61,537,627)	(1,739,818)	(63,277,445)

Consolidated Statement of Cash Flow – October 31, 2005

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>As Restated</u>
Net income	\$ 13,591,221	\$ (58,106)	\$ 13,533,115
Increase in postretirement healthcare benefits	—	22,000	222,000
Deferred income taxes	(1,600,000)	(37,000)	(1,637,000)
(Decrease) in accounts payable and accrued expenses	(359,128)	(21,700)	(380,828)
Decrease in supplemental retirement benefits	(78,876)	(105,194)	(184,070)

Bassett Furniture Industries, Inc.

Schedule II

Analysis of Valuation and Qualifying Accounts

For the Years Ended November 24, 2007 November 25, 2006 and November 26, 2005

(in thousands)

	<u>Balance Beginning of Period</u>	<u>Additions Charged to Cost and Expenses</u>	<u>Deductions(1)</u>	<u>Other</u>	<u>Balance End of Period</u>
For the Year Ended November 26, 2005:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 4,751	\$ 2,403	\$ (3,428)	\$—	\$ 3,726
Notes receivable reserve	\$ 800	\$ 880	\$ (180)	\$—	\$ 1,500
Restructuring reserve	\$ 440	\$ 1,040	\$ (698)	\$—	\$ 782
Income tax valuation allowance	\$ 503	\$ 497	\$ —	\$—	\$ 1,000
For the Year Ended November 25, 2006:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 3,726	\$ 3,364	\$ (1,344)	\$—	\$ 5,746
Notes receivable reserve	\$ 1,500	\$ 2,521	\$ (1,166)	\$—	\$ 2,855
Restructuring reserve	\$ 782	\$ —	\$ (753)	\$—	\$ 29
Income tax valuation allowance	\$ 1,000	\$ 406	\$ —	\$—	\$ 1,406
For the Year Ended November 24, 2007:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 5,746	\$ 3,852	\$ (1,937)	\$—	\$ 7,661
Notes receivable reserve	\$ 2,855	\$ —	\$ (1,155)	\$—	\$ 1,700
Restructuring reserve	\$ 29	\$ 960	\$ (857)	\$—	\$ 132
Income tax valuation allowance	\$ 1,406	\$ (359)	\$ —	\$—	\$ 1,047

(1) Deductions are for the purpose for which the reserve was created.

\$40,000,000.00

THIRD AMENDED AND RESTATED
CREDIT AGREEMENT

dated as of

October 31, 2007

among

BASSETT FURNITURE INDUSTRIES, INCORPORATED,

The Initial Guarantors Listed Herein,

The Banks Listed Herein

and

BRANCH BANKING AND TRUST COMPANY,
as Agent

THIRD AMENDED AND RESTATED CREDIT AGREEMENT

THIRD AMENDED AND RESTATED CREDIT AGREEMENT dated as of October 31, 2007 among BASSETT FURNITURE INDUSTRIES, INCORPORATED, BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, INC., THE E.B. MALONE CORPORATION, BASSETT DIRECT STORES, INC., BASSETT DIRECT NC, LLC, BASSETT DIRECT SC, LLC, the BANKS listed on the signature pages hereof and BRANCH BANKING AND TRUST COMPANY, as Agent.

The Borrower, the Guarantors, the Bank and the Agent are parties to the Original Credit Agreement (as defined herein) which provides for the making of loans by the Banks to the Borrower in an aggregate principal amount at any one time outstanding not exceeding \$50,000,000.

The parties hereto wish to amend the Original Credit Agreement in certain respects and to restate the Original Credit Agreement, to read in its entirety as set forth below. Accordingly, the parties hereto agree that effective on the Restatement Effective Date (as defined herein), the Original Credit Agreement is amended and restated to read in its entirety as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. The terms as defined in this Section 1.01 shall, for all purposes of this Agreement and any amendment hereto (except as herein otherwise expressly provided or unless the context otherwise requires), have the meanings set forth herein:

“Account Debtor” shall mean the person who is obligated on any of the Accounts Receivable Collateral or otherwise is obligated as a purchaser or lessee of any of the Inventory Collateral.

“Accounts Receivable Collateral” shall mean all rights of the Borrower and the Guarantors to payment for goods sold or leased, or to be sold or to be leased, or for services rendered or to be rendered, howsoever evidenced or incurred, including, without limitation, all accounts, instruments, chattel paper and general intangibles, all returned or repossessed goods and all books, records, computer tapes, programs and ledger books arising therefrom or relating thereto, whether now owned or hereafter acquired or arising.

“ACL Agreement” means any credit line sweep services agreement now or hereafter entered into between the Agent and Borrower and all amendments and modifications thereto.

“Acquisition” means the acquisition of (i) a controlling equity interest in another Person (including the purchase of an option, warrant or convertible or similar type security to acquire such a controlling interest at the time it becomes exercisable by the holder thereof), whether by purchase of such equity interest or upon exercise of an option or warrant for, or conversion of securities into, such equity interest, or (ii) assets of another Person which constitute all or any material part of the assets of such Person or of a line or lines of business conducted by such Person.

“Adjusted Debt” means, for any period, the sum of: (a) Current Debt (excluding the aggregate principal amount of all Advances, Letter of Credit Advances, Licensee Loans, Swing Line Advances and Undrawn Amounts) of the Borrower and its Consolidated Subsidiaries, plus (b) Current

Maturities of Long Term Debt (excluding the aggregate principal amount of all Advances, Letter of Credit Advances, Licensee Loans, Swing Line Advances and Undrawn Amounts) of the Borrower and its Consolidated Subsidiaries.

“Adjusted Monthly Libor Index” has the meaning set forth in Section 2.06(c).

“Advance” shall mean an advance made to the Borrower under this Agreement pursuant to Article II. An Advance is a “Prime Rate Advance” if such Advance is part of a Prime Rate Loan or a “Euro-Dollar Advance” if such Advance is part of a Euro-Dollar Loan.

“Affiliate” of any Person means (i) any other Person which directly, or indirectly through one or more intermediaries, controls such Person, (ii) any other Person which directly, or indirectly through one or more intermediaries, is controlled by or is under common control with such Person, or (iii) any other Person of which such Person owns, directly or indirectly, 20% or more of the common stock or equivalent equity interests. As used herein, the term “control” means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Agent” means Branch Banking and Trust Company, in its capacity as agent for the Banks now or hereafter party to this Agreement, and its successors and permitted assigns in such capacity.

“Agent’s Letter Agreement” means that certain letter agreement, dated as of August 24, 2000, between the Borrower and the Agent relating to the structure of the Loan, and certain fees from time to time payable by the Borrower to the Agent, together with all amendments and modifications thereto.

“Aggregate Advances” means the sum of the aggregate outstanding principal amount of Advances plus the aggregate outstanding principal amount of all Letter of Credit Advances, Licensee Loans, Swing Line Advances and Undrawn Amounts.

“Agreement” means this Credit Agreement, together with all amendments and supplements hereto.

“Anniversary Date” means October 25, 2001 and each anniversary of the Closing Date thereafter.

“Annual Maintenance Capital Expenditures” shall mean, with respect to any period of four fiscal quarters the greater of: (1) the actual Capital Expenditures of the Borrower and its Consolidated Subsidiaries during such period for maintenance purposes of existing assets; or (2) fifty percent (50%) of Depreciation and Amortization for such period.

“Applicable Margin” has the meaning set forth in Section 2.06(a).

“Approved Funds” means: (i) the Bassett Asset Fund; and (ii) other investment funds that invest in marketable investment securities publicly traded on a national securities exchange which securities are of a quality consistent with the equity investments made by the Borrower on August 25, 2007.

“Assigned BFD Leases” means any and all leases of “BFD Stores” with respect to which the Borrower or any of its Consolidated Subsidiaries have assigned or sublet its interest as lessee thereunder.

“Assignee” has the meaning set forth in Section 9.07(c).

“Assignment and Acceptance” means an Assignment and Acceptance executed in accordance with Section 9.07(c) in the form attached hereto as Exhibit J.

“Assignment of Claims Acts” shall mean The Assignment of Claims Act of 1940, as may be amended from time to time, and any Federal, State, county or municipal statute, regulation, ordinance, constitution or charter, now or hereafter existing, similar in effect thereto, as determined by the Agent in its sole discretion.

“Authority” has the meaning set forth in Section 8.02.

“Bank” means each bank listed on the signature pages hereof as having a Commitment and the Swing Line Lender, and their respective successors and assigns.

“Bassett Asset Fund” means Bassett Industries Alternative Asset Fund, LP, a Delaware limited partnership.

“Bassett Asset Fund Investment Policy” shall mean the Investment Policy attached hereto as Schedule 5.33 – Investment Policy.

“BB&T” means Branch Banking and Trust Company, and its successors.

“BFD Stores” means existing and future retail furniture stores operating under the “Bassett Furniture Direct” program of the Borrower or the “At Home with Bassett” program of the Borrower, as such programs are in effect on the Closing Date.

“Borrower” means Bassett Furniture Industries, Incorporated, a Virginia corporation, and its successors and permitted assigns.

“Borrowing” means a borrowing hereunder consisting of Advances made to the Borrower at the same time by the Banks pursuant to Article II.

“Borrowing Base” shall mean, based on the most recent Borrowing Base Certification Report which as of the date of a determination of the Borrowing Base has been received by the Agent, an amount equal to: (A) Adjusted Debt, as of the date of determination, subtracted from (B) the sum of (i) an amount equal to 75% (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the face dollar amount of Eligible Accounts as at the date of determination; and (ii) an amount equal to: (a) 5% of the LIFO Reserve, as of the date of the determination of the Borrowing Base, subtracted from (b) 40% (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the dollar amount of the Eligible Inventory, valued at the lower of its cost or market value (as determined by the Agent in its sole discretion), as at the date of determination. The Agent shall also be entitled to hold and subtract any reserve against the Borrowing Base it deems necessary as security for payment of the Notes, the obligations of the Guarantors under Article X of this Agreement, and the obligations of the Borrower under the Letter of Credit Agreements and the Licensee Loan Guarantees.

“Borrowing Base Certification Report” means a report in the form attached hereto as Exhibit E, and otherwise satisfactory to the Agent, certified by the chief financial officer or other authorized officer of the Borrower and the Guarantors regarding the Inventory Collateral and the Accounts Receivable Collateral of the Borrower and the Eligible Guarantors.

“Capital Expenditures” means for any period the sum of all capital expenditures incurred during such period by the Borrower and its Consolidated Subsidiaries, as determined in accordance with GAAP.

“Capital Stock” means any nonredeemable capital stock of the Borrower or any Consolidated Subsidiary (to the extent issued to a Person other than the Borrower), whether common or preferred.

“Cash Equivalents” means (i) securities issued or directly and fully guaranteed or insured by the United States Government or any agency or instrumentality thereof having maturities of not more than 90 days from the date of acquisition; (ii) time deposits, certificates of deposit and banker’s acceptances of any domestic commercial bank having capital and surplus in excess of \$200,000,000 having maturities of not more than 90 days from the date of acquisition; (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) and entered into with any bank meeting the qualifications thereof, the highest credit rating obtainable from Standard & Poor’s Ratings Services or Moody’s Investors Service, Inc. and maturing within ninety days after the date of acquisition; and (v) money market funds which invest at least 90% of their assets in the types of securities or instruments described in clauses (i), (ii), (iii) and (iv) above.

“CERCLA” means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. §9601 et seq. and its implementing regulations and amendments.

“CERCLIS” means the Comprehensive Environmental Response Compensation and Liability Information System established pursuant to CERCLA.

“Change of Law” shall have the meaning set forth in Section 8.02.

“Closing Certificate” has the meaning set forth in Section 3.01(e).

“Closing Date” means October 25, 2000.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor Federal tax code. Any reference to any provision of the Code shall also be deemed to be a reference to any successor provision or provisions thereof.

“Collateral” shall have the meaning set forth in the Security Agreement.

“Collateral Documents” means, collectively, the Pledge Agreement and the Security Agreement.

“Collateral Locations” shall mean the Executive Offices and those additional locations set forth and described on Schedule 5.25 - Collateral Locations, under the heading “Collateral Locations.”

“Collateral Reserve Account” shall mean a non-interest bearing, demand deposit account which the Borrower and Guarantors may be required to open and maintain with the Agent for the benefit of the Secured Parties pursuant to the requirements of Section 2.14.

“Committed Contingent BFD Liabilities” shall mean at any date any and all written commitments or other agreements pursuant to which the Borrower or any Consolidated Subsidiary has agreed to: (i) Guaranty any indebtedness, liabilities or obligations of any Person as lessee under a lease of a “BFD Store”; or (ii) assign or sublet its interest as lessee under a lease of a BFD Store; provided, however, Committed Contingent BFD Liabilities shall expressly exclude obligations arising under any such written commitment or other agreement under which the Borrower and any Consolidated Subsidiary that is a party thereto has the unilateral: (1) and unqualified right to terminate such written commitment or other agreement at any time; or (2) right to terminate such written commitment or other agreement in the event that the guaranty contemplated thereby will result in a Default or Event of Default under this Agreement.

“Commitment” means, with respect to each Bank, (i) the amount set forth opposite the name of such Bank on the signature pages hereof, or (ii) as to any Bank which enters into an Assignment and Acceptance (whether as transferor Bank or as Assignee thereunder), the amount of such Bank’s Commitment after giving effect to such Assignment and Acceptance, in each case as such amount may be reduced from time to time pursuant to Sections 2.08 and 2.09.

“Compliance Certificate” has the meaning set forth in Section 5.01(d).

“Consolidated Net Income” means, for any period, the Net Income of the Borrower and its Consolidated Subsidiaries determined on a consolidated basis, but excluding (i) extraordinary gains; (ii) extraordinary non-cash losses and (iii) any equity interests of the Borrower or any Subsidiary of the Borrower in the unremitted earnings of any Person that is not a Subsidiary of the Borrower.

“Consolidated Subsidiary” means at any date any Subsidiary or other entity the accounts of which, in accordance with GAAP, would be consolidated with those of the Borrower in its consolidated and consolidating financial statements as of such date.

“Consolidated Tangible Net Worth” means, at any time, Stockholders’ Equity, less the sum of the value, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, prepared in accordance with GAAP,

(A) Any surplus resulting from any write-up of assets (other than Approved Funds) subsequent to November 25, 2006;

(B) All assets which would be treated as intangibles under generally accepted accounting principles, including without limitation goodwill (whether representing the excess of cost over book value of assets acquired, or otherwise), trademarks, tradenames, copyrights, patents and technologies, and unamortized debt discount and expense;

(C) To the extent not included in (B) of this definition, any amount at which shares of capital stock of the Borrower appear as an asset on the balance sheet of the Borrower and its Consolidated Subsidiaries;

(D) Loans or advances to stockholders, directors, officers or employees; and

(E) To the extent not included in (B) of this definition, deferred expenses.

“Consolidated Total Assets” means, at any time, the total assets of the Borrower and its Consolidated Subsidiaries, determined on a consolidated basis, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, prepared in accordance with GAAP.

“Consolidated Total Capitalization” means, at any time, the sum of (A) the amount equal to: (i) Stockholders’ Equity, less (ii) the aggregate outstanding amount of Non-Qualified Investments, plus (B) Consolidated Total Debt, provided, that for purposes of this definition only, in determining Consolidated Total Debt, clauses (viii), (x) (but only to the extent clause (x) includes Debt that is not a Contingent BFD Liability) and (xi) of the definition of Debt contained in this Agreement shall be disregarded.

“Consolidated Total Debt” means at any date, without duplication, the sum of: (1) all Debt of the Borrower and its Consolidated Subsidiaries, (2) all obligations (absolute or contingent) of the Borrower and its Consolidated Subsidiaries to reimburse any bank or other Person in respect of amounts which are available to be drawn or have been drawn under a letter of credit or similar instrument, and (3) all Contingent BFD Liabilities, all as determined in accordance with GAAP.

“Contingent BFD Liabilities” shall mean at any date, without duplication: (i) all indebtedness, liabilities and obligations of any Person in connection with or arising from the acquisition, development, construction or ownership of a “BFD Store” Guaranteed by the Borrower or any of its Consolidated Subsidiaries (or with respect to which the Borrower or any Consolidated Subsidiary has provided a written commitment or agreement to issue such a Guaranty); (ii) all indebtedness, liabilities and obligations of any Person in connection with or arising from a loan Guaranteed by the Borrower or any of its Consolidated Subsidiaries (or with respect to which the Borrower or any Consolidated Subsidiary has provided a written commitment or agreement to issue such a Guaranty), including, without limitation, Licensee Loans; (iii) the Applicable Percentage of all payments that the Borrower or any Consolidated Subsidiary is obligated to make under an Assigned BFD Lease (without giving effect to any assignment or sublease); and (iv) the Applicable Percentage of all payments that any Person (including without limitation a Consolidated Subsidiary of the Borrower), as lessee under a Guaranteed BFD Lease is obligated to make under such Guaranteed BFD Lease; provided, however: (A) if a guaranty issued by the Borrower or Consolidated Subsidiary in connection with a Guaranteed BFD Lease is applicable only during a specified period of time, the amount included in this subitem (iv) of the definition of Contingent BFD Liabilities shall be: (1) limited to the Applicable Percentage of all payments scheduled to be made by any Person as lessee under a Guaranteed BFD Lease during the period during which such guaranty by the Borrower or Consolidated Subsidiary, as the case may be, is effective; and (2) shall be included in the determination of Contingent BFD Liabilities only during the portion of the lease term that such guaranty by the Borrower or Consolidated Subsidiary, as the case may be, is effective; and (B) if the Borrower or Consolidated Subsidiary is primarily liable under a Guaranteed BFD Lease as a tenant or lessee, the amount included in subitem (iv) of the definition of Contingent BFD Liabilities shall include the Applicable Percentage of all payments scheduled to be made by any Person as lessee under such Guaranteed BFD Lease during its term. As used herein, “Applicable Percentage” shall mean 55%.

“Controlled Group” means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414 of the Code.

“Cost of Acquisition” means, with respect to any Acquisition, as at the date of entering into any agreement therefor, the sum of the following (without duplication): (i) the value of the capital stock, warrants or options to acquire capital stock of Borrower or any Subsidiary to be transferred in connection therewith, (ii) the amount of any cash and fair market value of other property (excluding property described in clause (i) and the unpaid principal amount of any debt instrument) given as consideration, (iii) the amount (determined by using the face amount or the amount payable at maturity, whichever is greater) of any Debt incurred, assumed or acquired by the Borrower or any Subsidiary in connection with such Acquisition, (iv) all additional purchase price amounts in the form of earnouts and other contingent obligations that should be recorded on the financial statements of the Borrower and its Subsidiaries in accordance with GAAP, (v) all amounts paid in respect of covenants not to compete, consulting agreements that should be recorded on financial statements of the Borrower and its Subsidiaries in accordance with GAAP, and other affiliated contracts in connection with such Acquisition, (vi) the aggregate fair market value of all other consideration given by the Borrower or any Subsidiary in connection with such Acquisition, and (vii) out of pocket transaction costs for the services and expenses of attorneys, accountants and other consultants incurred in effecting such transaction, and other similar transaction costs so incurred. For purposes of determining the Cost of Acquisition for any transaction, (A) the capital stock of the Borrower shall be valued (I) in the case of capital stock that is then designated as a national market system security by the National Association of Securities Dealers, Inc. (“NASDAQ”) or is listed on a national securities exchange, the average of the last reported bid and ask quotations or the last prices reported thereon, and (II) with respect to any other shares of capital stock, as determined by the Board of Directors of the Borrower and, if requested by the Agent, determined to be a reasonable valuation by the independent public accountants referred to in Section 5.01(a), (B) the capital stock of any Subsidiary shall be valued as determined by the Board of Directors of such Subsidiary and, if requested by the Agent, determined to be a reasonable valuation by the independent public accountants referred to in Section 5.01(a), and (C) with respect to any Acquisition accomplished pursuant to the exercise of options or warrants or the conversion of securities, the Cost of Acquisition shall include both the cost of acquiring such option, warrant or convertible security as well as the cost of exercise or conversion.

“Current Debt” means the aggregate principal amount of Debt which would in accordance with GAAP, be classified as current debt.

“Current Maturities of Long Term Debt” means all payments in respect of Long Term Debt (excluding any such amounts included within Current Debt) that are required to be made within one year from the date of determination, whether or not the Obligation to make such payments would constitute a current liability of the obligor under GAAP.

“Debt” of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee under capital leases, (v) all obligations of such Person to reimburse any bank or other Person in respect of amounts payable under a banker’s acceptance, (vi) all Redeemable Preferred Stock of such Person (in the event such Person is a corporation), (vii) all obligations (absolute or contingent) of such Person to reimburse any bank or other Person in respect of amounts which are available to be drawn or have been drawn under a letter of credit or similar instrument, (viii) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person, (ix) all Debt of others Guaranteed by such Person, (x) all obligations of such Person with respect to interest rate protection agreements, foreign currency exchange agreements or other hedging agreements (valued as the termination value thereof computed in accordance with a method approved by

the International Swap Dealers Association and agreed to by such Person in the applicable hedging agreement, if any); and (xi) the principal portion of all obligations of such Person under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease under GAAP.

“Default” means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived in writing, become an Event of Default.

“Default Rate” means, with respect to the Loan or any Swing Line Advance, on any day, the sum of 2% plus the then highest interest rate (including the Applicable Margin) which may be applicable to the Loan or any Swing Line Advance hereunder (irrespective of whether any such type of Loan is actually outstanding hereunder).

“Defaulted Contingent BFD Liability” means: (1) a default, event of default or failure to perform any covenant or obligation has occurred and continues beyond any applicable cure period under: (a) any indebtedness, liability or obligation with respect to which the Borrower or any Consolidated Subsidiary has executed a guaranty creating a Contingent BFD Liability; or (b) an Assigned BFD Lease; or (2) the Borrower or any Consolidated Subsidiary has made a payment or performed an obligation under: (a) the guaranty provided by such Person in connection with any such Contingent BFD Liability; or (b) an Assigned BFD Lease (unless such payment was made in the ordinary course of business and was immediately reimbursed by the assignee or subtenant of the Assigned BFD Lease).

“Depreciation and Amortization” means for any period an amount equal to the sum of all depreciation and amortization expenses of the Borrower and its Consolidated Subsidiaries for such period, as determined in accordance with GAAP.

“Dividends” means for any period the sum of all dividends paid or declared during such period in respect of any Capital Stock and Redeemable Preferred Stock (other than dividends paid or payable in the form of additional Capital Stock).

“Dollars” or “\$” means dollars in lawful currency of the United States of America.

“Domestic Business Day” means any day except a Saturday, Sunday or other day on which commercial banks in North Carolina are authorized or required by law to close.

“Domestic Subsidiary” means any Subsidiary which is organized under the laws of any state or territory of the United States of America.

“Eligible Accounts” means those Receivables of the Borrower and the Eligible Guarantors included in the Accounts Receivable Collateral, each of which meets the following requirements: (i) such Receivable arose in the ordinary course of such Borrower’s or Eligible Guarantor’s business; (ii) the right to payment is actually owing to a Borrower or Eligible Guarantor by such Borrower’s or Eligible Guarantor’s Account Debtors and has been fully earned by completed performance and, if goods are involved, the goods have been shipped by such Borrower or Eligible Guarantor, as the case may be; (iii) the Receivable includes only that portion thereof not subject to any offset, defense, counterclaim, credit, allowance or adjustment; (iv) such Borrower’s or Eligible Guarantor’s,

as the case may be, title to such Receivable is absolute and is subject to no prior assignment, claim, lien or security interest; (v) the full amount reflected on such Borrower's or Eligible Guarantor's, as the case may be, books and on any invoice or statement delivered to the Agent related to such Receivable is owing to such Borrower or Eligible Guarantor, as the case may be, and no partial payment has been made thereon; (vi) (1) such Receivable is due and payable not more than 60 days from the original invoice date; (2) no more than 60 days have elapsed from the due date; and (3) the Receivable is otherwise consistent with the terms offered by the Borrower and the Eligible Guarantors to their respective customers on the Closing Date; provided, however, this subitem (vi) shall not exclude a Receivable from constituting an Eligible Account if such Receivable (an "Opening Order Receivable") is existing on the Closing Date and: (1) the Receivable represents the Account Debtor's initial purchase of inventory for a new retail store; (2) the Receivable is payable in equal monthly installments, and in full within 15 months from the invoice date; (3) no such monthly installment applicable to such Receivable is more than 1 day past due; (4) the amount of such Receivable is less than \$600,000; (5) the aggregate amount of all Opening Order Receivables included within the total Eligible Accounts does not exceed \$4,000,000 (but only Opening Order Receivables in excess of such amount shall be excluded); and (6) each of the other requirements of an Eligible Account is satisfied; (vii) such Receivable did not arise out of a contract or purchase order containing provisions prohibiting assignment thereof or the creation of a security interest therein, and such Borrower or Eligible Guarantor, as the case may be, has received no note, trade acceptance, draft or other instrument with respect to such Receivable or in payment thereof; (viii) such Borrower or Eligible Guarantor, as the case may be, has received no notice of the death of the Account Debtor or of the dissolution, termination of existence, insolvency, bankruptcy, appointment of receiver for any part of the property of, or assignment for the benefit of creditors made by, the Account Debtor; (ix) such Receivable is not payable by an Account Debtor affiliated with any Borrower or any Guarantor or with any shareholder, director, or officer of a Borrower or Guarantor, as determined by the Agent in its sole discretion (for purposes of clarification and not in limitation of the foregoing, Receivables payable by LRG Furniture, LLC shall not constitute Eligible Accounts as a result of this subitem (ix)); (x) such Receivable is not payable by any Account Debtor located outside the United States, unless such Receivable is payable in the full amount of the face value of such Receivable in United States dollars and is supported by an irrevocable letter of credit in form and substance acceptable to the Agent, in its sole discretion, and issued by a bank satisfactory to the Agent, in its sole discretion (and, if requested by the Agent, such letter of credit or the proceeds thereof, as the Agent in its sole discretion, shall require, have been assigned to the Agent); (xi) such Receivable is not payable by the United States of America or any political subdivision or agency thereof, unless the Agent, Banks, the Borrower and the Eligible Guarantors have complied with the Assignment of Claims Act with respect to such Receivable (including, without limitation, the execution and delivery of a notice of assignment); (xii) the Account Debtor for such Receivable is not located in the State of New Jersey unless the Borrower or Eligible Guarantors, as the case may be, have filed a Notice of Business Activities Report with the New Jersey Division of Taxation for the then current year; (xiii) such Receivable is not payable by any Account Debtor having 50% or more in face value of its then existing accounts with the Borrower or Eligible Guarantors ineligible hereunder; (xiv) such Receivable is not payable by any Account Debtor whose total accounts, in face amount, with the Borrower and Eligible Guarantors exceed 15% or more of the total aggregate amount of the Eligible Receivables, but only to the extent of such excess; and (xv) the Receivable has not otherwise been excluded by the Agent, which it reserves the right to do in its sole discretion. No presumption shall exist that a Receivable once classified by the Agent as an "Eligible Receivable" shall continue to be so classified. In no event shall (1) an Opening Order Receivable created or arising after the Closing Date be included within the Eligible Accounts; and (2) a Receivable be included within the Eligible Accounts if such Receivable is not in accordance with the policy of the Borrower and Eligible Guarantors in existence on the Closing Date as to the extension of 30, 45 and 60 day terms to specified types of customers unless any such change to such policy is approved in writing by the Required Banks.

“Eligible Guarantor” means Bassett Furniture Industries of North Carolina, Inc. and The E.B. Malone Corporation.

“Eligible Inventory” means that portion of the Inventory Collateral consisting of raw material or finished goods (excluding any and all work in process) in the possession and control of a Borrower or an Eligible Guarantor which meets the following requirements: (i) such Inventory Collateral is in good and saleable condition, is not obsolete and is subject to internal control and management procedures conducted by a Borrower or an Eligible Guarantor, as the case may be, and satisfactory to the Agent in its sole discretion; (ii) such Inventory Collateral meets all standards imposed by any governmental agency, or department or division thereof, having regulatory authority over such Inventory Collateral, its use and/or sale; (iii) such Inventory Collateral has not been consigned to any Person; (iv) such Inventory Collateral is subject to the Agent’s perfected security interest and to no other liens or security interests and is located at the Collateral Locations; (v) such Inventory Collateral does not bear, incorporate or is otherwise subject to any trademark, patent or copyright which is not owned by the Borrower or Eligible Guarantor, unless such trademark, patent or copyright is licensed to the Borrower or Eligible Guarantor on terms and conditions satisfactory to the Agent; and (vi) no warehouse receipt has been issued with respect to such Inventory Collateral unless the warehouseman issuing such warehouse receipt is satisfactory to the Agent in its sole discretion, the Agent has received and reviewed such warehouse receipt, and such warehouse receipt has been transferred or assigned to the Agent in a manner satisfactory to the Agent. No presumption shall exist that Inventory Collateral once classified by the Agent as “Eligible Inventory” shall continue to be so classified.

“Eligible Investment Securities” shall mean: (1) marketable investment securities publicly traded on a national securities exchange and described on Schedule 4.22-A; and (2) debt instruments described in Sections 5.13(i) through (iv) inclusive.

“Environmental Authority” means any foreign, federal, state, local or regional government that exercises any form of jurisdiction or authority under any Environmental Requirement.

“Environmental Authorizations” means all licenses, permits, orders, approvals, notices, registrations or other legal prerequisites for conducting the business of a Loan Party or any Subsidiary of a Loan Party required by any Environmental Requirement.

“Environmental Judgments and Orders” means all judgments, decrees or orders arising from or in any way associated with any Environmental Requirements, whether or not entered upon consent or written agreements with an Environmental Authority or other entity arising from or in any way associated with any Environmental Requirement, whether or not incorporated in a judgment, decree or order.

“Environmental Laws” means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes into the environment, including, without limitation, ambient air, surface water, groundwater or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the clean-up or other remediation thereof.

“Environmental Liabilities” means any liabilities, whether accrued, contingent or otherwise, arising from and in any way associated with any Environmental Requirements.

“Environmental Notices” means notice from any Environmental Authority or by any other person or entity, of possible or alleged noncompliance with or liability under any Environmental Requirement, including without limitation any complaints, citations, demands or requests from any Environmental Authority or from any other person or entity for correction of any violation of any Environmental Requirement or any investigations concerning any violation of any Environmental Requirement.

“Environmental Proceedings” means any judicial or administrative proceedings arising from or in any way associated with any Environmental Requirement.

“Environmental Releases” means releases as defined in CERCLA or under any applicable state or local environmental law or regulation.

“Environmental Requirements” means any legal requirement relating to health, safety or the environment and applicable to a Loan Party, any Subsidiary of a Loan Party or the Properties, including but not limited to any such requirement under CERCLA or similar state legislation and all federal, state and local laws, ordinances, regulations, orders, writs, decrees and common law.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor law. Any reference to any provision of ERISA shall also be deemed to be a reference to any successor provision or provisions thereof.

“Euro-Dollar Business Day” means any Domestic Business Day on which dealings in Dollar deposits are carried out in the London interbank market.

“Euro-Dollar Loan” means the Loan during Interest Periods when the Loan bears or is to bear interest at a rate based upon the London Interbank Offered Rate.

“Euro-Dollar Reserve Percentage” has the meaning set forth in Section 2.06.

“Event of Default” has the meaning set forth in Section 6.01.

“Executive Offices” shall mean with respect to a Borrower or an Eligible Guarantor, the address and location corresponding to such Borrower’s or Eligible Guarantor’s name set forth on Schedule 5.25 - Collateral Locations under the heading “Executive Offices.”

“Federal Funds Rate” means, for any day, the rate per annum (rounded upward, if necessary, to the next higher 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate charged to BB&T on such day on such transactions as determined by the Agent.

“Financing” shall mean (i) any transaction or series of transactions for the incurrence by a Loan Party of any Debt or for the establishment of a commitment to make advances which would constitute Debt of a Loan Party, which Debt is not by its terms subordinate and junior to other Debt of a Loan Party, (ii) an obligation incurred in a transaction or series of transactions in which assets of a Loan Party are sold and leased back, or (iii) a sale of accounts or other receivables or any interest therein, other than a sale or transfer of accounts or receivables attendant to a sale permitted hereunder of an operating division.

“Fiscal Month” means any fiscal month of the Borrower.

“Fiscal Quarter” means any fiscal quarter of the Borrower.

“Fiscal Year” means any fiscal year of the Borrower.

“Foreign Subsidiary” means any Subsidiary which is not a Domestic Subsidiary.

“GAAP” means generally accepted accounting principles applied on a basis consistent with those which, in accordance with Section 1.02, are to be used in making the calculations for purposes of determining compliance with the terms of this Agreement.

“Guarantee” by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to secure, purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to provide collateral security, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Guaranteed BFD Leases” means any and all leases of “BFD Stores” with respect to which the Borrower or any of its Consolidated Subsidiaries: (i) have Guaranteed the indebtedness, liabilities or obligations of any Person (including, without limitation, a Consolidated Subsidiary of the Borrower) as tenant or lessee thereunder; and/or (ii) are primarily liable under such lease as a tenant or lessee.

“Guaranteed Obligations” means any and all liabilities, indebtedness and obligations of any and every kind and nature, heretofore, now or hereafter owing, arising, due or payable from the Borrower to the Banks (including, without limitation, the Swing Line Lender and the Licensee Lender), the Issuing Banks, the Agent or any of them, arising under or evidenced by this Agreement, the Notes, the Letter of Credit Agreements, the Licensee Loan Guaranties, the Collateral Documents or any other Loan Document.

“Guarantors” shall mean collectively: (a) the Initial Guarantors; and (b) all Material Domestic Subsidiaries acquired, formed or otherwise in existence after the Closing Date.

“Hazardous Materials” includes, without limitation, (a) solid or hazardous waste, as defined in the Resource Conservation and Recovery Act of 1980, 42 U.S.C. §6901 et seq. and its

implementing regulations and amendments, or in any applicable state or local law or regulation, (b) any “hazardous substance”, “pollutant” or “contaminant”, as defined in CERCLA, or in any applicable state or local law or regulation, (c) gasoline, or any other petroleum product or by-product, including crude oil or any fraction thereof, (d) toxic substances, as defined in the Toxic Substances Control Act of 1976, or in any applicable state or local law or regulation and (e) insecticides, fungicides, or rodenticides, as defined in the Federal Insecticide, Fungicide, and Rodenticide Act of 1975, or in any applicable state or local law or regulation, as each such Act, statute or regulation may be amended from time to time.

“Hedge Agreement” means that certain ISDA Master Agreement dated as of August 6, 2004, by and between the Borrower and the Hedge Bank, together with all schedules thereto, as amended from time to time, and all confirmations entered into, as amended, from time to time.

“Hedge Bank” means Branch Banking and Trust Company, in its capacity as a party to the Hedge Agreement.

“IHFC” means International Home Furnishings Center Inc., a North Carolina corporation.

“Initial Guarantors” shall mean collectively (i) Bassett Furniture Industries of North Carolina, Inc., a North Carolina corporation, (ii) The E.B. Malone Corporation, a Delaware corporation, (iii) Bassett Direct Stores, Inc., a Virginia corporation, (iv) Bassett Direct NC, LLC, a Virginia limited liability company, and (v) Bassett Direct SC, LLC, a Virginia limited liability company.

“Interest Payment Date” shall mean the first day of each month.

“Interest Period” means a calendar month; provided that the last Interest Period under this Agreement shall end on the Termination Date.

“Inventory Collateral” shall mean all inventory of the Borrower and Guarantors, or in which the Borrower or Guarantor has rights, whether now owned or hereafter acquired, wherever located, including, without limitation, all goods of the Borrower and Guarantors held for sale or lease or furnished or to be furnished under contracts of service, all goods held for display or demonstration, goods on lease or consignment, returned and repossessed goods, all raw materials, work-in-process, finished goods and supplies used or consumed in the business of the Borrower or any Guarantor, together with all documents, documents of title, dock warrants, dock receipts, warehouse receipts, intellectual property, bills of lading or orders for the delivery of all, or any portion, of the foregoing.

“Investment” means any investment in any Person, whether by means of purchase or acquisition of obligations or securities of such Person, capital contribution to such Person, loan or advance to such Person, making of a time deposit with such Person, Guarantee or assumption of any obligation of such Person or otherwise.

“Issuing Bank” shall mean Branch Banking and Trust Company and its successors and assigns.

“Lending Office” means, as to each Bank, its office located at its address set forth on the signature pages hereof (or identified on the signature pages hereof as its Lending Office) or such other office as such Bank may hereafter designate as its Lending Office by notice to the Borrower and the Agent.

“Letter of Credit” means the letters of credit issued by an Issuing Bank pursuant to Section 2.03(a) and “Letter of Credit” means any one of such Letters of Credit, as any of such letters of credit may be extended, renewed, replaced or amended from time to time.

“Letter of Credit Advance” means an advance made by an Issuing Bank pursuant to Section 2.03(c).

“Letter of Credit Agreement” means any agreement entered into by the Borrower and an Issuing Bank pursuant to which a Letter of Credit is issued, as amended, modified or restated from time to time.

“Letter of Credit Commitment” means, with respect to each Bank, (i) the amount designated as the Letter of Credit Commitment set forth opposite the name of such Bank on the signature pages hereof, or (ii) as to any Bank which enters into an Assignment and Acceptance (whether as transferor Bank or as Assignee thereunder), the amount of such Bank’s Letter of Credit Commitment after giving effect to such Assignment and Acceptance, in each case as such amount may be reduced from time to time pursuant to Sections 2.08 and 2.09.

“Licensee Borrower” means a person that operates an existing or future retail furniture store under the “Bassett Furniture Direct” program of the Borrower or the “@ Home with Bassett” program of the Borrower, as such programs are in effect on the Closing Date.

“Licensee Lender” means Branch Banking and Trust Company, its successors and assigns.

“Licensee Loan” shall mean a loan made by the Licensee Lender pursuant to Section 2.16 hereof.

“Licensee Loan Guaranty” means the Guaranty Agreement executed by the Borrower substantially in the form of Exhibit O hereto, evidencing the obligation of the Borrower to guarantee the Licensee Loan referenced therein, together with all amendments, consolidations, modifications, renewals and supplements thereto. “Licensee Loan Guarantees” means collectively each Licensee Loan Guaranty executed by the Borrower and delivered to the Licensee Lender.

“Licensee Loan Documents” shall mean a loan agreement, if any, pursuant to which a Licensee Loan is made by the Licensee Lender, a promissory note and any and all other documents evidencing, relating to or securing a Licensee Loan and any other document or instrument delivered from time to time in connection with the Licensee Loan, as such documents and instruments may be amended or supplemented from time to time.

“Lien” means, with respect to any asset, any mortgage, deed to secure debt, deed of trust, lien, pledge, charge, security interest, security title, preferential arrangement which has the practical effect of constituting a security interest or encumbrance, servitude or encumbrance of any kind in respect of such asset to secure or assure payment of a Debt or a Guarantee, whether by consensual agreement or by operation of statute or other law, or by any agreement, contingent or otherwise, to provide any of the foregoing. For the purposes of this Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

“LIFO Reserve” means, at any time, the LIFO reserve of the Borrower and its Consolidated Subsidiaries, as set forth on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries prepared in accordance with GAAP.

"Liquidity Borrowing Base" shall mean, based on the most recent Liquidity Borrowing Base Certification Report which as of the date of a determination has been received by the Agent, the sum of: (1) an amount equal to seventy-five percent (75%) (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the fair market value of Eligible Investment Securities, and (2) an amount equal to seventy-five percent (75%) (or such lesser percentage as shall be agreed upon by the Agent and Borrower from time to time) of the fair market value (determined in a manner consistent with the practices of the Bassett Asset Fund on November 27, 1999) of the Borrower's ownership interest in the cash and investments owned by the Bassett Asset Fund.

"Liquidity Borrowing Base Certification Report" shall mean a report in the form attached hereto as Exhibit L, and otherwise satisfactory to the Agent, certified by the chief financial officer or other authorized officer of the Borrower and the Guarantors.

"Loan" means the aggregate outstanding Advances made by the Banks to the Borrower under this Agreement. The Loan (excluding Swing Line Advances) shall at all times be a Euro-Dollar Loan, unless such Loan is to be a Prime Rate Loan pursuant to Article VIII herein.

"Loan Documents" means this Agreement, the Notes, the Licensee Loan Documents, the Licensee Loan Guaranty, the Collateral Documents, the Letter of Credit Agreements, the Letters of Credit, any other document evidencing, relating to or securing the Loan, the Swing Line Advances or the Letters of Credit, and any other document or instrument delivered from time to time in connection with this Agreement, the Notes, the Letter of Credit Agreements, the Swing Line Advances, the Licensee Loan Documents, the Licensee Loan Guaranty, the Letters of Credit, the Collateral Documents or the Loan, as such documents and instruments may be amended or supplemented from time to time; provided, however, in connection with Articles IV and V of this Agreement, the term "Loan Documents" shall not include the Licensee Loan Documents executed by the Licensee Borrower or any Person other than the Borrower or any Guarantor.

"Loan Parties" means collectively the Borrower and each Guarantor that is now or hereafter a party to any of the Loan Documents.

"London Interbank Offered Rate" has the meaning set forth in Section 2.06(c).

"Long Term Debt" means the aggregate principal amount of Debt for Money Borrowed which would in accordance with GAAP, be classified as long term debt.

"Margin Stock" means "margin stock" as defined in Regulations T, V or X of the Board of Governors of the Federal Reserve System, as in effect from time to time, together with all official rulings and interpretations issued thereunder.

"Marketable Investments" mean those Investments of the Loan Parties which, without duplication, (i) are permitted by the provisions of Section 5.13(i), (ii), (iii), (iv) or (vii) and are liquid – that is easily marketable and convertible to cash in the reasonable judgment of the Agent, or (ii) are cash.

"Material Adverse Effect" means, with respect to any event, act, condition or occurrence of whatever nature (including any adverse determination in any litigation, arbitration, or governmental investigation or proceeding), whether singly or in conjunction with any other related event or events, act

or acts, condition or conditions, occurrence or occurrences, a material adverse change in, or a material adverse effect upon, any of (a) the financial condition, operations, business, properties or prospects of the Borrower and its Consolidated Subsidiaries, taken as a whole, (b) the rights and remedies of the Agent or the Banks under the Loan Documents, or the ability of the Borrower or any other Loan Party to perform its obligations under the Loan Documents to which it is a party, as applicable, or (c) the legality, validity or enforceability of any Loan Document.

“Material Subsidiary” means collectively each Domestic Subsidiary that is a member of the Material Subsidiary Group. As used herein, “Material Subsidiary Group” as at any date means one or more Domestic Subsidiaries (determined in accordance with this definition) which account for (or in the case of a recently formed or acquired Domestic Subsidiary would so account for on a pro forma historical basis), when combined with the Borrower, at least (A) 90% of Consolidated Total Assets as measured as at the end of the then most recently ended Fiscal Year or (B) 90% of Consolidated Net Income (before taxes) for either of the two most recently ended Fiscal Years. A Domestic Subsidiary shall be a “Material Subsidiary” if such Domestic Subsidiary is included in any of the following groups: (1) the Domestic Subsidiaries (determined in accordance with the terms of the following sentence) accounting for the Consolidated Total Assets measured under part (A) of the preceding sentence, but not the Consolidated Net Income measured under part (B) of the preceding sentence; or (2) the Domestic Subsidiaries (determined in accordance with the terms of the following sentence) accounting for the Consolidated Net Income measured under part (B) of the preceding sentence, but not the Consolidated Total Assets measured under part (A) of the preceding sentence; or (3) the Domestic Subsidiaries (determined in accordance with the terms of the following sentence) accounting for the Consolidated Net Income measured under part (B) of the preceding sentence and the Consolidated Total Assets measured under part (A) of the preceding sentence. The determination of the Domestic Subsidiaries comprising the Material Subsidiary Group as of any date shall be made on the basis of a group (selected by the Borrower) consisting of the smallest number of Domestic Subsidiaries necessary to satisfy groups (1), (2) or (3), as the case may be, above.

“Multiemployer Plan” shall have the meaning set forth in Section 4001(a)(3) of ERISA.

“Net Proceeds of Capital Stock/Conversion of Debt” means any and all proceeds (whether cash or non-cash) or other consideration received by the Borrower or a Consolidated Subsidiary in respect of the issuance of Capital Stock (including, without limitation, the aggregate amount of any and all Debt converted into Capital Stock), after deducting therefrom all reasonable and customary costs and expenses incurred by the Borrower or such Consolidated Subsidiary directly in connection with the issuance of such Capital Stock.

“Net Income” means, as applied to any Person for any period, the aggregate amount of net income of such Person, after taxes, for such period, as determined in accordance with GAAP.

“Non-Qualified Investments” means: (1) Investments of any Loan Party or Subsidiary of any Loan Party existing on August 25, 2007 and identified on Schedule 4.22-A as a Non-Qualified Investment; (2) Investments by any Loan Party or Subsidiary of any Loan Party permitted by Section 5.13(viii); (3) loans or advances made by a Loan Party or Subsidiary of a Loan Party to any Person permitted by Section 5.12(v); and (4) all obligations and indebtedness of every kind at any time owing by an Affiliate of any Loan Party or Subsidiary of any Loan Party to any Loan Party or Subsidiary of any Loan Party and including (without limitation) all accounts and accounts receivable provided that subitem (4) of this definition of Non-Qualified Investments shall not include an account or account receivable owing by an Affiliate of any Loan Party or Subsidiary of any Loan Party arising in the ordinary course of business which is less than sixty (60) days past due and less than one hundred twenty (120) days have elapsed since the invoice date of such account or account receivable.

“Notes” means the Swing Line Note and the promissory notes of the Borrower, substantially in the form of Exhibit A hereto, evidencing the obligation of the Borrower to repay the Advances, together with all amendments, consolidations, modifications, renewals and supplements thereto and “Note” means any one of such Notes.

“Notice of Borrowing” has the meaning set forth in Section 2.02.

“Obligations” means the collective reference to all indebtedness, obligations and liabilities to the Agent, the Issuing Banks, the Licensee Lender, the Swing Line Lender and the Banks, existing on the date of this Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, of the Loan Parties under this Agreement, the Letter of Credit Agreement, the Licensee Loan Guarantees or any other Loan Document.

“Officer’s Certificate” has the meaning set forth in Section 3.01(f).

“Operating Profits” means, as applied to any Person for any period, the operating income of such Person for such period, as determined in accordance with GAAP.

“Original Credit Agreement” means that certain Credit Agreement, dated as of October 25, 2000, between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as modified by that certain First Amendment to Credit Agreement, dated October 5, 2001, as amended and restated by that certain Amended and Restated Credit Agreement between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as amended and restated by that certain Second Amended and Restated Credit Agreement between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as amended by that certain First Amendment to Second Amended and Restated Credit Agreement dated November 21, 2005. This Agreement amends, restates and replaces the Original Credit Agreement.

“Participant” has the meaning set forth in Section 9.07(b).

“PBG” means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

“Person” means an individual, a corporation, a limited liability company, a partnership (including without limitation, a joint venture), an unincorporated association, a trust or any other entity or organization, including, but not limited to, a government or political subdivision or an agency or instrumentality thereof.

“Plan” means at any time an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either (i) maintained by a member of the Controlled Group for employees of any member of the Controlled Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding 5 plan years made contributions.

“Pledge Agreement” means that certain Pledge Agreement, executed by the Pledgors for the benefit of the Agent, as agent for the Secured Parties, in accordance with Section 5.29.

“Pledgors” means the pledgor(s) under the Pledge Agreement, either collectively or individually, as the context shall require.

“Prime Rate” refers to that interest rate so denominated and set by BB&T from time to time as an interest rate basis for borrowings. The Prime Rate is but one of several interest rate bases used by BB&T. BB&T lends at interest rates above and below the Prime Rate.

“Prime Rate Loan” means: (1) the Loan during Interest Periods when the Loan bears or is to bear interest at a rate based upon the Prime Rate; and (2) the Swing Line Advances.

“Properties” means all real property owned, leased or otherwise used or occupied by a Loan Party or any Subsidiary of a Loan Party, wherever located.

“Pro Rata Share” of any amount means, with respect to any Bank at any time, the product of such amount times a fraction the numerator of which is the amount of such Bank’s Commitment at such time and the denominator of which is the aggregate amount of the Commitments of all of the Banks at such time.

“Quarterly Payment Date” means March 31, June 30, September 30 and December 31 of each year.

“Receivables” shall have the meaning assigned to the term “Accounts” in the Security Agreement.

“Redeemable Preferred Stock” of any Person means any preferred stock issued by such Person which is at any time prior to the Termination Date either (i) mandatorily redeemable (by sinking fund or similar payments or otherwise) or (ii) redeemable at the option of the holder thereof.

“Required Banks” means at any time Banks having at least 66 2/3% of the aggregate amount of the Commitments or, if the Commitments are no longer in effect, Banks holding at least 66 2/3% of the aggregate outstanding principal amount of the Notes, Letter of Credit Advances, Licensee Loans and Undrawn Amounts.

“Restatement Effective Date” shall have the meaning provided in Section 3.01.

“Restricted Payment” means (i) any dividend or other distribution on any shares of the Borrower’s capital stock (except dividends payable solely in shares of its capital stock) or (ii) any payment on account of the purchase, redemption, retirement or acquisition of (a) any shares of the Borrower’s capital stock (except shares acquired upon the conversion thereof into other shares of its capital stock) or (b) any option, warrant or other right to acquire shares of the Borrower’s capital stock.

“Secured Parties” shall have the meaning set forth in the Security Agreement.

“Security Agreement” means that certain Third Amended and Restated General Security Agreement dated of even date herewith, by and between the Borrower and Guarantors for the benefit of the Agent, as agent for the Secured Parties.

“Stockholders’ Equity” means, at any time, the shareholders’ equity of the Borrower and its Consolidated Subsidiaries, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries prepared in accordance with GAAP, but excluding any Redeemable Preferred Stock of the Borrower or any of its Consolidated Subsidiaries. Shareholders’ equity generally would include, but not be limited to (i) the par or stated value of all outstanding Capital Stock, (ii) capital surplus, (iii) retained earnings, and (iv) various deductions such as (A) purchases of treasury stock, (B) valuation allowances, (C) receivables due from an employee stock ownership plan, (D) employee stock ownership plan debt guarantees, and (E) translation adjustments for foreign currency transactions.

“Subsidiary” means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Borrower.

“Swing Line Advance” means an advance made by the Swing Line Lender pursuant to Section 2.15 hereof.

“Swing Line Lender” means Branch Banking and Trust Company, its successors and assigns.

“Swing Line Note” means the promissory note of the Borrower, substantially in the form of Exhibit M hereto, evidencing the obligation of the Borrower to repay the Swing Line Advance, together with all amendments, consolidations, modifications, renewals and supplements thereto.

“Taxes” has the meaning set forth in Section 2.12(c).

“Termination Date” means November 30, 2009.

“Test Assets” means as of any date, the sum of: (1) cash and cash equivalents of the Borrower and Consolidated Subsidiaries on such date in excess of \$5,000,000, plus (2) the Liquidity Borrowing Base.

“Test Debt” shall mean the sum of: (1) the aggregate outstanding principal amount of all Advances, Letter of Credit Advances, Swing Line Advances and Undrawn Amounts; plus (2) Adjusted Debt; plus (3) fifty percent of all Contingent BFD Liabilities (including, without limitation, Licensee Loans).

“Third Parties” means all lessees, sublessees, licensees and other users of the Properties, excluding those users of the Properties in the ordinary course of the Borrower’s business and on a temporary basis.

“Total Unused Commitments” means at any date, an amount equal to: (A) the aggregate amount of the Commitments of all of the Banks at such time, less (B) the sum of: (i) the aggregate outstanding principal amount of the Advances of all of the Banks at such time; (ii) the aggregate outstanding principal amount of all Letter of Credit Advances; (iii) the aggregate outstanding principal amount of all Swing Line Advances; (iv) the aggregate outstanding principal amount of all Licensee Loans; and (v) the aggregate Undrawn Amounts.

“Transferee” has the meaning set forth in Section 9.07(d).

“UCC Recording Offices” means those certain locations and recording offices set forth on Schedule 5.25 - Collateral Locations, under the heading “UCC Recording Offices”.

“Undrawn Amount” means, with respect to any Letter of Credit, at any time, the maximum amount available to be drawn under such Letter of Credit at such time and “Undrawn Amounts” means, at any time, the sum of all Undrawn Amounts at such time.

“Unused Commitment” means at any date, with respect to any Bank, an amount equal to its Commitment less the sum of: (i) the aggregate outstanding principal amount of its Advances; (ii) such Bank’s Pro Rata Share of the aggregate outstanding principal amount of all Letter of Credit Advances; (iii) such Bank’s Pro Rata Share of the aggregate outstanding principal amount of all Swing Line Advances; (iv) such Bank’s Pro Rata Share of the Licensee Loans; and (v) such Bank’s Pro Rata Share of the Undrawn Amounts.

“Wholly Owned Subsidiary” means any Subsidiary all of the shares of capital stock or other ownership interests of which (except directors’ qualifying shares) are at the time directly or indirectly owned by the Borrower.

SECTION 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all terms of an accounting character used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the Borrower’s independent public accountants or otherwise required by a change in GAAP) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Banks, unless with respect to any such change concurred in by the Borrower’s independent public accountants or required by GAAP, in determining compliance with any of the provisions of this Agreement or any of the other Loan Documents: (i) the Borrower shall have objected to determining such compliance on such basis at the time of delivery of such financial statements, or (ii) the Required Banks shall so object in writing within 30 days after the delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 5.01 hereof, shall mean the financial statements referred to in Section 4.04).

SECTION 1.03. Use of Defined Terms. All terms defined in this Agreement shall have the same meanings when used in any of the other Loan Documents, unless otherwise defined therein or unless the context shall otherwise require.

SECTION 1.04. Terminology. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural and the plural shall include the singular. Titles of Articles and Sections in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement.

SECTION 1.05. References. Unless otherwise indicated, references in this Agreement to “Articles”, “Exhibits”, “Schedules”, and “Sections” are references to articles, exhibits, schedules and sections hereof.

ARTICLE II

THE CREDITS

SECTION 2.01. Commitments to Make Advances. Each Bank severally agrees, on the terms and conditions set forth herein, to make Advances to the Borrower from time to time before the Termination Date; provided that, immediately after each such Advance is made, the aggregate outstanding principal amount of Advances by such Bank together with such Bank’s Pro Rata Share of the aggregate outstanding principal amount of all Letter of Credit Advances, Licensee Loans, Swing Line Advances and Undrawn Amounts shall not exceed the amount of its Commitment, provided further that the aggregate principal amount of all Advances, together with the aggregate principal amount of all Letter of Credit Advances, Swing Line Advances, Licensee Loans and Undrawn Amounts, shall not exceed the lesser of: (a) the aggregate amount of the Commitments of all of the Banks at such time, and (b) the Borrowing Base. Except as otherwise provided in an ACL Agreement, each Borrowing under this Section shall be in an aggregate principal amount of \$1,000,000 or any larger multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the Unused Commitments less the amount of any outstanding Swing Line Advances) and shall be made from the several Banks ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section, repay or, to the extent permitted by Section 2.10, prepay Advances and reborrow under this Section at any time before the Termination Date.

SECTION 2.02. Method of Borrowing Advances. (a) Except as otherwise provided in an ACL Agreement and Section 2.15 in the case of Swing Line Advances, the Borrower shall give the Agent notice in the form attached hereto as Exhibit B (a “Notice of Borrowing”) prior to 11:00 A.M. (Winston-Salem, North Carolina time) on the Domestic Business Day of each Borrowing, specifying:

(i) the date of such Borrowing; and

(ii) the aggregate amount of such Borrowing.

(b) Except as provided in Section 2.02(d) of this Agreement, upon receipt of a Notice of Borrowing, the Agent shall promptly notify each Bank of the contents thereof and of such Bank’s ratable share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(c) Except as provided in Section 2.02(d) of this Agreement, not later than 1:00 P.M. (Winston-Salem, North Carolina time) on the date of each Borrowing, each Bank shall (except as provided in subsection (d) of this Section) make available its ratable share of such Borrowing, in Federal or other funds immediately available in Winston-Salem, North Carolina, to the Agent at its address referred to in or specified pursuant to Section 9.01. Unless the Agent determines that any applicable condition specified in Article III has not been satisfied, the Agent will make the funds so received from the Banks available to the Borrower at the Agent’s aforesaid address. Unless the Agent receives notice from a Bank, at the Agent’s address referred to in Section 9.01, no later than 4:00 P.M. (local time at such address) on the Domestic Business Day before the date of a Borrowing stating that such Bank will not make an Advance in connection with such Borrowing, the Agent shall be entitled to assume that such Bank will make an Advance in connection with such Borrowing and, in reliance on such assumption, the

Agent may (but shall not be obligated to) make available such Bank's ratable share of such Borrowing to the Borrower for the account of such Bank. If the Agent makes such Bank's ratable share available to the Borrower and such Bank does not in fact make its ratable share of such Borrowing available on such date, the Agent shall be entitled to recover such Bank's ratable share from such Bank or the Borrower (and for such purpose shall be entitled to charge such amount to any account of the Borrower maintained with the Agent), together with interest thereon for each day during the period from the date of such Borrowing until such sum shall be paid in full at a rate per annum equal to the rate set forth in Section 2.06 for each such day during such period, provided that any such payment by the Borrower of such Bank's ratable share and interest thereon shall be without prejudice to any rights that the Borrower may have against such Bank. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's Advance included in such Borrowing for purposes of this Agreement.

(d) At the Agent's option and to facilitate the efficient administration of this Agreement, the Agent shall be entitled to make settlements and adjustments on a weekly basis provided that: (1) all Borrowings, Advances and all payments of principal with respect to such Borrowings and Advances shall be shared by the Banks ratably in proportion to their Commitments and in accordance with this Agreement; and (2) all funds advanced by the Agent under this Agreement and all funds received by the Agent under this Agreement shall be made or received, as the case may be, by the Agent, as agent on behalf of the Banks and shall not constitute separate loans or advances made by the Agent. Unless the Agent receives notice from a Bank, at the Agent's address referred to in Section 9.01, no later than 4:00 P.M. (local time at such address) on the Domestic Business Day before the date of a Borrowing stating that such Bank will not make an Advance in connection with such Borrowing, the Agent may assume that each Bank will make an Advance in connection with each Borrowing and, in reliance on such assumption, the Agent may make available such Bank's ratable share of such Borrowing to the Borrower for the account of such Bank. No later than 11:00 A.M. (Winston-Salem, North Carolina time) on Friday of each week the Agent shall advise each Bank of its ratable share of the Borrowings and payments made or received by the Agent for the period ending on the immediately preceding Wednesday. No later than 2:00 P.M. (Winston-Salem, North Carolina time) on such Friday the Agent and Banks shall effect payments (and credits) so that all Borrowings, Advances and payments with respect to the Borrowings and Letters of Credit are shared by the Banks ratably; provided, however, at any time, upon the request of the Agent, each Bank shall, make its ratable share of any Borrowing available to the Agent on demand but in no event later than one Domestic Business Day following the Agent's demand; and (2) the Agent shall be entitled to recover such Bank's ratable share of each Borrowing from such Bank, together with interest thereon for each day during the period from the date of any such demand until such sum shall be paid in full at a rate per annum equal to the rate set forth in Section 2.06. Each Bank's obligation under this Section 2.02(d) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation: (i) any setoff, counterclaim, recoupment, defense or other right which such Bank or any other Person may have against the Agent requesting such adjustment or payment or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the termination of the Commitment; (iii) any adverse change in the condition (financial or otherwise) of the Borrower, any Guarantor or any other Person; (iv) any breach of this Agreement or any of the other Loan Documents by the Borrower, any Guarantor or any other Bank; or (v) any other circumstance, happening or event whatsoever whether or not similar to any of the foregoing.

SECTION 2.03 Letters of Credit.

(a) An Issuing Bank may, from time to time upon request of the Borrower, in its sole discretion issue Letters of Credit for the account of the Borrower, subject to satisfaction of the conditions referenced in Section 3.03.

(b) Each Letter of Credit shall be subject to the provisions of this Agreement and to the provisions set forth in the Letter of Credit Agreement executed by the Borrower in connection with the issuance of such Letter of Credit. The Borrower agrees to promptly perform and comply with the terms and conditions of each Letter of Credit Agreement.

(c) The payment by an Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement a Letter of Credit Advance in the amount of such draft. Upon written demand by an Issuing Bank, with a copy to the Agent, each Bank shall purchase from such Issuing Bank, and such Issuing Bank shall sell to each Bank, a participation interest in such Letter of Credit Advance equal to such Bank's Pro Rata Share of such Letter of Credit Advance as of the date of such purchase, by making available to the Agent for the account of such Issuing Bank, in Federal or other funds immediately available an amount equal to such Bank's Pro Rata Share of the outstanding principal amount of such Letter of Credit Advance. Promptly after receipt thereof, the Agent shall transfer such funds to such Issuing Bank. The Borrower hereby agrees to each such sale and purchase of participation interests in Letter of Credit Advances outstanding from time to time. Each Bank agrees to purchase its participation interest in an outstanding Letter of Credit Advance on (i) the Domestic Business Day on which demand therefor is made by an Issuing Bank, provided notice of such demand is given not later than 1:00 P.M. (Winston-Salem, North Carolina time) on such Domestic Business Day or (ii) the first Domestic Business Day next succeeding the date of such demand if notice of such demand is given after 1:00 P.M. (Winston-Salem, North Carolina time) on any Domestic Business Day. The Issuing Banks make no representation or warranty and assume no responsibility with respect to any sale and purchase of a participation interest in any Letter of Credit Advance. If and to the extent that any Bank shall not have so made the amount available to the Agent in connection with its purchase of a participation interest in any Letter of Credit Advance, such Bank agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by such Issuing Bank, until the date such amount is paid to the Agent, at the Federal Funds Rate for the account of such Issuing Bank.

(d) The obligation of each Bank to purchase a participation interest in any Letter of Credit Advance pursuant to Section 2.03(c) shall be unconditional and shall not be affected by the existence of any Default, the failure to satisfy any condition set forth in Section 3.1, 3.2 or 3.3 or the termination of the Commitments (whether by the Borrower pursuant to Section 2.8 or by the Agent pursuant to Section 6.1 or otherwise).

(e) The Issuing Banks shall furnish: (A) to the Agent and each Bank on the tenth Domestic Business Day of each April, July, October and January, a written report summarizing the issuance and expiration dates of Letters of Credit issued during the preceding calendar quarter; and (B) to the Agent and each Bank upon request a written report setting forth the aggregate Undrawn Amounts.

(f) The failure of any Bank to purchase a participation interest in any Letter of Credit Advance shall not relieve any other Bank of its obligation hereunder to purchase its participation interest in any Letter of Credit Advance on such date, but no Bank shall be responsible for the failure of any other Bank to so purchase a participation interest on such date.

(g) The Borrower shall pay to the Agent for the account of each Bank that has purchased a participation interest in a Letter of Credit Advance on the earlier of demand and the Termination Date the outstanding principal amount of such Letter of Credit Advance. The Agent will promptly distribute to each Bank its ratable share of any payment of principal of or interest on any Letter of Credit Advance received by the Agent; provided, however, that in the event that such payment received by the Agent is required to be returned, such Bank will return to the Agent any portion thereof previously distributed by the Agent to it.

(h) The Issuing Banks will notify the Borrower and the Agent promptly of the presentment for payment of any Letter of Credit (on the date of presentment, if possible, and otherwise on the next Domestic Business Day, it being agreed that such notice may be made by phone), together with notice of the date such payment shall be made, and the Agent promptly will notify the Banks of such matters.

SECTION 2.04. Notes. (a) The Advances of each Bank shall be evidenced by a single Note payable to the order of such Bank for the account of its Lending Office in an amount equal to the original principal amount of such Bank's Commitment.

(b) The Swing Line Advances made by the Swing Line Lender to the Borrower shall be evidenced by a single Swing Line Note payable to the order of the Swing Line Lender.

(c) Upon receipt of each Bank's Note pursuant to Section 3.01, the Agent shall deliver such Note to such Bank. Each Bank shall record, and prior to any transfer of its Note shall endorse on the schedule forming a part thereof appropriate notations to evidence, the date, amount and maturity of, and effective interest rate for, each Advance made by it, the date and amount of each payment of principal made by the Borrower with respect thereto and such schedule shall constitute rebuttable presumptive evidence of the principal amount owing and unpaid on such Bank's Note; provided that the failure of any Bank to make, or any error in making, any such recordation or endorsement shall not affect the obligation of the Borrower hereunder or under the Note or the ability of any Bank to assign its Note. Each Bank is hereby irrevocably authorized by the Borrower so to endorse its Note and to attach to and make a part of any Note a continuation of any such schedule as and when required.

SECTION 2.05. Maturity of Loans. Each Advance included in any Borrowing shall mature, and the principal amount thereof shall be due and payable, subject to Section 6.01, on the Termination Date.

SECTION 2.06. Interest Rates. (a) "Applicable Margin" shall mean 1.50%.

(b) During each Interest Period in which the Loan (excluding Swing Line Advances) is a Prime Rate Loan, such Prime Rate Loan shall bear interest on the outstanding principal amount thereof, for each day during the applicable Interest Period, at a rate per annum equal to the Prime Rate for such day plus the Applicable Margin for Euro-Dollar Loans. Any overdue principal of and, to the extent permitted by applicable law, overdue interest on any Prime Rate Loan shall bear interest, payable on demand, for each day until paid in full at a rate per annum equal to the Default Rate.

(c) During each Interest Period in which the Loan is a Euro-Dollar Loan, such Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of: (1) the Applicable Margin, plus (2) the applicable Adjusted Monthly Libor Index for such Interest Period. Any overdue principal of and, to the extent permitted by applicable law, overdue interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid in full at a rate per annum equal to the Default Rate.

The “Adjusted Monthly Libor Index” applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the next higher 1/100th of 1%) by dividing (i) the applicable London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

The “London Interbank Offered Rate” applicable to any Euro-Dollar Loan means for the Interest Period of such Euro-Dollar Loan the rate per annum determined on the basis of the rate for deposits in Dollars of amounts equal or comparable to the principal amount of such Euro-Dollar Loan offered for a term comparable to such Interest Period, which rate appears on the display designated as Page “3750” of the Telerate Service (or such other page as may replace page 3750 of that service or such other service or services as may be nominated by the British Banker’s Association for the purpose of displaying London Interbank Offered Rates for U.S. dollar deposits) determined as of 11:00 a.m. London, England time, on the first day of such Interest Period or on the immediately preceding Euro-Dollar Business Day if the first day of such Interest Period is not a Euro-Dollar Business Day.

“Euro-Dollar Reserve Percentage” means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in respect of “Eurocurrency liabilities” (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on such Euro-Dollar Loan is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to United States residents). The Adjusted Monthly Libor Index shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

(d) The Loan (excluding the Swing Line Advances) shall at all times be a Euro-Dollar Loan unless the Loan is to be a Prime Rate Loan pursuant to Article VIII herein. Interest shall be payable for each Interest Period on the Interest Payment Date immediately succeeding the last day of the Interest Period; provided that: (1) all accrued unpaid interest on the Loan shall be paid in full on the Termination Date; and (2) should the Commitment be terminated at any time prior to the Termination Date for any reason, any and all accrued unpaid interest shall be paid on the date of such termination.

(e) Each Letter of Credit Advance shall bear interest on the outstanding principal amount thereof, payable on demand, for each day from the date such Letter of Credit Advance is made until paid in full at a rate per annum equal to the Default Rate.

(f) The Agent shall determine each interest rate applicable to the Loan hereunder. The Agent shall give prompt notice to the Borrower and the Banks by telecopy of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

(g) After the occurrence and during the continuance of a Default, the principal amount of the Loans (and, to the extent permitted by applicable law, all accrued interest thereon) may, at the election of the Required Banks, bear interest at the Default Rate; provided, however, that automatically whether or not the Required Banks elect to do so, any overdue principal of and, to the extent permitted by law, overdue interest on the Loan shall bear interest payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

(h) Each Swing Line Advance shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the Prime Rate. Except as otherwise agreed upon by the Swing Line Lender and the Borrower, such interest shall be payable for each Interest Period on the Interest Payment Date immediately succeeding the last day of the Interest Period. Any overdue principal of and, to the extent permitted by applicable law, overdue interest on the Swing Line Advances may, at the election of the Swing Line Lender, bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

SECTION 2.07. Fees. (a) The Borrower shall pay to the Agent for the ratable account of each Bank a facility fee equal to the product of: (i) the aggregate of the daily average amounts of such Bank's Commitment, times (ii) a per annum percentage equal to 0.25%. Such facility fee shall accrue from and including the Closing Date to and including the Termination Date. Facility fees shall be payable quarterly in arrears on each Quarterly Payment Date and on the Termination Date; provided that should the Commitments be terminated at any time prior to the Termination Date for any reason, the entire accrued and unpaid facility fee shall be paid on the date of such termination.

(b) The Borrower shall pay to the Agent for the ratable account of each Bank, with respect to each Letter of Credit, a per annum letter of credit fee (the "Letter of Credit Fee") equal to the product of: (i) the aggregate average daily Undrawn Amounts, times (ii) a per annum percentage equal to the Applicable Margin for Letters of Credit (determined in accordance with Section 2.13 hereof). Such Letter of Credit Fees shall be payable in arrears for each Letter of Credit on each Quarterly Payment Date during the term of each respective Letter of Credit and on the termination thereof (whether at its stated expiry date or earlier). The "Applicable Margin" for Letters of Credit shall be as determined in Section 2.06(a).

(c) The Borrower shall pay to the Agent for the account of the applicable Issuing Bank a facing fee (the "Facing Fee") with respect to each Letter of Credit issued by such Issuing Bank equal to the greater of: (1) \$125.00, and (2) the product of: (i) the face amount of such letter of credit, times (ii) one-quarter (1/4th) of one percent (0.25%). Such Facing Fee shall be due and payable on such date as may be agreed upon by the applicable Issuing Bank and the Borrower. The Borrower shall pay to the applicable Issuing Bank, for its own account, transfer fees, drawing fees, modification fees, extension fees and such other fees and charges as may be provided for in any Letter of Credit Agreement or otherwise charged by the Issuing Bank. No Bank shall be entitled to any portion of the Facing Fees or any other fees payable by the Borrower to the Issuing Banks pursuant to this Section 2.07(c).

(d) The Borrower shall pay to the Agent, for the account and sole benefit of the Agent, such fees and other amounts at such times as set forth in the Agent's Letter Agreement.

SECTION 2.08. Optional Termination or Reduction of Commitments. The Borrower may, upon at least 3 Domestic Business Days' notice to the Agent, terminate at any time, or proportionately reduce from time to time by an aggregate amount of at least \$5,000,000 or any larger multiple of \$1,000,000, the Commitments; provided, however: (1) no such termination or reduction shall be in an amount greater than the Total Unused Commitments on the date of such termination or reduction; and (2) if any such reduction pursuant to this Section 2.08 shall result in the aggregate Commitments of all of the Banks to be reduced to an amount less than \$25,000,000, the Borrower shall be required to terminate the Commitments (including without limitation, the Letter of Credit Commitment) in their entirety. If the Commitments are terminated in their entirety, all accrued fees (as provided under Section 2.07) shall be payable on the effective date of such termination.

SECTION 2.09. Mandatory Reduction and Termination of Commitments. The Commitments shall terminate on the Termination Date and any Advances, Swing Line Advances and if demand had not been earlier made Letter of Credit Advances then outstanding (together with accrued interest thereon) shall be due and payable on such date.

SECTION 2.10. Optional Prepayments. (a) The Borrower may, subject to the terms of an applicable ACL Agreement, prepay the Loan in whole at any time, or from time to time in part in amounts aggregating at least \$1,000,000.00, or any larger multiple of \$500,000.00, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied first to repay or prepay Swing Line Advances outstanding on the date of such prepayment and then ratably to prepay ratably the Advances of the several Banks.

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such prepayment and such notice shall not thereafter be revocable by the Borrower.

SECTION 2.11. Mandatory Prepayments. (a) On each date on which the Commitments are reduced or terminated pursuant to Section 2.08 or Section 2.09, the Borrower shall repay or prepay such principal amount of the outstanding Advances and Swing Line Advances, if any (together with interest accrued thereon and any amounts due under Section 8.05(a)), as may be necessary so that after such payment the aggregate unpaid principal amount of the Advances, together with the aggregate principal amount of all Swing Line Advances, Letter of Credit Advances, Licensee Loans and Undrawn Amounts does not exceed the aggregate amount of the Commitments as then reduced. Each such payment or prepayment shall be applied to repay or prepay first to Swing Line Advances outstanding on the date of such prepayment and then, ratably to the Advances of the several Banks.

(b) In the event that: (1) the aggregate principal amount of all Advances, together with the aggregate principal amount of the Swing Line Advances, Licensee Loans, Letter of Credit Advances and Undrawn Amounts at any one time outstanding shall at any time exceed the Borrowing Base; or (2) the aggregate principal amount of all Advances, together with the aggregate principal amount of the Swing Line Advances, Licensee Loans, Letter of Credit Advances and Undrawn Amounts at any one time outstanding shall at any time exceed the aggregate amount of the Commitments of all of the Banks at such time, the Borrowers shall immediately repay so much of the Advances and Swing Line Advances as is necessary in order that: (1) the aggregate principal amount of the Advances thereafter outstanding, together with the aggregate principal amount of the Swing Line Advances, Licensee Loans, Letter of Credit Advances and Undrawn Amounts shall not exceed the Borrowing Base; and (2) the aggregate principal amount of the Advances thereafter outstanding, together with the aggregate principal amount of the Swing Line Advances, Licensee Loans, Letter of Credit Advances and Undrawn Amounts shall not exceed the aggregate amount of the Commitments of all of the Banks at such time.

SECTION 2.12. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loan and of fees hereunder, not later than 11:00 A.M. (Winston-Salem, North Carolina time) on the date when due, in Federal or other funds immediately available in Winston-Salem, North Carolina, to the Agent at its address referred to in Section 9.01. Subject to the terms of Section 2.02(d), the Agent will promptly distribute to each Bank its ratable share of each such payment received by the Agent for the account of the Banks; provided that payments of interest shall be distributed by the Agent within three Domestic Business Days of the date such payment is received by the Agent for the account of the Banks.

(b) Whenever any payment of principal of, or interest on, the Advances, Swing Line Advances or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(c) All payments of principal, interest and fees and all other amounts to be made by the Borrower pursuant to this Agreement with respect to any Advance, Swing Line Advance or fee relating thereto shall be paid without deduction for, and free from, any tax, imposts, levies, duties, deductions, or withholdings of any nature now or at anytime hereafter imposed by any governmental authority or by any taxing authority thereof or therein excluding in the case of each Bank, taxes imposed on or measured by its net income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Bank is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Bank's applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, imposts, levies, duties, deductions or withholdings of any nature being "Taxes"). In the event that the Borrower is required by applicable law to make any such withholding or deduction of Taxes with respect to any Advance, Swing Line Advance or fee or other amount, the Borrower shall pay such deduction or withholding to the applicable taxing authority, shall promptly furnish to any Bank in respect of which such deduction or withholding is made all receipts and other documents evidencing such payment and shall pay to such Bank additional amounts as may be necessary in order that the amount received by such Bank after the required withholding or other payment shall equal the amount such Bank would have received had no such withholding or other payment been made. If no withholding or deduction of Taxes are payable in respect of any Advance, Swing Line Advance or fee relating thereto, the Borrower shall furnish any Bank, at such Bank's request, a certificate from each applicable taxing authority or an opinion of counsel acceptable to such Bank, in either case stating that such payments are exempt from or not subject to withholding or deduction of Taxes. If the Borrower fails to provide such original or certified copy of a receipt evidencing payment of Taxes or certificate(s) or opinion of counsel of exemption, the Borrower hereby agrees to compensate such Bank for, and indemnify them with respect to, the tax consequences of the Borrower's failure to provide evidence of tax payments or tax exemption.

In the event any Bank receives a refund of any Taxes paid by the Borrower pursuant to this Section 2.12, it will pay to the Borrower the amount of such refund promptly upon receipt thereof; provided, however, if at any time thereafter it is required to return such refund, the Borrower shall promptly repay to it the amount of such refund.

Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 2.12 shall be applicable with respect to any Participant, Assignee or other Transferee, and any calculations required by such provisions (i) shall be made based upon the circumstances of such Participant, Assignee or other Transferee, and (ii) constitute a continuing agreement and shall survive the termination of this Agreement and the payment in full or cancellation of the Notes.

SECTION 2.13. Computation of Interest and Fees. Interest on the Loans shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day). Facility fees, letter of credit fees and any other fees (excluding Facing Fees) payable hereunder shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

SECTION 2.14. Collateral Reserve Account. In accordance with and as more fully set forth in the Security Agreement, the Borrower and each Guarantor shall: (1) establish and maintain a lockbox; and (2) upon the request of the Required Banks, establish and maintain with the Agent a Collateral Reserve Account.

SECTION 2.15. Swing Line Advances. (a) The Borrower may prior to the Termination Date, as set forth in this Section, request the Swing Line Lender to make, and the Swing Line Lender may in its sole and absolute discretion prior to the Termination Date make, Swing Line Advances to the Borrower, in an aggregate principal amount at any one time outstanding, not exceeding \$5,000,000 (the "Swing Line Cap"), provided that the aggregate principal amount of all Swing Line Advances, together with the aggregate principal amount of all outstanding Advances, Undrawn Amounts, Licensee Loans and Letter of Credit Advances, at any one time outstanding shall not exceed the aggregate amount of the Commitments of all of the Banks at such time.

(b) Except as may otherwise be agreed upon by the Swing Line Lender and the Borrower, when the Borrower wishes to request a Swing Line Advance, it shall give the Agent notice substantially in the form of Exhibit N hereto (a "Swing Line Advance Request") so as to be received no later than 11:00 A.M. (Winston-Salem, North Carolina time) on or before the date of the proposed Swing Line Advance proposed therein (or such other time and date as the Borrower and the Swing Line Lender may agree), specifying:

(i) the proposed date of such Swing Line Advance, which shall be a Domestic Business Day (the "Borrowing Date"); and

(ii) the aggregate amount of such Swing Line Advance, which shall be at least \$50,000 (or in larger multiples of \$10,000) but shall not cause the limits specified in Section 2.15(a) to be violated.

(c) The Swing Line Lender shall make the amount of such Swing Line Advance available to the Borrower on such date by depositing the same, in immediately available funds, in an account of the Borrower maintained with the Swing Line Lender.

(d) Subject to the limitations contained in this Agreement, the Borrower may borrow under this Section 2.15, prepay and reborrow under this Section 2.15 at any time before the Termination Date.

(e) At any time, upon the request of the Swing Line Lender, each Bank other than the Swing Line Lender shall, on the Domestic Business Day after such request is made, purchase a participating interest in Swing Line Advances in an amount equal to its ratable share (based upon its respective Commitment) of such Swing Line Advances. On such Domestic Business Day, each Bank will immediately transfer to the Swing Line Lender, in immediately available funds, the amount of its participation. Whenever, at any time after the Swing Line Lender has received from any such Bank its participating interest in a Swing Line Loan, the Agent receives any payment on account thereof, the Agent will distribute to such Bank its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Bank's participating interest was outstanding and funded); provided, however, that in the event that such payment received by the Agent is required to be returned, such Bank will return to the Agent any portion thereof previously distributed by the Agent to it. Each Bank's obligation to purchase such participating interests shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation: (i) any set-off, counterclaim, recoupment, defense or other right which such Bank or any other Person

may have against the Swing Line Lender requesting such purchase or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the termination of the Revolving Credit Commitments; (iii) any adverse change in the condition (financial or otherwise) of any Borrower, any Guarantor or any other Person; (iv) any breach of this Agreement by the Borrower, any Guarantor or any other Bank; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

(f) Notwithstanding anything contained in this Agreement to the contrary, the Swing Line facility contained in this Section 2.15 shall terminate immediately upon: (i) BB&T's removal or resignation as Agent; or (ii) termination of the Commitments (whether at maturity or otherwise).

SECTION 2.16 Licensee Loans.

(a) Each Licensee Loan shall be subject to the provisions of this Agreement and to the provisions set forth in the Licensee Loan Documents and the Licensee Loan Guaranty executed in connection with such Licensee Loan. The Borrower and Guarantors agree to promptly perform and comply with the terms and conditions of each Licensee Loan Guaranty Agreement, this Agreement and the other Loan Documents.

(b) The Licensee Lender may, from time to time upon request of the Borrower, in its sole discretion disburse a Licensee Loan, subject to satisfaction of the following conditions:

(i) the fact that, immediately before and after the disbursement of such Licensee Loan, no Default shall have occurred and be continuing hereunder;

(ii) the fact that the representations and warranties of the Loan Parties contained in Article IV of this Agreement shall be true, in all material respects, on and as of the date following disbursement of such Licensee Loan, except to the extent explicitly relating to a specified date;

(iii) the fact that, immediately after the disbursement of such Licensee Loan: (i) the sum of (A) the entire outstanding principal amount of the Advances, (B) the aggregate outstanding principal amount of the Letter of Credit Advances, (C) the aggregate outstanding principal amount of Swing Line Advances, (D) the aggregate Undrawn Amounts, and (E) the aggregate outstanding principal amount of the Licensee Loans, will not exceed the lesser of: (1) the aggregate amount of the Commitments of all of the Banks at such time; and (2) the Borrowing Base;

(iv) the fact that immediately after the disbursement of such Licensee Loan the aggregate outstanding principal amount of the Licensee Loans will not exceed \$20,000,000; and

(v) except as may otherwise be agreed upon by Borrower and Licensee Lender, each Licensee Loan shall be on the following terms and conditions: (1) the maturity date of the Licensee Loan shall be on or before the date thirty six months after the date of disbursement of such Licensee Loan; (2) the Licensee Loan shall bear interest at an annual rate equal to the Prime Rate; (3) the principal amount of the Licensee Loan shall not exceed: (i) \$400,000 in the case of a Licensee Loan for a BFD Store; or (ii) \$150,000 in the case of a Licensee Loan for an "@ Home Store"; (4) the Licensee Loan shall amortize as follows: (i) in the case of a Licensee Loan for a BFD Store, the Licensee Loan shall provide for six months interest only followed by a thirty month amortization of principal and interest subject to the limitations set forth in (1)

above; and (ii) in the case of a Licensee Loan for an “@ Home Store”, the Licensee Loan shall provide for a twenty four month amortization of principal and interest subject to the limitations set forth in (1) above.

Each request by the Borrower to disburse a Licensee Loan hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Licensee Loan as to the truth and accuracy of the facts specified in the clauses (b)(i), (b)(ii) and (b)(iii) of this Section.

(c) Upon written demand by the Licensee Lender, with a copy to the Agent, each Bank shall purchase from the Licensee Lender, and the Licensee Lender shall sell to each Bank, a participation interest in the Licensee Loan specified in such demand equal to such Bank’s Pro Rata Share of such Licensee Loan as of the date of such purchase, by making available to the Agent for the account of the Licensee Lender, in Federal or other funds immediately available an amount equal to such Bank’s Pro Rata Share of the outstanding principal amount of such Licensee Loan. Promptly after receipt thereof, the Agent shall transfer such funds to the Licensee Lender. The Borrower and Guarantors hereby agree to each such sale and purchase of participation interests in the Licensee Loans outstanding from time to time. Each Bank agrees to purchase its participation interest in an outstanding Licensee Loan on (i) the Domestic Business Day on which demand therefor is made by the Licensee Lender, provided notice of such demand is given not later than 1:00 P.M. (Winston-Salem, North Carolina time) on such Domestic Business Day or (ii) the first Domestic Business Day next succeeding the date of such demand if notice of such demand is given after 1:00 P.M. (Winston-Salem, North Carolina time) on any Domestic Business Day. The Licensee Lender makes no representation or warranty and assumes no responsibility with respect to any sale and purchase of a participation interest in any Licensee Loan. If and to the extent that any Bank shall not have so made the amount available to the Agent in connection with its purchase of a participation interest in any Licensee Loan, such Bank agrees to pay to the Agent (for the account of the Licensee Lender) forthwith on demand such amount together with interest thereon, for each day from the date of demand by the Licensee Lender, until the date such amount is paid to the Agent, at the Federal Funds Rate for the account of the Licensee Lender.

(d) The obligation of each Bank to purchase a participation interest in any Licensee Loan pursuant to Section 2.16(c) shall be unconditional and shall not be affected by the existence of any Default or Event of Default, the failure to satisfy any condition set forth in Section 2.16(b), Section 3.1, 3.2 or 3.3 or the termination of the Commitments (whether by the Borrower pursuant to Section 2.8 or by the Agent pursuant to Section 6.1 or otherwise).

(e) The Licensee Lender shall furnish (A) to the Agent and each Bank, on the tenth Domestic Business Day of each April, July, October and January, a written report setting forth the principal amounts and maturity dates of the Licensee Loans made during the preceding calendar quarter and (B) to the Agent and each Bank upon request a written report setting forth the aggregate outstanding principal amount of the Licensee Loans. As of the Restatement Effective Date, the existing Licensee Loans are set forth on Schedule 2.16 attached hereto.

(f) The failure of any Bank to purchase a participation interest in any Licensee Loan shall not relieve any other Bank of its obligation hereunder to purchase its participation interest in any Licensee Loan on such date, but no Bank shall be responsible for the failure of any other Bank to so purchase a participation interest on such date.

(g) The Borrower shall pay to the Agent for the account of each Bank that has purchased a participation interest in a Licensee Loan the outstanding principal and accrued unpaid interest of such Licensee Loan in accordance with the terms of the applicable Licensee Loan Guaranty.

The Agent will distribute to each Bank its ratable share of any payment of principal of or interest on any Licensee Loan received by the Agent; provided, however, that: (1) the Agent shall make such distribution to the Banks once each calendar quarter; and (2) in the event that such payment received by the Agent is required to be returned, such Bank will return to the Agent any portion thereof previously distributed by the Agent to it.

(h) The Licensee Lender will notify the Agent promptly of the occurrence of an event of default under the Licensee Loan Guaranty which is not cured within 5 days of the occurrence thereof, and the Agent promptly will notify the Banks of such matters. The Licensee Lender shall have no obligation to notify the Agent or any Bank of the occurrence of an event of default under a Licensee Loan unless such event of default is deemed to be a Guaranty Trigger Event under the Licensee Loan Guaranty which is not cured within five (5) days of the occurrence thereof.

(i) In the event the Licensee Lender receives payment in full of the accrued unpaid interest with respect to a Licensee Loan, Licensee Lender shall pay to the Agent for the ratable account of each Bank, with respect to such Licensee Loan, a per annum fee (the "Licensee Loan Fee") equal to the product of: (i) the aggregate of the daily average amounts of the outstanding principal amount of the Licensee Loan, times (ii) a per annum percentage equal to the Applicable Margin. Such Licensee Loan Fee shall be payable in arrears for each Licensee Loan during the term of each respective Licensee Loan once each calendar quarter after Licensee Lender receives payment in full of the accrued unpaid interest with respect to the date of such payment.

(j) The Licensee Lender may receive from the Licensee Borrower, for its own account, commitment fees, facility fees and such other fees and charges as may be provided for in any Licensee Loan Document or otherwise charged by the Licensee Lender. No Bank shall be entitled to any portion of the fees payable by the Licensee Borrower to the Licensee Lender pursuant to this Section 2.16(j).

(k)(1) Licensee Lender's Liability. Licensee Lender shall not be liable for any error of judgment or for any action taken or omitted to be taken by Licensee Lender in connection with any Licensee Loan except for gross negligence or willful misconduct. Licensee Lender may consult with legal counsel (including its own counsel and counsel for the Borrower), independent public accountants and other experts selected by Licensee Lender and shall not be liable for any action taken or omitted to be taken in good faith in accordance with the advice of such counsel, accountants or experts. Licensee Lender makes no warranty or representation and shall not be responsible for any statement, warranty or representation made in connection with any Licensee Loan or any document relative thereto, or for the financial condition or legal status of any Licensee Borrower or any other obligor on any Licensee Loan, or for any credit or other information furnished by it to any Bank, or for the value or condition of any assets of the Licensee Borrower; shall not be responsible for the performance or observance of any of the terms, covenants or conditions of any Licensee Loan or any documents relative thereto; shall not have any duty to inspect the property (including the books and records) of any Licensee Borrower; and makes no representation concerning and shall not be responsible for the due execution, legality, validity, enforceability, genuineness, sufficiency or collectibility of any Licensee Loan or any document relative thereto or the effectiveness, perfection or priority of any lien or security interest securing any Licensee Loan. Licensee Lender shall incur no liability under or in respect of any Licensee Loan or any documents relative thereto by acting upon any notice, consent, certificate or other instrument or writing believed by it to be genuine and signed by or sent by the proper party.

(2) Bank's Independent Decision. Each Bank acknowledges that: (1) it has, independently and without reliance upon Licensee Lender, the Agent or any other Bank and based upon

such documents and information as such Bank has deemed appropriate, made its own credit analysis and decision to purchase each participation under this Section 2.16; and (2) its decision to purchase a participation under this Section 2.16 has been made exclusively on the basis of such Bank's credit analysis of the Licensee Loan Guaranty and the Borrower.

(3) Duties of Licensee Lender. Licensee Lender shall: (i) use its best efforts to enforce the terms and provisions of each Licensee Loan Guaranty and documents relative thereto, subject to the provisions of subsection (4) hereof but shall have no obligation to enforce any other Licensee Loan Document; (ii) keep full and complete records and accounts of each Licensee Loan and of all payments on such Licensee Loan and upon the written request of a Bank furnish such Bank with copies thereof at no charge; (iii) promptly furnish each Bank without charge with copies of credit information furnished by Licensee Borrower including financial statements and collateral information, if any, (but Licensee Lender assumes no responsibility with respect to the authenticity, validity, accuracy or completeness thereof); and (v) make suitable entries in Licensee Lender's books and records to evidence the participation under this Section 2.16.

(4) Management by Licensee Lender. Licensee Lender shall have the exclusive right in its name alone to enforce all rights, privileges and powers accruing to Licensee Lender by reason of any Licensee Loan or any documents relative thereto and all other claims given to Licensee Lender in connection with any Licensee Loan, all in Licensee Lender's sole discretion and in the exercise of Licensee Lender's business judgment. Each Bank acknowledges that Licensee Lender shall not handle the transactions relating to the Licensee Loans in accordance with its usual practices and Licensee Lender shall not adhere to the same standards of conduct as would be the case if each Licensee Loan had been made exclusively by it. Licensee Lender may, in its sole discretion and in the exercise of its business judgment, both before and after any Guaranty Trigger Event (as defined in the Licensee Loan Guaranty), consent to any action or failure to act by the Licensee Borrower or any other obligor on any Licensee Loan, amend or modify the Licensee Loan Documents, release or substitute the collateral, if any, for any Licensee Loan; provided that Agent shall comply with the terms of Section 9.05(a)(vii) in the event such collateral, if any, secures the Obligations, and exercise or refrain from exercising any rights, privileges or powers Licensee Lender may have under any Licensee Loan or any documents relative thereto and vote the full amount of any Licensee Loan (including the participation) in any bankruptcy case or insolvency proceeding or with respect to any waiver, modification, amendment or alteration of such Licensee Loan or any documents relative thereto. However, Licensee Lender will not, without each Bank's prior written consent, exercise any right or take any action relative to any Licensee Loan which would reduce principal, interest or premium, if any, or postpone any date fixed for any payment of principal, interest or premiums, if any, or release any guaranty or collateral, if any, except as shall be otherwise provided in any document relative thereto. The Borrower and Guarantors acknowledge and agree that the decision of the Licensee Lender to make the Licensee Loan and the decision of the Banks to purchase a participation in each Licensee Loan under this Section 2.16 has been made exclusively on the basis of the credit analysis by the Licensee Lender and the credit analysis by the Banks of the Licensee Loan Guaranty and the Borrower.

(5) Expenses. Each Bank will promptly reimburse Licensee Lender to the extent of its ratable share for any and all costs, expenses and disbursements which may be incurred or made by Licensee Lender in connection with any Licensee Loan and any action which may be taken by Licensee Lender to collect such Licensee Loan and enforce the documents relative to such Licensee Loan for which Licensee Lender is not promptly reimbursed by Borrower, including any costs, expenses, fees or disbursements incurred by outside agencies and attorneys retained by Licensee Lender.

If Licensee Lender shall be sued or threatened with suit by any Licensee Borrower as debtor in possession or any receiver, trustee in bankruptcy, creditors' committee or other person on account of any alleged performance or fraudulent transfer alleged to have been received as the result of any transaction hereunder or under any Licensee Loan, or if any action, claim or demand of any kind shall be asserted by any person against Licensee Lender directly or indirectly relating to such transactions or the enforcement of any Licensee Loan or the collection of Licensee Borrower's indebtedness under any Licensee Loan, then Licensee Lender shall be entitled to compromise and settle any such claim or demand in its sole discretion in the exercise of its business judgment and any monies paid in satisfaction or compromise of such suit, claim, action or demand and any expenses, costs and attorney's fees paid or incurred in connection therewith, as well as any costs, expenses, fees or disbursements incurred by outside agencies and attorneys retained by Licensee Lender, shall be borne and shared by Licensee Lender and the Banks (other than Licensee Lender) pro rata (based upon the aggregate of the Licensee Lender's share of such Licensee Loan and the Bank's ratable share).

(6) No Third Party Beneficiary. None of the provisions of this Section 2.16 shall inure to the benefit of the Borrower, any Guarantor, any Licensee Borrower or any person other than Licensee Lender, the Agent and the Banks. Consequently, no Borrower, Guarantor or Licensee Borrower and no person other than Licensee Lender, the Agent and Bank shall be entitled to rely upon or raise as a defense, in any manner whatsoever, the failure of Licensee Lender, the Agent or Bank to comply with the provisions of this Section 2.16.

ARTICLE III

CONDITIONS TO BORROWINGS

SECTION 3.01. Effectiveness of Agreement. This Agreement shall become effective on the date (the "Restatement Effective Date") on which the Agent receives the following documents and evidence of satisfaction of the following conditions:

(a) receipt by the Agent from each of the parties hereto of a duly executed counterpart of this Agreement signed by such party;

(b) receipt by the Agent of a duly executed Note for the account of each lender complying with the provisions of Section 2.04;

(c) receipt by the Agent of an opinion of Jay R. Hervey, Esq., Vice President, Secretary and General Counsel of the Borrower, counsel for the Borrower and Guarantors, dated as of the Restatement Effective Date, substantially in the form of Exhibit C hereto and covering such additional matters relating to the transactions contemplated hereby as the Agent or any Bank may reasonably request;

(d) receipt by the Agent of an opinion of Womble Carlyle Sandridge & Rice, PLLC, special counsel for the Agent, dated as of the Restatement Effective Date, substantially in the form of Exhibit D hereto and covering such additional matters relating to the transactions contemplated hereby as the Agent may reasonably request;

(e) receipt by the Agent of a certificate (the "Closing Certificate"), dated the date of the first Borrowing after the Restatement Effective Date, substantially in the form of Exhibit G hereto, signed by a principal financial officer of each Loan Party, to the effect that (i) no Default has occurred and is continuing on the date of such first Borrowing and (ii) the representations and warranties of the Loan Parties contained in Article IV are true on and as of the date of such first Borrowing;

(f) receipt by the Agent of all documents which the Agent or any Bank may reasonably request relating to the existence of each Loan Party, the authority for and the validity of this Agreement, the Notes and the other Loan Documents, and any other matters relevant hereto, all in form and substance satisfactory to the Agent, including without limitation a certificate of incumbency of each Loan Party (the "Officer's Certificate"), signed by the Secretary or an Assistant Secretary of the respective Loan Party, substantially in the form of Exhibit H hereto, certifying as to the names, true signatures and incumbency of the officer or officers of the respective Loan Party, authorized to execute and deliver the Loan Documents, and certified copies of the following items: (i) the Loan Party's Certificate of Incorporation or Articles of Organization, as the case may be, (ii) the Loan Party's Bylaws or Operating Agreement, as the case may be, (iii) a certificate of the Secretary of State of such Loan Party's State of organization as to the good standing of such Loan Party, and (iv) the action taken by the Board of Directors of the Loan Party authorizing the Loan Party's execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which the Loan Party is a party;

(g) receipt by the Agent of a Notice of Borrowing;

(h) the Security Agreement shall have been duly executed by the Borrower and Guarantors and shall have been delivered to the Agent and shall be in full force and effect and each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Agent to be filed, registered or recorded in order to create in favor of the Agent for the benefit of the Secured Parties a valid, legal and perfected first-priority security interest in and lien on the Collateral described in the Security Agreement shall have been delivered to the Agent;

(i) the Agent shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Borrower and Guarantors in the states (or other jurisdictions) in which the chief executive office of each such person is located, any offices of such persons in which records have been kept relating to Accounts Receivable Collateral and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to the preceding paragraph, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Agent that the Liens indicated in any such financing statement (or similar document) have been released;

(j) receipt by the Agent of a Borrowing Base Certification Report and Liquidity Borrowing Base Certification Report, dated as of the last day of the calendar month immediately preceding the Restatement Effective Date;

(k) receipt by the Agent and approval by the Banks of the insurance required under this Agreement;

(l) such other documents or items as the Agent, the Banks or their counsel may reasonably request.

SECTION 3.02. Conditions to All Borrowings. The obligation of each Bank to make an Advance on the occasion of each Borrowing (including, without limitation, the obligation of the Swing Line Lender to make a Swing Line Advance) is subject to the satisfaction of the following conditions:

(a) receipt by the Agent of Notice of Borrowing as required by Section 2.02 (or in the case of a Swing Line Advance, compliance with Section 2.15);

(b) the fact that, immediately before and after such Borrowing, no Default shall have occurred and be continuing;

(c) the fact that the representations and warranties of the Loan Parties contained in Article IV of this Agreement shall be true, in all material respects, on and as of the date of such Borrowing, except to the extent explicitly relating to a specified date; and

(d) the fact that, immediately after such Borrowing (i) the aggregate outstanding principal amount of the Advances of each Bank together with such Bank's Pro Rata Share of the aggregate outstanding principal amount of all Swing Line Advances, Licensee Loans, Letter of Credit Advances and Undrawn Amounts, will not exceed the amount of its Commitment and (ii) the aggregate outstanding principal amount of the Advances together with the aggregate outstanding principal amount of all Swing Line Advances, Licensee Loans, Letter of Credit Advances and Undrawn Amounts, will not exceed the lesser of: (A) the aggregate amount of the Commitments of all of the Banks as of such date; and (B) the Borrowing Base.

Each Borrowing hereunder shall be deemed to be a representation and warranty by the Loan Parties on the date of such Borrowing as to the truth and accuracy of the facts specified in clauses (b), (c) and (d) of this Section.

SECTION 3.03 Conditions to Issuance of Letters of Credit. The issuance of each Letter of Credit shall be subject to satisfaction of the conditions set forth in the related Letter of Credit Agreement and satisfaction of the following conditions:

(a) the fact that, immediately before and after the issuance of such Letter of Credit, no Default shall have occurred and be continuing;

(b) the fact that the representations and warranties of the Loan Parties contained in Article IV of this Agreement shall be true, in all material respects, on and as of the date of issuance of such Letter of Credit, except to the extent explicitly relating to a specified date;

(c) the fact that, immediately after the issuance of such Letter of Credit: (i) the sum of (A) the entire outstanding principal amount of the Advances, (B) the aggregate outstanding principal amount of the Letter of Credit Advances, (C) the aggregate outstanding principal amount of Swing Line Advances, (D) the aggregate outstanding principal amount of the Licensee Loans, and (E) the aggregate Undrawn Amounts, will not exceed the lesser of: (1) the aggregate amount of the Commitments of all of the Banks at such time; and (2) the Borrowing Base;

(d) the fact that immediately after the issuance of such Letter of Credit the sum of: (i) the aggregate outstanding principal amount of the Letter of Credit Advances, plus (ii) the aggregate Undrawn Amounts, will not exceed \$10,000,000; and

(e) no Letter of Credit shall have an expiry date or termination date on or after the earlier of: (1) the date twelve months after the date of the issuance of such Letter of Credit; or (2) the date two Domestic Business Days prior to the Termination Date.

REPRESENTATIONS AND WARRANTIES

The Loan Parties represent and warrant that:

SECTION 4.01. Existence and Power. Each Loan Party is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, as the case may be, is duly qualified to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary, and has all organizational powers and all governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

SECTION 4.02. Organizational and Governmental Authorization; No Contravention. The execution, delivery and performance by each Loan Party of this Agreement, the Notes, the Collateral Documents and the other Loan Documents (i) are within each Loan Party's organizational powers, (ii) have been duly authorized by all necessary organizational action, (iii) require no action by or in respect of, or filing with, any governmental body, agency or official, (iv) do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation, articles of organization, operating agreement or by-laws of each Loan Party or of any agreement, judgment, injunction, order, decree or other instrument binding upon each Loan Party or any of its Subsidiaries, and (v) do not result in the creation or imposition of any Lien on any asset of the Loan Parties or any of their respective Subsidiaries.

SECTION 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of the Loan Parties enforceable in accordance with its terms, and the Notes, the Collateral Documents and the other Loan Documents, when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of the Loan Parties enforceable in accordance with their respective terms, provided that the enforceability hereof and thereof is subject in each case to general principles of equity and to bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights generally.

SECTION 4.04. Financial Information. (a) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of November 25, 2006 and the related consolidated statements of income, shareholders' equity and cash flows for the Fiscal Year then ended, reported on by Ernst & Young, LLP, copies of which have been delivered to each of the Banks, and the unaudited but reviewed consolidated financial statements of the Borrower for the interim period ended November 25, 2006, copies of which have been delivered to each of the Banks, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such dates and their consolidated results of operations and cash flows for such periods stated.

(b) Since November 25, 2006 there has been no event, act, condition or occurrence having a Material Adverse Effect.

SECTION 4.05. Litigation. There is no action, suit or proceeding pending, or to the knowledge of the Loan Parties threatened, against or affecting the Loan Parties or any of their respective Subsidiaries before any court or arbitrator or any governmental body, agency or official which could have a Material Adverse Effect or which in any manner draws into question the validity or enforceability of, or could impair the ability of the Loan Parties to perform their respective obligations under, this Agreement, the Notes, the Collateral Documents or any of the other Loan Documents.

SECTION 4.06. Compliance with ERISA. (a) The Loan Parties and each member of the Controlled Group have fulfilled their obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance in all material respects with the presently applicable provisions of ERISA and the Code, and have not incurred any liability to the PBGC or a Plan under Title IV of ERISA.

(b) Neither the Loan Parties nor any member of the Controlled Group is or ever has been obligated to contribute to any Multiemployer Plan.

SECTION 4.07. Taxes. There have been filed on behalf of the Loan Parties and their respective Subsidiaries all Federal, state and local income, excise, property and other tax returns which are required to be filed by them and all taxes due pursuant to such returns or pursuant to any assessment received by or on behalf of the Loan Parties or any Subsidiary have been paid. The charges, accruals and reserves on the books of the Loan Parties and their respective Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Loan Parties, adequate. United States income tax returns of the Loan Parties and their respective Subsidiaries have been examined and closed through the Fiscal Year ended November 30, 1999.

SECTION 4.08. Subsidiaries. Each of the Loan Party's Subsidiaries is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, as the case may be, is duly qualified to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary, and has all organizational powers and all governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted. No Loan Party has any Subsidiaries except those Subsidiaries listed on Schedule 4.08, which accurately sets forth each such Subsidiary's complete name and jurisdiction of incorporation.

SECTION 4.09. Not an Investment Company. No Loan Party nor any Subsidiary of a Loan Party is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4.10 Public Utility Holding Company Act. No Loan Party nor any Subsidiary of a Loan Party is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

SECTION 4.11. Ownership of Property; Liens. Each of the Loan Parties and their respective Subsidiaries has title to its properties sufficient for the conduct of its business, and none of such property is subject to any Lien except as permitted in Section 5.14.

SECTION 4.12. No Default. No Loan Party nor any of their respective Subsidiaries is in default under or with respect to any agreement, instrument or undertaking to which it is a party or by which it or any of its property is bound which could have or cause a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

SECTION 4.13. Full Disclosure. All information heretofore furnished by any Loan Party to the Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by any Loan Party to the Agent or any Bank will be, true, accurate and complete in every material respect or based on reasonable estimates on the date as of which such information is stated or certified. Each Loan Party has disclosed to the Banks in writing any and all facts which could have or cause a Material Adverse Effect.

SECTION 4.14. Environmental Matters. (a) No Loan Party nor any Subsidiary of a Loan Party is subject to any Environmental Liability which could have or cause a Material Adverse Effect and no Loan Party nor any Subsidiary of a Loan Party has been designated as a potentially responsible party under CERCLA or under any state statute similar to CERCLA which could have or cause a Material Adverse Effect. None of the Properties has been identified on any current or proposed (i) National Priorities List under 40 C.F.R. § 300, (ii) CERCLIS list or (iii) any list arising from a state statute similar to CERCLA.

(b) No Hazardous Materials have been or are being used, produced, manufactured, processed, treated, recycled, generated, stored, disposed of, managed or otherwise handled at, or shipped or transported to or from the Properties or are otherwise present at, on, in or under the Properties, or, to the best of the knowledge of the Loan Parties, at or from any adjacent site or facility, except for Hazardous Materials, such as cleaning solvents, pesticides and other materials used, produced, manufactured, processed, treated, recycled, generated, stored, disposed of, and managed or otherwise handled in the ordinary course of business in compliance with all applicable Environmental Requirements.

(c) The Loan Parties, and each of their respective Subsidiaries and Affiliates, has procured all Environmental Authorizations necessary for the conduct of its business, and is in compliance with all Environmental Requirements in connection with the operation of the Properties and the Loan Party's, and each of their respective Subsidiary's and Affiliate's, respective businesses.

SECTION 4.15. Compliance with Laws. Each Loan Party and each Subsidiary of a Loan Party is in compliance with all applicable laws, including, without limitation, all Environmental Laws, except where any failure to comply with any such laws would not, alone or in the aggregate, have a Material Adverse Effect.

SECTION 4.16. Capital Stock. All Capital Stock, debentures, bonds, notes and all other securities of each Loan Party and their respective Subsidiaries presently issued and outstanding are validly and properly issued in accordance with all applicable laws, including, but not limited to, the "Blue Sky" laws of all applicable states and the federal securities laws. The issued shares of Capital Stock of the Loan Party's respective Wholly Owned Subsidiaries are owned by the Loan Parties free and clear of any Lien or adverse claim. At least a majority of the issued shares of capital stock of each of the other Subsidiaries of the Loan Parties (other than Wholly Owned Subsidiaries) is owned by the respective Loan Parties free and clear of any Lien or adverse claim.

SECTION 4.17. Margin Stock. No Loan Party nor any of their respective Subsidiaries is engaged principally, or as one of its important activities, in the business of purchasing or carrying any Margin Stock, and no part of the proceeds of any Advance or Swing Line Advance will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock, or be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation X.

SECTION 4.18. Insolvency. After giving effect to the execution and delivery of the Loan Documents and the making of the Advances and Swing Line Advances under this Agreement, no Loan Party will be "insolvent," within the meaning of such term as defined in § 101 of Title 11 of the United States Code or Section 2 of the Uniform Fraudulent Transfer Act, or any other applicable state

law pertaining to fraudulent transfers, as each may be amended from time to time, or be unable to pay its debts generally as such debts become due, or have an unreasonably small capital to engage in any business or transaction, whether current or contemplated.

SECTION 4.19. Security Documents. (a) Upon execution by the Pledgors, the Pledge Agreement shall be effective to create in favor of the Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and, when the Collateral is delivered to the Agent, the Pledge Agreement shall constitute a fully perfected first priority Lien on, and security interest in, all right, title and interest of the Pledgors thereunder in such Collateral and the proceeds thereof, in each case prior and superior in any right to any other Person.

(b) The Security Agreement is effective to create in favor of the Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and, when financing statements in appropriate form are filed in the UCC Recording Offices, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Borrower and Guarantors in such Collateral and the proceeds thereof, in each case prior and superior in right to any other Person.

SECTION 4.20. Labor Matters. There are no significant strikes, lockouts, slowdowns or other labor disputes against any Loan Party or any Subsidiary of any Loan Party pending or, to the knowledge of any Loan Party, threatened, that could reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect. The hours worked by and payment made to employees of the Loan Parties and each Subsidiary of any Loan Party have not been in violation of the Fair Labor Standards Act or any other applicable federal, state or foreign law dealing with such matters, where such violations could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

SECTION 4.21. Patents, Trademarks, Etc. To the best of their knowledge, the Loan Parties and each Subsidiary of a Loan Party owns, or is licensed to use, all patents, trademarks, trade names, copyrights, technology, know-how and processes, service marks and rights with respect to the foregoing that are (a) used in or necessary for the conduct of their respective businesses as currently conducted and (b) material to the businesses, assets, operations, properties, prospects or condition (financial or otherwise) of the Loan Parties and their respective Subsidiaries taken as a whole. To the best of their knowledge, the use of such patents, trademarks, trade names, copyrights, technology, know-how, processes and rights with respect to the foregoing by the Loan Parties and their respective Subsidiaries, does not infringe on the rights of any Person. The Loan Parties have delivered to the Agent and Banks a schedule setting forth all registered patents, trademarks and copyrights owned by, or licensed to, the Loan Parties.

SECTION 4.22. Loans and Investments. (a) No Loan Party nor any of their respective Subsidiaries has made a loan, advance or Investment which is outstanding or existing on August 25, 2007 except as set forth on Schedule 4.22-A (a copy of which has been delivered by the Borrower to the Agent and Banks but is not attached hereto). Schedule 4.22-A identifies: (i) each Non-Qualified Investment outstanding or existing on August 25, 2007; (ii) each Approved Fund in which a Loan Party or any Subsidiary of a Loan Party has made an Investment that is existing on August 25, 2007; and (iii) each Eligible Investment Security owned by a Loan Party or any Subsidiary of a Loan Party on August 25, 2007.

(b) Schedule 4.22-B (a copy of which has been delivered by the Borrower to the Agent and Banks but is not attached hereto) sets forth any and all Contingent BFD Liabilities and any and

all Committed Contingent BFD Liabilities in existence on the Restatement Effective Date . As to each guaranty and Assigned BFD Lease included within the Contingent BFD Liabilities on the Restatement Effective Date, Schedule 4.22-B sets forth the name of each Person with respect to which the Borrower or any Consolidated Subsidiary has issued a guaranty or assigned or sublet its interest as lessee under a lease of a “BFD Store”, the amount, commencement date, termination date, monthly payments and the aggregate payments corresponding to such guarantees or Assigned BFD Lease, as the case may be.

ARTICLE V

COVENANTS

The Loan Parties agree, jointly and severally, that, so long as any Bank has any Commitment hereunder or any amount payable under any Note remains unpaid:

SECTION 5.01. Information. The Borrower will deliver to the Agent for its delivery to each of the Banks:

(a) as soon as available and in any event within 90 days after the end of each Fiscal Year, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of income, shareholders’ equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous fiscal year, all certified by Ernst & Young, LLP. or other independent public accountants of nationally recognized standing, with such certification to be free of exceptions and qualifications not acceptable to the Required Banks;

(b) as soon as available and in any event within 45 days after the end of each of the first three Fiscal Quarters of each Fiscal Year, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such Fiscal Quarter and the related statement of income and statement of cash flows for such Fiscal Quarter and for the portion of the Fiscal Year ended at the end of such Fiscal Quarter, setting forth in each case in comparative form the figures for the corresponding Fiscal Quarter and the corresponding portion of the previous Fiscal Year, all reviewed by the accountants referenced in (a) above and certified (subject to normal year-end adjustments) as to fairness of presentation, GAAP and consistency by the Senior Vice President—Chief Financial Officer of the Borrower;

(c) **[Intentionally Deleted]**;

(d) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate, substantially in the form of Exhibit I (a “Compliance Certificate”), of the Senior Vice President—Chief Financial Officer of the Borrower (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.03 through 5.14, inclusive, 5.17, 5.32, 5.35, 5.36 and 5.37 on the date of such financial statements, (ii) setting forth in reasonable detail the calculations establishing the identities of the Material Subsidiaries on the date of such certificate, (iii) setting forth in reasonable detail the Non-Qualified Investments made by any Loan Party or Subsidiary of a Loan Party after August 25, 2007, and (iv) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Loan Parties are taking or propose to take with respect thereto;

(e) simultaneously with the delivery of each set of annual financial statements referred to in clause (a) above, a statement of the firm of independent public accountants which reported on such statements to the effect that nothing has come to their attention to cause them to believe that any Default existed on the date of such financial statements;

(f) within 5 Domestic Business Days after the Borrower becomes aware of the occurrence of any Default, a certificate of the Senior Vice President—Chief Financial Officer of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(g) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all financial statements, reports and proxy statements so mailed;

(h) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and annual, quarterly or monthly reports which the Borrower shall have filed with the Securities and Exchange Commission;

(i) if and when the Borrower or any member of the Controlled Group (i) gives or is required to give notice to the PBGC of any “reportable event” (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA, a copy of such notice; or (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate or appoint a trustee to administer any Plan, a copy of such notice;

(j) promptly after the Borrower knows of the commencement thereof, notice of any litigation, dispute or proceeding involving a claim against a Loan Party and/or any Subsidiary of a Loan Party for \$1,000,000.00 or more in excess of amounts covered in full by applicable insurance; and

(k) as soon as available and in any event within 45 days after the end of each Fiscal Quarter, an aging of payables, showing the age of such payables, identifying the Persons who are the creditors for such payables (specifying the amount and age of the payables, owing to each such creditor) and containing such other information and accompanied by such supporting documents as the Agent, in its sole discretion may from time to time prescribe, dated as of the last day of such Fiscal Quarter the statements in which, in each instance, shall be certified as to truth and accuracy by the Senior Vice President – Chief Financial Officer or other authorized officer of the Borrower and each Guarantor;

(l) as soon as available and in any event within 45 days after the end of each Fiscal Quarter, an aging of Receivables, showing the age of such Receivables, identifying the Persons who are the account debtors for such Receivables (specifying the amount and age of the Receivables owing from each such Account Debtor) and containing such other information and accompanied by such supporting documents as the Agent, in its sole discretion may from time to time reasonably prescribe, dated as of the last day of such Fiscal Quarter the statements in which, in each instance, shall be certified as to truth and accuracy by the Senior Vice President – Chief Financial Officer or other authorized officer of the Borrower and each Guarantor;

(m) as soon as available and in any event within 45 days after the end of each of the first three Fiscal Quarters of each Fiscal Year and within 90 days after the end of each Fiscal Year a

Liquidity Borrowing Base Certification Report and a Borrowing Base Certification Report, in form and content reasonably satisfactory to the Agent, dated as of the last day of the immediately preceding Fiscal Quarter the statements which, in each instance, shall be certified as to truth and accuracy by the Senior Vice President—Chief Financial Officer or other authorized officer of the Borrower and each Guarantor;

(n) at reasonable intervals but no less frequently than quarterly financial statements more fully described on Schedule 5.01(n) showing the financial condition and results of the operations of any and all Affiliates of the Borrower or any Consolidated Subsidiary which are included within subitem (iii) of the definition of Affiliates; and

(o) simultaneously with the delivery of each set of financial statements referred to in clause (b) above, a report in form satisfactory to the Agent setting forth comparative same store sales information for “BFD Stores;” and

(p) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Agent, at the request of any Bank, may reasonably request.

SECTION 5.02. Inspection of Property, Books and Records. The Borrower will (i) keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities; (ii) permit, and will cause each Subsidiary of the Borrower and Guarantors to permit the Agent or its designee, at the expense of the Borrower and Guarantors, to perform periodic field audits and investigations of the Borrower, the Guarantors and the Collateral; and (iii) permit, and will cause each Subsidiary to permit, with reasonable prior notice which notice shall not be required in the case of an emergency, representatives of any Bank at such Bank’s expense prior to the occurrence of an Event of Default and at the Borrower’s expense after the occurrence of an Event of Default to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants. The Borrower agrees to cooperate and assist in such visits and inspections, in each case at such reasonable times and as often as may reasonably be desired.

SECTION 5.03. Intentionally Deleted.

SECTION 5.04. Intentionally Deleted.

SECTION 5.05. Intentionally Deleted.

SECTION 5.06. Intentionally Deleted.

SECTION 5.07. Contingent BFD Liabilities. Neither the Borrower nor any Consolidated Subsidiary shall, directly or indirectly, issue, assume, create, incur or suffer to exist any Contingent BFD Liability except for Contingent BFD Liabilities, the aggregate outstanding principal amount of which shall not at any time exceed \$85,000,000 in the aggregate.

SECTION 5.08. Intentionally Deleted.

SECTION 5.09. Intentionally Deleted.

SECTION 5.10. Intentionally Deleted.

SECTION 5.11. Intentionally Deleted.

SECTION 5.12. Loans or Advances. No Loan Party nor any Subsidiary of a Loan Party shall make loans or advances to any Person except: (i) loans or advances to employees of a Loan Party or an Affiliate of a Loan Party that do not exceed One Million and No/100 Dollars (\$1,000,000) in the aggregate outstanding made in the ordinary course of business and consistently with practices existing on August 25, 2007; (ii) deposits required by government agencies or public utilities; (iii) loans or advances to the Borrower or any Guarantor that is a Consolidated Subsidiary; (iv) Loans and Advances outstanding on August 25, 2007 and set forth on Schedule 4-22A; and (v) loans or advances not otherwise permitted under this Section 5.12, which when aggregated with the total Non-Qualified Investments made after August 25, 2007 do not exceed Ten Million Dollars (\$10,000,000) in the aggregate outstanding; provided that after giving effect to the making of any loans, advances or deposits permitted by clause (i), (ii), (iii), (iv) or (v) of this Section, no Default shall have occurred and be continuing.

SECTION 5.13. Investments. No Loan Party nor any Subsidiary of a Loan Party shall make Investments in any Person except as permitted by Section 5.12 and except Investments in (i) direct obligations of the United States Government maturing within one year, (ii) certificates of deposit issued by a commercial bank whose credit is satisfactory to the Agent, (iii) commercial paper rated A-1 or the equivalent thereof by Standard & Poor's Corporation or P-1 or the equivalent thereof by Moody's Investors Service, Inc. and in either case maturing within 6 months after the date of acquisition, (iv) tender bonds the payment of the principal of and interest on which is fully supported by a letter of credit issued by a United States bank whose long-term certificates of deposit are rated at least AA or the equivalent thereof by Standard & Poor's Corporation and Aa or the equivalent thereof by Moody's Investors Service, Inc., (v) Investments by the Borrower in a Guarantor that is a Consolidated Subsidiary made in the ordinary course of business and consistently with practices existing on August 25, 2007, (vi) Investments existing on August 25, 2007 and set forth on Schedule 4.22-A, (vii) Eligible Investment Securities, other marketable investment securities publicly traded on a national securities exchange of a quality consistent with the equity investments made by the Borrower on August 25, 2007 and Investments in Approved Funds; and (viii) Investments not otherwise permitted under this Section 5.13, made in the ordinary course of business and consistently with practices existing on the Restatement Effective Date.

SECTION 5.14. Negative Pledge. No Loan Party nor any Subsidiary of a Loan Party will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

(a) Liens existing on the date of this Agreement encumbering assets other than Collateral securing Debt outstanding on the date of this Agreement, all of which are set forth on Schedule 5.14;

(b) any Lien existing on any asset of any corporation at the time such corporation becomes a Consolidated Subsidiary and not created in contemplation of such event;

(c) any Lien on any asset (other than Collateral) securing Debt incurred or assumed for the purpose of financing no more than 80% of the cost of acquiring or constructing such asset and permitted under Section 5.32(c), provided that: (i) the aggregate outstanding principal amount of the Debt of the Loan Parties and their respective Subsidiaries secured by a Lien permitted under this Section 5.14(c) shall not, at any time, exceed \$15,000,000; and (ii) such Lien attaches to such asset (and no asset other than the asset so acquired or constructed) concurrently with or within 18 months after the acquisition or completion of construction thereof;

(d) any Lien on any asset of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower or another Loan Party and not created in contemplation of such event;

(e) any Lien existing on any asset prior to the acquisition thereof by the Borrower or another Loan Party and not created in contemplation of such acquisition;

(f) Liens encumbering assets (other than Collateral) securing Debt owing by any Loan Party to the Borrower;

(g) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section, provided that (i) such Debt is not secured by any additional assets, and (ii) the amount of such Debt secured by any such Lien is not increased;

(h) Liens incidental to the conduct of its business or the ownership of its assets which (i) do not secure Debt and (ii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(i) any Lien on Margin Stock;

(j) Liens securing the Agent and the Banks created or arising under the Loan Documents; and

(k) Liens not otherwise permitted by the foregoing clauses of this Section securing Debt (other than indebtedness represented by the Notes) in an aggregate principal amount at any time outstanding not to exceed \$15,000,000. Notwithstanding anything contained in this Section 5.14 to the contrary, no Loan Party or any Subsidiary of a Loan Party will create, assume or suffer to exist any Lien on the Collateral or on the Borrower's ownership interests in the Bassett Asset Fund.

SECTION 5.15. Maintenance of Existence. Each Loan Party shall, and shall cause each Subsidiary of a Loan Party to, maintain its organizational existence and carry on its business in substantially the same manner and in substantially the same fields as such business is now carried on and maintained; provided that a Subsidiary of a Loan Party may be dissolved with the Agent's prior written consent if: (1) such Subsidiary is not a Loan Party; and (2) the total assets of such Subsidiary are less than \$50,000.

SECTION 5.16. Dissolution. No Loan Party nor any Subsidiary of a Loan Party shall suffer or permit dissolution or liquidation either in whole or in part or redeem or retire any shares of its own stock or that of any Subsidiary of a Loan Party, except: (1) through corporate reorganization to the extent permitted by Section 5.17; and (2) Restricted Payments permitted by Section 5.09.

SECTION 5.17. Consolidations, Mergers and Sales of Assets. No Loan Party will, nor will it permit any Subsidiary of a Loan Party to, consolidate or merge with or into, or sell, lease or otherwise transfer all or any substantial part of its assets to, any other Person, or discontinue or eliminate any business line or segment, provided that (a) a Loan Party may merge with another Person if (i) such Person was organized under the laws of the United States of America or one of its states, (ii) the Loan Party is the corporation surviving such merger, (iii) immediately after giving effect to such merger, no Default shall have occurred and be continuing, and (iv) if the Borrower merges with another Loan Party,

the Borrower is the corporation surviving such merger, (b) Subsidiaries of a Loan Party (excluding Loan Parties) may merge with one another, (c) a Loan Party (other than the Borrower or an Eligible Guarantor) may transfer all or any part of its assets to another Loan Party, (d) a Loan Party may sell Inventory in the ordinary course of business and for fair value, and (e) the foregoing limitation on the sale, lease or other transfer of assets and on the discontinuation or elimination of a business line or segment shall not prohibit, during any Fiscal Quarter, a transfer of assets or the discontinuance or elimination of a business line or segment (in a single transaction or in a series of related transactions) unless the aggregate assets to be so transferred or utilized in a business line or segment to be so discontinued, when combined with all other assets transferred (excluding assets transferred under Sections 5.17(d)), and all other assets utilized in all other business lines or segments discontinued, during such Fiscal Quarter and the immediately preceding three Fiscal Quarters have a fair market value or book value whichever is greater (determined with respect to each such asset transferred or discontinued) of more than \$20,000,000.

SECTION 5.18. Use of Proceeds. No portion of the proceeds of the Loan will be used by the Borrower or any Subsidiary (i) in connection with, either directly or indirectly, any tender offer for, or other acquisition of, stock of any corporation with a view towards obtaining control of such other corporation, (ii) directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock, or (iii) for any purpose in violation of any applicable law or regulation. Except as otherwise provided herein, the proceeds of the Loan shall be used for general corporate purposes and working capital.

SECTION 5.19. Compliance with Laws; Payment of Taxes. Each Loan Party will, and will cause each Subsidiary of a Loan Party and each member of the Controlled Group to, comply with applicable laws in all material respects (including but not limited to ERISA), regulations and similar requirements of governmental authorities (including but not limited to PBGC), except where the necessity of such compliance is being contested in good faith through appropriate proceedings diligently pursued. Each Loan Party will, and will cause each Subsidiary of a Loan Party to, pay promptly when due all taxes, assessments, governmental charges, claims for labor, supplies, rent and other obligations which, if unpaid, might become a lien against the property of a Loan Party or any Subsidiary of a Loan Party, except liabilities being contested in good faith by appropriate proceedings diligently pursued and against which, if requested by the Agent, the Borrower shall have set up reserves in accordance with GAAP.

SECTION 5.20. Insurance. Each Loan Party will maintain, and will cause each Subsidiary of a Loan Party to maintain (either in the name of such Loan Party or in such Subsidiary's own name), with financially sound and reputable insurance companies, insurance on all its Property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies of established repute engaged in the same or similar business.

SECTION 5.21. Change in Fiscal Year. Each Loan Party will not change its Fiscal Year without the consent of the Required Banks.

SECTION 5.22. Maintenance of Property. Each Loan Party shall, and shall cause each Subsidiary of a Loan Party to, maintain all of its properties and assets (excluding assets that are obsolete or no longer useful in such Loan Party's business) in good condition, repair and working order, ordinary wear and tear excepted.

SECTION 5.23. Environmental Notices. Each Loan Party shall furnish to the Banks and the Agent prompt written notice of all material Environmental Liabilities, pending, threatened or anticipated Environmental Proceedings, Environmental Notices, Environmental Judgments and Orders, and Environmental Releases at, on, in, under or in any way affecting the Properties or any adjacent property, and all facts, events, or conditions that could lead to any of the foregoing.

SECTION 5.24. Environmental Matters. No Loan Party or any Subsidiary of a Loan Party will, nor will any Loan Party permit any Third Party to, use, produce, manufacture, process, treat, recycle, generate, store, dispose of, manage at, or otherwise handle or ship or transport to or from the Properties any Hazardous Materials except for Hazardous Materials such as cleaning solvents, pesticides and other similar materials used, produced, manufactured, processed, treated, recycled, generated, stored, disposed, managed or otherwise handled in the ordinary course of business in compliance with all applicable Environmental Requirements.

SECTION 5.25. Collateral. With respect to the Collateral, each Borrower and Guarantor hereby represents, warrants and covenants to the Agent and each of the Banks as set forth in Section 5.25.1 through 5.25.15, inclusive.

5.25.1 Sale of Collateral. No Borrower or Guarantor will sell, lease, exchange, or otherwise dispose of any of the Collateral without the prior written consent of the Agent; provided, however Inventory Collateral may be sold in the ordinary course of business for cash or on open account or on terms of payment ordinarily extended to its customers. Upon the sale, exchange or other disposition of the Inventory Collateral, the security interest and lien created and provided for herein, without break in continuity and without further formality or act, shall continue in and attach to any proceeds thereof, including, without limitation, accounts, contract rights, shipping documents, documents of title, bills of lading, warehouse receipts, dock warrants, dock receipts and cash or non-cash proceeds, and in the event of any unauthorized sale, shall continue in the Inventory Collateral itself.

5.25.2 Accounts. All existing and future Accounts included in the Collateral are or will be bona fide existing obligations created by the sale and delivery of merchandise or the rendering of services to customers and arose or will arise in the ordinary course of business; and that such Accounts are not and will not be subject to defense, set-off or counterclaim which in the aggregate would materially impair the value of such Accounts as collateral for the Obligations (as defined in the Security Agreement). Neither the Borrower nor any Guarantor will, without the Agent's prior written consent, grant any extension of the time of payment of any of the Accounts, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business or otherwise in accordance with prudent and reasonable business practices.

5.25.3 Good Title; No Existing Encumbrances. The Borrower and Guarantors own the Collateral free and clear of any prior Lien, and no financing statements or other evidences of the grant of a security interest respecting the Collateral exist on the public records.

5.25.4 Right to Grant Security Interest; No Further Encumbrances. The Borrower and Guarantors have the right to grant a security interest in the Collateral. The Borrower and Guarantors will pay all taxes and other charges against the Collateral (including, without limitation, property, use and sales taxes), and neither the Borrower nor any Guarantor will use the Collateral illegally or allow the Collateral to be encumbered except for the security interest in favor of the Agent granted herein.

5.25.5 Location of Collateral. The Borrower and Guarantors hereby represent and warrant to the Agent and the Banks that, as of the date hereof, the Collateral is situated only at one or more of the Collateral Locations and the Borrower and Guarantors covenant with the Agent not to locate the Collateral at any location other than a Collateral Location without at least 30 days prior written notice to the Agent. The Executive Office of each Loan Party is such Loan Party's chief executive office (if such Loan Party has more than one place of business) or place of business (if such Loan Party has one place of business). In addition, to the extent the Borrower or Guarantors should warehouse any of the Inventory Collateral at any time hereafter, the Borrower and Guarantors acknowledge and agree that such warehousing may be conducted only by warehousemen who have been pre-approved by the Agent and who, in any event, shall issue non-negotiable warehouse receipts in the Agent's name to evidence any such warehousing of goods constituting Inventory Collateral. If the Borrower or Guarantors consign any of the Inventory Collateral, it will comply with the Uniform Commercial Code of any state where such Inventory Collateral is located with respect thereto, and shall file, cause the filing and does hereby authorize the Agent to file in the appropriate public office or offices UCC-1 financing statements showing such Borrower or Guarantor, as the case may be, as consignor and the Agent as assignee of consignor, and will furnish copies thereof to the Agent. If any of the Inventory Collateral or any records concerning the Collateral are at any time to be located on premises leased by the Borrower or a Guarantor or on premises owned by the Borrower or a Guarantor subject to a mortgage or other lien, such Borrower or Guarantor shall so notify the Agent and shall if requested by the Agent obtain and deliver or cause to be delivered to the Agent, prior to delivery of any Inventory Collateral or records concerning the Collateral to said premises, an agreement, in form and substance satisfactory to the Agent, waiving the landlord's or mortgagee's or lienholder's right to enforce any claim against the Borrower or Guarantor, as the case may be, for monies due under the landlord's lien, mortgage or other lien by levy or distraint or other similar proceedings against the Inventory Collateral or records concerning the Collateral and assuring the Agent's ability to have access to the Inventory Collateral and records concerning the Collateral in order to exercise its right hereunder to take possession thereof.

5.25.6 Collateral Status. The Borrowers and Guarantors will promptly notify the Agent if there is any adverse change in the status of the Collateral that materially impairs its value or collectibility, or if any defenses, set-offs or counterclaims are asserted by Account Debtors which in the aggregate materially impair the value or collectibility of the Accounts.

5.25.7 Delivery of Certain Collateral. The Borrowers and Guarantors have delivered all agreements, letters of credit, promissory notes, instruments, certificates of deposit, chattel paper or anything else, the physical possession of which is necessary in order for the Agent, on behalf of the Secured Parties, to perfect or preserve the priority of its security interest therein.

5.25.8 Purchase of Collateral. Neither the Borrower nor any Guarantor has purchased any of the Collateral in a bulk transfer or in a transaction which was outside the ordinary course of the business of the seller to the Borrower or such Guarantor.

5.25.9 Possession of Franchises, Licenses, Etc. The Borrower, the Guarantors and the Subsidiaries of the Borrower and Guarantors possess all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, and all patents, trademarks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary for the ownership, maintenance and operation of any of their respective property and assets, and neither the Borrower, any Guarantor nor any of their respective Subsidiaries are in violation of any term or condition thereof which would or

might have a Material Adverse Effect. The Borrower and Guarantors have furnished the Agent and Banks an accurate and complete description of all copyrights, patents, trademarks and other intellectual property of the Borrower and Guarantors.

5.25.10 Records Respecting Collateral. The Borrower and Guarantors shall keep complete and accurate books and records and make all necessary entries thereon to reflect the transactions and facts giving rise to the Collateral and payments, credit and adjustments applicable thereto. All books and records of the Borrower and Guarantors with respect to the Collateral will be kept at the Executive Offices (as they may be changed pursuant to Section 5.25.5) and will not be removed from such address without the prior written consent of the Agent.

5.25.11 Further Assurances. The Borrower and each Guarantor shall duly execute and/or deliver (or cause to be duly executed and/or delivered) to the Agent and Secured Parties any instrument, invoice, document, document of title, dock warrant, dock receipt, warehouse receipt, bill of lading, order, financing statement, assignment, waiver, consent or other writing which may be reasonably necessary to the Agent or any Secured Parties to carry out the terms of this Agreement and any of the other Loan Documents and to perfect its security interest in and facilitate the collection of the Collateral, the proceeds thereof, and any other property at any time constituting security to the Secured Parties. The Borrower and each Guarantor shall perform or cause to be performed such acts as the Agent or any Secured Party may request to establish and maintain for the Agent and the Secured Parties a valid and perfected security interest in and security title to the Collateral, free and clear of any Liens other than in favor of the Agent and the Secured Parties.

5.25.12 Maintenance of Insurance. In addition to and cumulative with any other requirements herein imposed on the Borrower and Guarantors with respect to insurance, the Borrower, Guarantors and the Subsidiaries of the Borrower and Guarantors shall maintain insurance with insurance companies satisfactory to the Agent on such of their respective properties and assets, in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity, but in any event to include public liability, worker's compensation, business interruption, malicious mischief, errors and omissions, loss, damage, flood, windstorm, fire, theft, extended coverage and product liability insurance in amounts satisfactory to the Agent, which insurance shall not be cancellable or altered (or the coverage thereunder reduced or restricted) by the Borrower, Guarantor or any Subsidiary of the Borrower and Guarantors, unless with the prior written consent of the Agent, or by the insurer of the Borrower and Guarantors, unless with at least 30 days advance written notice to the Agent thereof. The Borrower and Guarantors shall deliver to the Agent on the Closing Date and at such other times as the Agent may request, a detailed list of such insurance then in effect stating the names of the insurance companies, the amounts and rates of insurance, the date of expiration thereof, the properties and risks covered thereby and the insured with respect thereto, and, within 30 days after notice in writing from the Agent, obtain such additional insurance as the Agent, at the request of the Required Banks, may reasonably request. The Borrower and Guarantors will pay all premiums on the insurance referred to herein as and when they become due and shall do all things necessary to maintain the insurance in effect. The Agent may act as the agent of the Borrower and Guarantors in adjusting or compromising any loss under any such insurance policy and in collecting and receiving the proceeds from any such policy. In the event of any loss under any such policy of insurance, the insurer named therein is hereby authorized and directed by the Borrower and Guarantors to make payment for such loss to the Agent, for the benefit of the Secured Parties, as their interests may appear, rather than to the Borrower and Guarantors and the

Agent jointly. If the Borrower or any Guarantor shall default in its obligation hereunder to insure the Collateral in a manner satisfactory to the Agent, then the Agent shall have the right (but not the obligation) to procure such insurance and to charge the costs of same to the Borrower and Guarantors, which costs shall be added to and become a part of the unpaid principal amount of the Obligations (as defined in the Security Agreement), shall bear interest at the Default Rate or the highest contract rate permitted by applicable law whichever is less; such interest shall be payable on demand by the Agent and shall be secured by the Collateral.

The proceeds of all such insurance, if any loss should occur, may be applied by the Agent to the payment of the Obligations (as defined in the Security Agreement) or to the replacement of any of the Collateral damaged or destroyed, as the Agent may elect or direct in its sole discretion. The Borrower and each Guarantor hereby appoints (which appointment constitutes a power coupled with an interest and is irrevocable as long as any of the Obligations (as defined in the Security Agreement) remain outstanding) Agent as its lawful attorney-in-fact with full authority to make, adjust, settle claims under and/or cancel such insurance and to endorse the name of the Borrower or any Guarantor on any instruments or drafts issued by or upon any insurance companies.

5.25.13 Change of Principal Place of Business. The Borrower and Guarantors hereby understand and agree that if, at any time hereafter, the Borrower or Guarantor elects to move its Executive Office, or if the Borrower or Guarantor elects to change its name, identity, any trade name used to identify it in the conduct of its business or in the ownership of its properties, or its structure to other than as existing on the date hereof, the Borrower and Guarantors will notify the Agent in writing at least 30 days prior thereto.

5.25.14 Waivers. With respect to each of the Collateral Locations, the Borrower and Guarantors will obtain such waivers of lien, estoppel certificates or subordination agreements as the Required Banks may reasonably require to insure the priority of its security interest in that portion of the Collateral situated at such locations.

5.25.15 Name and Jurisdiction of Organization. The exact legal name of the Borrower and each Guarantor and the state of incorporation or organization for the Borrower and each Guarantor is as set forth below:

Bassett Furniture Industries, Incorporated – Virginia
Bassett Furniture Industries of North Carolina, Inc. – North Carolina
The E.B. Malone Corporation—Delaware
Bassett Direct Stores, Inc.—Virginia
Bassett Direct NC, LLC—Virginia
Bassett Direct SC, LLC—Virginia

SECTION 5.26. Environmental Release. Each Loan Party agrees that upon the occurrence of an Environmental Release at or on any of the Properties it will act immediately to investigate the extent of, and to take appropriate remedial action to eliminate, such Environmental Release, whether or not ordered or otherwise directed to do so by any Environmental Authority.

SECTION 5.27 Additional Covenants, Etc. In the event that at any time this Agreement is in effect or any Note remains unpaid any Loan Party shall enter into any agreement, guarantee, indenture or other instrument governing, relating to, providing for commitments to advance or guaranteeing any Financing or to amend any terms and conditions applicable to any Financing, which

agreement, guarantee, indenture or other instrument includes covenants, warranties, representations, defaults or events of default (or any other type of restriction which would have the practical effect of any of the foregoing, including, without limitation, any "put" or mandatory prepayment of such debt) or other terms or conditions not substantially as, or in addition to those, provided in this Agreement or any other Loan Document, or more favorable to the lender or other counterparty thereunder than those provided in this Agreement or any other Loan Document, the Loan Party shall promptly so notify the Agent and the Banks. Thereupon, if the Agent shall request by written notice to the Loan Party (after a determination has been made by the Required Banks that any of the above referenced documents or instruments contain any provisions which either individually or in the aggregate are more favorable than one of the provisions set forth herein), the Loan Parties, the Agent and the Banks shall enter into an amendment to this Agreement providing for substantially the same such covenants, warranties, representations, defaults or events of default or other terms or conditions as those provided for in such agreement, guarantee, indenture or other instrument, to the extent required and as may be selected by the Agent, such amendment to remain in effect, unless otherwise specified in writing by the Agent, for the entire duration of the stated term to maturity of such Financing (to and including the date to which the same may be extended at the option of the Loan Party), notwithstanding that such Financing might be earlier terminated by prepayment, refinancing, acceleration or otherwise, provided that if any such agreement, guarantee, indenture or other instrument shall be modified, supplemented, amended or restated so as to modify, amend or eliminate from such agreement, guarantee, indenture or other instrument any such covenant, warranty, representation, default or event of default or other term or condition so made a part of this Agreement, then unless required by the Agent pursuant to this Section, such modification, supplement or amendment shall not operate to modify, amend or eliminate such covenant, warranty, representation, default or event of default or other term or condition as so made a part of this Agreement.

SECTION 5.28. Transactions with Affiliates. No Loan Party nor any Subsidiary of a Loan Party shall enter into, or be a party to, any transaction with any Affiliate of a Loan Party or such Subsidiary (which Affiliate is not a Loan Party or a Subsidiary of a Loan Party), except: (1) Existing Affiliate Transactions; and (2) as permitted by law and in the ordinary course of business and pursuant to reasonable terms which are fully disclosed to the Agent and the Banks, consented to in writing by the Required Banks, and are no less favorable to the Loan Party or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person which is not an Affiliate. As used herein, "Existing Affiliate Transactions" shall mean: (1) any loan or advance permitted under Section 5.12(i); and (2) transactions between the Borrower or any Consolidated Subsidiary and one or more of LRG Furniture, LLC, Zenith Freightlines, LLC, The Accessory Group, Ltd., the Bassett Asset Fund and IHFC, which transactions are in accordance with applicable laws, in the ordinary course of business, consistent with the practices of the Borrower and the Consolidated Subsidiaries on the Closing Date and pursuant to reasonable terms no less favorable to the Borrower or such Consolidated Subsidiary than would be obtained in a comparable arm's length transaction with a person which is not an Affiliate.

SECTION 5.29 Material Subsidiaries. (a) The Loan Parties shall cause any Person which becomes a Material Subsidiary after the Closing Date to become a party to, and agree to be bound by the terms of, this Agreement and the Security Agreement pursuant to a Joinder Agreement, in the form attached hereto as Exhibit F satisfactory to the Agent in all respects and executed and delivered to the Agent within ten (10) Domestic Business Days after the day on which such Person became a Material Subsidiary. The Borrower shall also cause the items specified in Section 3.01(c), (f), (h), (i) and (l) to be delivered to the Agent concurrently with the instrument referred to above, modified appropriately to refer to such instrument and such Material Subsidiary.

(b) The Borrower shall, or shall cause any Subsidiary (the "Pledgor Subsidiary") to, pledge the lesser of 65% or the entire interest owned by the Borrower and such Pledgor Subsidiary, of the

shares of Capital Stock or equivalent equity interests in any Person which becomes a Foreign Subsidiary after the Closing Date pursuant to a pledge agreement in the form attached hereto as Exhibit K executed and delivered by the Borrower or such Pledgor Subsidiary to the Agent within ten (10) Domestic Business Days after the day on which such Person became a Foreign Subsidiary and shall deliver to the Agent such shares of capital stock together with stock powers executed in blank. The Borrower shall also cause the items specified in Section 3.01(c), (f) and (l) to be delivered to the Agent concurrently with the pledge agreement referred to above, modified appropriately to refer to such pledge agreement, Pledgor and such Foreign Subsidiary.

(c) Once any Subsidiary becomes a Material Subsidiary and therefore becomes a party to this Agreement in accordance with Section 5.29(a) or any shares of capital stock of a Foreign Subsidiary are pledged to the Agent in accordance with Section 5.29(b), such Subsidiary (including, without limitation, all Initial Guarantors) thereafter shall remain a party to this Agreement and the shares of capital stock in such Foreign Subsidiary (including, without limitation, all initial Foreign Subsidiaries) shall remain subject to the pledge to the Agent, as the case may be, even if: (i) such Material Subsidiary ceases to be a Material Subsidiary; or (ii) such Foreign Subsidiary ceases to be a Foreign Subsidiary; provided that if a Material Subsidiary or Foreign Subsidiary ceases to be a Subsidiary of the Borrower as a result of the Borrower's transfer or sale of one hundred percent (100%) of the capital stock of such Subsidiary in accordance with and to the extent permitted by the terms of Section 5.17, the Agent and the Banks agree to release such Subsidiary from the Guaranty and release the shares of capital stock of such Subsidiary from the Pledge Agreement.

SECTION 5.30. No Restrictive Agreement. No Loan Party will, nor will any Loan Party permit any of its Subsidiaries to, enter into, after the date of this Agreement, any indenture, agreement, instrument or other arrangement that, directly or indirectly, prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, any of the following by the Loan Party or any such Subsidiary: the incurrence or payment of Debt, the granting of Liens, the declaration or payment of Restricted Payments or other distributions in respect of Capital Stock of the Loan Party or any Subsidiary, the making of loans, advances or Investments or the sale, assignment, transfer or other disposition of property, real, personal or mixed, tangible or intangible; provided, that Debt incurred under Section 5.32 and secured by a Lien permitted under Section 5.14(c) may prohibit the granting of a Lien on any asset acquired or constructed with the proceeds of such Debt.

SECTION 5.31. Subsidiaries, Partnerships and Joint Ventures. No Loan Party shall: (1) create, acquire, form or otherwise permit to exist, any Subsidiary other than Subsidiaries that are Subsidiaries existing on the date hereof and described on Schedule 4.08; or (2) become a general partner in any general or limited partnership or joint venture; provided that: (1) so long as Schedule 4.08 is revised within fifteen (15) Domestic Business Days after the date that a Subsidiary is created, acquired or formed, a Loan Party may create, acquire or form a Subsidiary so long as after giving pro forma effect to such creation, acquisition or formation no Default or Event of Default shall occur or exist (including, without limitation, any breach of the limitations set forth in Section 5.13); and (2) a Subsidiary of a Loan Party that is a corporation or limited liability company may become a general partner in a general or limited partnership or joint venture so long as the sole assets of such Subsidiary consist of its interest in such partnership or joint venture and after giving pro-forma effect to such action, no Default or Event of Default (including, without limitation, a breach of any limitation set forth in Section 5.13) shall occur or exist.

SECTION 5.32. Additional Debt. No Loan Party or Subsidiary of a Loan Party shall directly or indirectly issue, assume, create, incur or suffer to exist any Debt or the equivalent (including obligations under Capital Leases), except for: (a) the Debt owed to the Banks, Swing Line Lender and the

Issuing Banks; and (b) the Debt existing and outstanding on August 25, 2007 described on Schedule 5.32; (c) Debt incurred or assumed for the purpose of financing no more than 80% of the cost of acquiring or constructing an asset provided that: (i) the aggregate outstanding principal amount of the Debt of the Loan Parties and their respective Subsidiaries incurred under this Section 5.32(c) shall not exceed, at any time, \$15,000,000; and (ii) such Lien attaches to such asset (and no asset other than the asset so acquired or constructed) concurrently with or within eighteen (18) months after the acquisition or completion of construction thereof; and (d) Debt not otherwise permitted under this Section 5.32, the aggregate outstanding principal amount of which shall not, at any time, exceed \$15,000,000.

SECTION 5.33. Approved Funds. No Loan Party nor any Subsidiary of a Loan Party shall permit an Approved Fund to: (i) create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by such Approved Fund; (ii) make Investments except: (A) in the case of the Bassett Asset Fund, in accordance with the Bassett Asset Fund Investment Policy, and (B) in the case of Approved Funds other than the Bassett Asset Fund, in the ordinary course of business and consistently with practices existing on August 25, 2007; (iii) make loans or advances to any Person except in the case of the Bassett Asset Fund as set forth in the Bassett Asset Fund Investment Policy; (iv) consolidate or merge with or into, or except as permitted under Section 5.33(ii) sell, lease or otherwise transfer any of its assets; (v) make or declare any dividend or distribution except: (A) in the case of the Bassett Asset Fund, to the Borrower in accordance with the Bassett Asset Fund Investment Policy, and (B) in the case of Approved Funds other than the Bassett Asset Fund, in the ordinary course of business and consistently with practices existing on August 25, 2007; (vi) directly or indirectly, issue, assume, create, incur or suffer to exist any Debt or the equivalent (including obligations under Capital Leases); or (vii) in the case of the Bassett Asset Fund after the Closing Date, amend or modify the limited partnership agreement pursuant to which the Bassett Asset Fund is formed. The Borrower shall not make any withdrawal from an Approved Fund unless after giving effect to such withdrawal the Borrower shall be able to fully perform its obligations under Section 6.04. In furtherance and not in limitation of the foregoing in connection with any such withdrawal, the Borrower shall obtain the acknowledgment and agreement of: (A) in the case of the Bassett Asset Fund, the general partner under the Bassett Asset Fund that such withdrawal shall not limit the Borrower's right to withdraw funds in the future from the Bassett Asset Fund, and (B) in the case of Approved Funds other than the Bassett Asset Fund, by the manager of such Approved Fund that such withdrawal shall not limit the Borrower's right to withdraw funds in the future from such Approved Fund.

SECTION 5.34. Intentionally Deleted.

SECTION 5.35. Minimum Consolidated Tangible Net Worth. Consolidated Tangible Net Worth will at no time be less than \$175,000,000 plus 100% of the cumulative Net Proceeds of Capital Stock/Conversion of Debt received during any period after the Fiscal Year ended November 30, 2002, calculated quarterly.

SECTION 5.36. Liquidity Borrowing Base. At the end of each Fiscal Quarter commencing with the Fiscal Quarter ending on August 25, 2007 and continuing on the last day of each Fiscal Quarter thereafter, the ratio of Test Debt to Test Assets shall not be greater than 1.0.

SECTION 5.37. Minimum Marketable Investments. The fair market value of the Marketable Investments in Borrower's Securities Account (as such term is defined in the Securities Account Control Agreement of even date herewith) and subject to a valid, enforceable and perfected first, priority lien and security interest for the benefit of the Agent, as agent for the Secured Parties, will at no time be less than \$15,000,000. As used herein, "Marketable Investments" means: (i) direct obligations of the United States Government or any agency or instrumentality thereof maturing within

one year from the date of acquisition, and (ii) investment securities and funds that are: (1) publicly traded on a national securities exchange; and (2) of a quality equivalent (or better) than the equity investments of Borrower on August 25, 2007 and set forth on Schedule 5.37.

ARTICLE VI

DEFAULTS

SECTION 6.01. Events of Default. If one or more of the following events (“Events of Default”) shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal of the Loan (including, without limitation, any Advance or Swing Line Advance) or shall fail to pay any interest on the Loan (including, without limitation, any Advance or Swing Line Advance) within five Domestic Business Days after such interest shall become due, or any Loan Party shall fail to pay any fee or other amount payable hereunder within five Domestic Business Days after such fee or other amount becomes due; or

(b) any Loan Party shall fail to observe or perform any covenant contained in Sections 5.02(ii), 5.03 to 5.18, inclusive, or Section 5.21, 5.32, 5.33, 5.34, 5.35, 5.36 or 5.37; or

(c) any Loan Party shall fail to observe or perform any covenant or agreement contained or incorporated by reference in this Agreement (other than those covered by clause (a) or (b) above) for thirty days after the earlier of (i) the first day on which any Loan Party has knowledge of such failure or (ii) written notice thereof has been given to the Borrower by the Agent at the request of any Bank; or

(d) any representation, warranty, certification or statement made or deemed made by the Loan Parties in Article IV of this Agreement or in any financial statement, material certificate or other material document delivered pursuant to this Agreement shall prove to have been incorrect or misleading in any material respect when made (or deemed made); or

(e) any Loan Party or any Subsidiary of a Loan Party shall fail to make any payment in respect of Debt in an aggregate amount outstanding in excess of \$1,000,000 (other than the Notes) when due or within any applicable grace period; or

(f) any event or condition shall occur which results in the acceleration of the maturity of Debt outstanding of any Loan Party or any Subsidiary of a Loan Party in an aggregate amount in excess of \$1,000,000 or the mandatory prepayment or purchase of such Debt by any Loan Party (or its designee) or such Subsidiary of a Loan Party (or its designee) prior to the scheduled maturity thereof, or enables (or, with the giving of notice or lapse of time or both, would enable) the holders of such Debt or any Person acting on such holders’ behalf to accelerate the maturity thereof or require the mandatory prepayment or purchase thereof prior to the scheduled maturity thereof, without regard to whether such holders or other Person shall have exercised or waived their right to do so; or

(g) any Loan Party or any Subsidiary of a Loan Party shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a

general assignment for the benefit of creditors, or shall fail generally, or shall admit in writing its inability, to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(h) an involuntary case or other proceeding shall be commenced against any Loan Party or any Subsidiary of a Loan Party seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against any Loan Party or any Subsidiary of a Loan Party under the federal bankruptcy laws as now or hereafter in effect; or

(i) any Loan Party or any member of the Controlled Group shall fail to pay when due any material amount which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans shall be filed under Title IV of ERISA by any Loan Party, any member of the Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any such Plan or Plans or a proceeding shall be instituted by a fiduciary of any such Plan or Plans to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any such Plan or Plans must be terminated; or

(j) one or more judgments or orders for the payment of money in an aggregate amount in excess of \$1,000,000 shall be rendered against any Loan Party or any Subsidiary of a Loan Party and such judgment or order shall continue unsatisfied and unstayed for a period of 30 days; or

(k) a federal tax lien shall be filed against any Loan Party or any Subsidiary of a Loan Party under Section 6323 of the Code or a lien of the PBGC shall be filed against any Loan Party or any Subsidiary of a Loan Party under Section 4068 of ERISA and in either case such lien shall remain undischarged for a period of 25 days after the date of filing; or

(l)(i) any Person or two or more Persons acting in concert shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of the voting stock of the Borrower; or (ii) as of any date a majority of the Board of Directors of the Borrower consists of individuals who were not either (A) directors of the Borrower as of the corresponding date of the previous year, (B) selected or nominated to become directors by the Board of Directors of the Borrower of which a majority consisted of individuals described in clause (A), or (C) selected or nominated to become directors by the Board of Directors of the Borrower of which a majority consisted of individuals described in clause (A) and individuals described in clause (B); or

(m) there shall have occurred material uninsured damage to, or loss, theft or destruction of, any material part of the Collateral; or

(n) a default or event of default shall occur and be continuing under any of the Collateral Documents, Licensee Loan Guarantees or Letter of Credit Agreements or any Borrower, Pledgor Subsidiary or Guarantor shall fail to observe or perform any obligation to be observed or performed by it under any Collateral Document, Licensee Loan Guaranty or Letter of Credit Agreements, and such default, event of default or failure to perform or observe any obligation continues beyond any applicable cure or grace period provided in such Collateral Document, Licensee Loan Guaranty or Letter of Credit Agreement; or

(o) the Borrower shall at any time fail to own 99% of the outstanding partnership interests of the Bassett Asset Fund; or

(p) the occurrence of any event, act or condition which the Required Banks determine either does or has a reasonable probability of causing a Material Adverse Effect; or

(q) a default or event of default shall occur and be continuing under the Hedge Agreement or any Loan Party shall fail to observe or perform any obligation to be observed or performed by it under the Hedge Agreement or the Hedge Agreement is terminated without the prior written consent of the Hedge Bank,

then, and in every such event, the Agent shall (i) if requested by the Required Banks, by notice to the Borrower terminate the Commitments and they shall thereupon terminate, (ii) if requested by the Swing Line Lender, by notice to the Borrower terminate the Swing Line facility set forth in Section 2.15, (iii) if requested by the Required Banks, by notice to the Issuing Banks, instruct the Issuing Banks to declare an Event of Default under the Letter of Credit Agreements, and (iv) if requested by the Required Banks, by notice to the Borrower declare the Notes (together with accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents to be, and the Notes (together with all accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Parties; provided that if any Event of Default specified in clause (g) or (h) above occurs with respect to any Loan Party, without any notice to any Loan Party or any other act by the Agent or the Banks, the Commitments and the Swing Line facility set forth in Section 2.15 shall thereupon automatically terminate and the Notes (together with accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents shall automatically become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Parties. Notwithstanding the foregoing, the Agent shall have available to it all other remedies at law or equity, and shall exercise any one or all of them at the request of the Required Banks. Notwithstanding the foregoing, the Agent shall have available to it all rights and remedies provided under the Loan Documents (including, without limitation, the Collateral Documents) and in addition thereto, all other rights and remedies at law or equity, and the Agent shall exercise any one or all of them at the request of the Required Banks.

SECTION 6.02. Notice of Default. The Agent shall give notice to the Borrower of any Default under Section 6.01(c) promptly upon being requested to do so by any Bank and shall thereupon notify all the Banks thereof.

SECTION 6.03 Cash Cover. If any Event of Default shall have occurred and be continuing, the Borrower shall, if requested by the Agent, pay to the Agent, for the benefit of the Banks an amount in immediately available funds (which funds shall be held as collateral pursuant to arrangements satisfactory to the Agent) equal to the aggregate Undrawn Amounts, provided that, if any Event of Default specified in clause (g) or (h) above occurs, the Borrower shall be obligated to pay such amount to the Agent forthwith without any notice to the Borrower or any other act by the Agent.

SECTION 6.04. Approved Funds. In furtherance and not in limitation of any right or remedy of the Agent, the Issuing Banks, the Swing Line Lender or the Banks, the Borrower agrees that upon the occurrence of an Event of Default: (1) without any notice to the Borrower or other act by the

Agent, the Issuing Banks, the Swing Line Lender or the Banks, the Borrower shall immediately (and shall continue during the continuance of such Event of Default) withdraw from the Approved Funds the maximum amount of cash, cash equivalents and other distributions which may be withdrawn in accordance with the terms of such Approved Fund (which in the case of the Bassett Asset Fund shall be governed by that certain Limited Partnership Agreement dated July 1, 1998 by and among Private Advisors, LLC as general partner and the Borrower as limited partner, as amended by amendments dated December 1, 1998 and Second Amendment to Limited Partnership Agreement dated February 23, 2000 and that certain Third Amendment to Limited Partnership Agreement dated October 25, 2000) which funds shall be held as collateral pursuant to arrangements satisfactory to the Agent and shall be in an amount no less than \$15,000,000; and (2) grant to the Agent for the benefit of the Secured Parties a first priority lien on and security interest upon all of the Borrower's right, title and interest in and to the Approved Funds including, without limitation, any and all rights of the Borrower as a limited partner in the Bassett Asset Fund together with any and all payments, distributions and other amounts payable to the Borrower. In connection with such liens, the Borrower shall immediately execute security agreements, financing statements and such other agreements, documents and certificates as the Agent shall reasonably request.

SECTION 6.05. Allocation of Proceeds. If an Event of Default has occurred and not been waived, and the maturity of the Notes has been accelerated pursuant to Article VI hereof, all payments received by the Agent hereunder, in respect of any principal of or interest on the Obligations or any other amounts payable by the Borrower or any other Loan Party hereunder, shall be applied by the Agent in the following order:

- (a) the reasonable expenses incurred in connection with retaking, holding, preserving, processing, maintaining or preparing for sale, lease or other disposition of, any Collateral, including reasonable attorney's fees and legal expenses pertaining thereto;
- (b) amounts due to the Banks, Agent and the Issuing Banks pursuant to Sections 2.7(a), 2.7(b), 2.7(c), 2.7(d) and 9.03(a);
- (c) payments of interest on Advances, Swing Line Advances, Licensee Loans and Letter of Credit Advances, to be applied for the ratable benefit of the Banks (with amounts payable in respect of Swing Line Advances and Licensee Loans being included in such calculation and paid to the Swing Line Lender or Licensee Lender, as the case may be);
- (d) payments of principal of Advances, Swing Line Advances, Licensee Loans and Letter of Credit Advances, to be applied for the ratable benefit of the Banks (with amounts payable in respect of Swing Line Advances and Licensee Loans being included in such calculation and paid to the Swing Line Lender or Licensee Lender, as the case may be);
- (e) payments of cash amounts to the Agent in respect of outstanding Letters of Credit pursuant to Section 6.03;
- (f) payments of cash amounts to the Licensee Lender in respect of Licensee Loans, pursuant to Section 2 of the Licensee Loan Guaranty;
- (g) amounts due to the Issuing Banks, the Agent and the Banks pursuant to Sections 7.05 and 9.03(b) and (c);

- (h) payments of all other amounts due under any of the Loan Documents, if any, to be applied for the ratable benefit of the Secured Parties;
- (i) any surplus remaining after application as provided for herein, to the Borrower or otherwise as may be required by applicable law.

ARTICLE VII

THE AGENT

SECTION 7.01. Appointment, Powers and Immunities. Each Bank hereby irrevocably appoints and authorizes the Agent to act as its agent hereunder and under the other Loan Documents with such powers as are specifically delegated to the Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. The Agent: (a) shall have no duties or responsibilities except as expressly set forth in this Agreement and the other Loan Documents, and shall not by reason of this Agreement or any other Loan Document be a trustee for any Bank; (b) shall not be responsible to the Banks for any recitals, statements, representations or warranties contained in this Agreement or any other Loan Document, or in any certificate or other document referred to or provided for in, or received by any Bank under, this Agreement or any other Loan Document, or for the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or any other document referred to or provided for herein or therein or for any failure by any Loan Party to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder or under any other Loan Document except to the extent requested by the Required Banks, and then only on terms and conditions satisfactory to the Agent, and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other Loan Document or any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The provisions of this Article VII are solely for the benefit of the Agent and the Banks, and no Loan Party shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement and under the other Loan Documents, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for the Loan Parties. The duties of the Agent shall be ministerial and administrative in nature, and the Agent shall not have by reason of this Agreement or any other Loan Document a fiduciary relationship in respect of any Bank.

SECTION 7.02. Reliance by Agent. The Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telefax, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants or other experts selected by the Agent. As to any matters not expressly provided for by this Agreement or any other Loan Document, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and thereunder in accordance with instructions signed by the Required Banks, and such instructions of the Required Banks in any action taken or failure to act pursuant thereto shall be binding on all of the Banks.

SECTION 7.03. Defaults. The Agent shall not be deemed to have knowledge of the occurrence of a Default or an Event of Default (other than the non-payment of principal of or interest on the Loans) unless the Agent has received notice from a Bank or the Borrower specifying such Default or

Event of Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default or an Event of Default, the Agent shall give prompt notice thereof to the Banks. The Agent shall give each Bank prompt notice of each non-payment of principal or interest on the Loan, whether or not it has received any notice of the occurrence of such non-payment. The Agent shall (subject to Section 9.05) take such action with respect to such Default or Event of Default as shall be directed by the Required Banks, provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

SECTION 7.04. Rights of Agent and its Affiliates as a Bank. With respect to any Advance made by BB&T or an Affiliate of BB&T, such Affiliate and BB&T in their capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not an Affiliate of BB&T (or in BB&T's case, acting as the Agent), and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include such Affiliate of BB&T or BB&T in its individual capacity. Such Affiliate and BB&T may (without having to account therefor to any Bank) accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with any Loan Party (and any of the Affiliates of any Loan Party) as if they were not an Affiliate of the Agent or the Agent, respectively; and such Affiliate and BB&T may accept fees and other consideration from any Loan Party (in addition to any agency fees and arrangement fees heretofore agreed to between the Borrower and BB&T) for services in connection with this Agreement or any other Loan Document or otherwise without having to account for the same to the Banks.

SECTION 7.05. Indemnification. Each Bank severally agrees to indemnify the Agent, to the extent the Agent shall not have been reimbursed by the Borrower, ratably in accordance with its Commitment, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including, without limitation, counsel fees and disbursements) or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement or any other Loan Document or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (excluding, unless an Event of Default has occurred and is continuing, the normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or any such other documents; provided, however, that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. If any indemnity furnished to the Agent for any purpose shall, in the opinion of the Agent, be insufficient or become impaired, the Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished.

SECTION 7.06. CONSEQUENTIAL DAMAGES. THE AGENT SHALL NOT BE RESPONSIBLE OR LIABLE TO ANY BANK, THE BORROWER OR ANY OTHER PERSON OR ENTITY FOR ANY PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

SECTION 7.07. Payee of Note Treated as Owner. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof shall have been filed with the Agent and the provisions of Section 9.07(c) have been satisfied. Any requests, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of that Note or of any Note or Notes issued in exchange therefor or replacement thereof.

SECTION 7.08. Non-Reliance on Agent and Other Banks. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Loan Parties and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any of the other Loan Documents. The Agent shall not be required to keep itself (or any Bank) informed as to the performance or observance by the Loan Parties of this Agreement or any of the other Loan Documents or any other document referred to or provided for herein or therein or to inspect the properties or books of the Borrower or any other Person. Except for notices, reports and other documents and information expressly required to be furnished to the Banks by the Agent hereunder or under the other Loan Documents, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Loan Parties or any other Person (or any of their Affiliates) which may come into the possession of the Agent.

SECTION 7.09. Failure to Act. Except for action expressly required of the Agent hereunder or under the other Loan Documents, the Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction by the Banks of their indemnification obligations under Section 7.05 against any and all liability and expense which may be incurred by the Agent by reason of taking, continuing to take, or failing to take any such action.

SECTION 7.10. Resignation or Removal of Agent. Subject to the appointment and acceptance of a successor Agent as provided below, the Agent may resign at any time by giving notice thereof to the Banks and the Borrower and the Agent may be removed at any time with or without cause by the Required Banks. Upon any such resignation or removal, the Required Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Agent's notice of resignation or the Required Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent. Any successor Agent shall be a bank which has a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder.

ARTICLE VIII

CHANGE IN CIRCUMSTANCES; COMPENSATION

SECTION 8.01. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period:

(a) the Agent determines that deposits in Dollars (in the applicable amounts) are not being offered in the relevant market for such Interest Period, or

(b) the Required Banks advise the Agent that the London Interbank Offered Rate as determined by the Agent will not adequately and fairly reflect the cost to such Banks of funding the Advances for such Interest Period,

the Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Banks to make Euro-Dollar Loans shall be suspended. Unless the Borrower notifies the Agent at least 2 Domestic Business Days before the date of any Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Prime Rate Borrowing.

SECTION 8.02. Illegality. If, after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any existing or future law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof (any such authority, bank or agency being referred to as an "Authority" and any such event being referred to as a "Change of Law"), or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any Authority shall make it unlawful or impossible for any Bank (or its Lending Office) to make, maintain or fund its Euro-Dollar Loan and such Bank shall so notify the Agent, the Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon until such Bank notifies the Borrower and the Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make its portion of the Euro-Dollar Loan shall be suspended. Before giving any notice to the Agent pursuant to this Section, such Bank shall designate a different Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such Bank shall determine that it may not lawfully continue to maintain and fund any of its portion of the outstanding Euro-Dollar Loan to maturity and shall so specify in such notice, the Borrower shall immediately prepay in full the then outstanding principal amount of the Euro-Dollar Loan of such Bank, together with accrued interest thereon and any amount due such Bank pursuant to Section 8.05(a). Concurrently with prepaying such Euro-Dollar Loan, the Borrower shall borrow a Prime Rate Loan in an equal principal amount from such Bank (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Banks), and such Bank shall make such a Prime Rate Loan.

SECTION 8.03. Increased Cost and Reduced Return. (a) If after the date hereof, a Change of Law or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any Authority:

(i) shall subject any Bank (or its Lending Office) to any tax, duty or other charge with respect to its Euro-Dollar Loan, its Notes or its obligation to make a Euro-Dollar Loan, or shall change the basis of taxation of payments to any Bank (or its Lending Office) of the principal or interest on its Euro-Dollar Loan or any other amounts due under this Agreement in respect of its Euro-Dollar Loan or its obligation to make a Euro-Dollar Loan (except for changes in the rate of tax on the overall net income of such Bank or its Lending Office imposed by the jurisdiction in which such Bank's principal executive office or Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding any such requirement included in an applicable Euro-Dollar Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Lending Office); or

(iii) shall impose on any Bank (or its Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loan, its Notes or its obligation to make a Euro-Dollar Loan;

and the result of any of the foregoing is to increase the cost to such Bank (or its Lending Office) of making or maintaining any Euro-Dollar Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Lending Office) under this Agreement or under its Notes with respect thereto, by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

(b) If any Bank shall have determined that after the date hereof the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any existing or future law, rule or regulation, or any change in the interpretation or administration thereof, or compliance by any Bank (or its Lending Office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any Authority, has or would have the effect of reducing the rate of return on such Bank's capital as a consequence of its obligations hereunder to a level below that which such Bank could have achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank, the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(c) Each Bank will promptly notify the Borrower and the Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

(d) The provisions of this Section 8.03 shall be applicable with respect to any Participant, Assignee or other Transferee, and any calculations required by such provisions shall be made based upon the circumstances of such Participant, Assignee or other Transferee.

SECTION 8.04. Prime Rate Loans Substituted for Affected Euro-Dollar Loans. If (i) the obligation of any Bank to make or maintain a Euro-Dollar Loan has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03, and the Borrower shall, by at least 5 Euro-Dollar Business Days' prior notice to such Bank through the Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(a) all Advances which would otherwise be made by such Bank as part of a Euro-Dollar Loan shall be made instead as a Prime Rate Loan, and

(b) after its portion of the Euro-Dollar Loan has been repaid, all payments of principal which would otherwise be applied to repay such Euro-Dollar Loan shall be applied to repay its Prime Rate Loan instead.

In the event that the Borrower shall elect that the provisions of this Section shall apply to any Bank, the Borrower shall remain liable for, and shall pay to such Bank as provided herein, all amounts due such Bank under Section 8.03 in respect of the period preceding the date of conversion of such Bank's portion of the Loan resulting from the Borrower's election.

SECTION 8.05. Compensation. Upon the request of any Bank, delivered to the Borrower and the Agent, the Borrower shall pay to such Bank such amount or amounts as shall compensate such Bank for any loss, cost or expense incurred by such Bank as a result of:

(a) any payment or prepayment (pursuant to Section 2.09, Section 2.10, Section 8.02 or otherwise) of a Euro-Dollar Loan on a date other than the last day of an Interest Period for such Euro-Dollar Loan;

(b) any failure by the Borrower to prepay a Euro-Dollar Loan on the date for such prepayment specified in the relevant notice of prepayment hereunder; or

(c) any failure by the Borrower to borrow a Euro-Dollar Loan on the date for the Borrowing specified in the applicable Notice of Borrowing delivered pursuant to Section 2.02.

such compensation to include, without limitation, an amount equal to the excess, if any, of (x) the amount of interest which would have accrued on the amount so paid or prepaid or not prepaid or borrowed for the period from the date of such payment, prepayment or failure to prepay or borrow to the last day of the then current Interest Period for such Euro-Dollar Loan (or, in the case of a failure to prepay or borrow, the Interest Period for such Euro-Dollar Loan which would have commenced on the date of such failure to prepay or borrow) at the applicable rate of interest for such Euro-Dollar Loan provided for herein over (y) the amount of interest (as reasonably determined by such Bank) such Bank would have paid on deposits in Dollars of comparable amounts having terms comparable to such period placed with it by leading banks in the London interbank market.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission or similar writing) and shall be given to such party at its address or telecopy number set forth on the signature pages hereof or such other address or telecopy number as such party may hereafter specify for the purpose by notice to each other party. Each such notice, request or other communication shall be effective (i) if given by telecopier, when such telecopy is transmitted to the telecopy number specified in this Section and the telecopy machine used by the sender provides a written confirmation that such telecopy has been so transmitted or receipt of such telecopy transmission is otherwise confirmed, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, and (iii) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Agent under Article II or Article VIII shall not be effective until received.

SECTION 9.02. No Waivers. No failure or delay by the Agent or any Bank in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 9.03. Expenses; Documentary Taxes; Indemnification. (a) The Loan Parties shall, jointly and severally, pay (i) all expenses of the Agent, including fees and disbursements of the Agent in connection with any field audits and investigations and fees and disbursements of special counsel for the Agent, in connection with the preparation of this Agreement and the other Loan Documents, any waiver or consent hereunder or thereunder or any amendment hereof or thereof or any Default or alleged Default hereunder or thereunder and (ii) if a Default occurs, all out-of-pocket expenses incurred by the Agent or any Bank, including fees and disbursements of counsel, in connection with such Default and collection and other enforcement proceedings resulting therefrom, including out-of-pocket expenses incurred in enforcing this Agreement and the other Loan Documents.

(b) The Loan Parties shall, jointly and severally, indemnify the Agent and each Bank against any transfer taxes, documentary taxes, assessments or charges made by any Authority by reason of the execution and delivery of this Agreement or the other Loan Documents.

(c) The Loan Parties shall, jointly and severally, indemnify the Agent, the Banks and each Affiliate thereof and their respective directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims or damages to which any of them may become subject, insofar as such losses, liabilities, claims or damages arise out of or result from any actual or proposed use by the Borrower of the proceeds of any extension of credit by any Bank hereunder or breach by any Loan Party of this Agreement or any other Loan Document or from investigation, litigation (including, without limitation, any actions taken by the Agent or any of the Banks to enforce this Agreement or any of the other Loan Documents) or other proceeding (including, without limitation, any threatened investigation or proceeding) relating to the foregoing, and the Loan Parties shall reimburse the Agent and each Bank, and each Affiliate thereof and their respective directors, officers, employees and agents, upon demand for any expenses (including, without limitation, legal fees) incurred in connection with any such investigation or proceeding; but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified.

SECTION 9.04. Setoffs; Sharing of Set-Offs. (a) Each Loan Party hereby grants to each Bank, as security for the full and punctual payment and performance of the obligations of each Loan Party under this Agreement, a continuing lien on and security interest in all deposits and other sums credited by or due from such Bank to such Loan Party or subject to withdrawal by such Loan Party; and regardless of the adequacy of any collateral or other means of obtaining repayment of such obligations, each Bank may at any time upon or after the occurrence of any Event of Default, and without notice to any Loan Party, set off the whole or any portion or portions of any or all such deposits and other sums against such obligations, whether or not any other Person or Persons could also withdraw money therefrom.

(b) Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest owing with respect to the Letter of Credit Advances and Notes held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of all Letter of Credit Advances and principal and interest owing with respect to the Notes held by such other Bank, the Bank

receiving such proportionately greater payment shall purchase such participations in the Letter of Credit Advances and Notes held by the other Banks owing to such other Banks, and/or such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Letter of Credit Advances and Notes held by the Banks owing to such other Banks shall be shared by the Banks pro rata; provided that (i) nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Loan Parties other than its indebtedness under the Letter of Credit Advances and Notes, and (ii) if all or any portion of such payment received by the purchasing Bank is thereafter recovered from such purchasing Bank, such purchase from each other Bank shall be rescinded and such other Bank shall repay to the purchasing Bank the purchase price of such participation to the extent of such recovery together with an amount equal to such other Bank's ratable share (according to the proportion of (x) the amount of such other Bank's required repayment to (y) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Loan Parties agree, to the fullest extent they may effectively do so under applicable law, that any holder of a participation in the Letter of Credit Advances or Notes, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Loan Parties in the amount of such participation.

SECTION 9.05. Amendments and Waivers. (a) Any provision of this Agreement, the Notes or any other Loan Documents may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Banks (and, if the rights or duties of the Agent are affected thereby, by the Agent); provided that no such amendment or waiver shall, unless signed by all the Banks, (i) change the Commitment of any Bank or subject any Bank to any additional obligation, (ii) change the principal of or decrease the rate of interest on any Advance or decrease any fees (excluding Facing Fees and other fees payable solely to an Issuing Bank for its own account) hereunder, (iii) change the date fixed for any payment of principal of or interest on any Advance or any fees (excluding Facing Fees and other fees payable solely to an Issuing Bank for its own account) hereunder, (iv) change the amount of principal, decrease the amount of interest or decrease the amount of fees (excluding Facing Fees and other fees payable solely to an Issuing Bank for its own account) due on any date fixed for the payment thereof, (v) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the percentage of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement, (vi) change the manner of application of any payments made under this Agreement or the other Loan Documents, (vii) release or substitute all or any substantial part of the Collateral held as security for the Obligations, (viii) change or modify the definitions of "Borrowing Base", "Eligible Accounts" or "Eligible Inventory", or (ix) release any guaranty given to support payment of the Guaranteed Obligations and provided further that: (I) no amendment or waiver shall, unless signed by the Swing Line Lender, (A) modify or amend Section 2.15; or (B) change in any manner, any term or condition applicable to the Swing Line Advances; and (II) no amendment or waiver shall, unless signed by the Issuing Banks, (A) modify or amend Section 2.03; or (B) change in any manner, any term or condition applicable to the Letters of Credit or the Letter of Credit Agreements. The amount of Facing Fees and other fees payable solely to the Issuing Banks for their own account may be amended, from time to time, by the Borrower and the Issuing Banks, without the approval of any of the Banks by the Borrower and the Issuing Banks.

(b) No Loan Party will solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement unless each Bank shall be informed thereof by the Borrower and shall be afforded an opportunity of considering the same and shall be supplied by the Borrower with sufficient information to enable it to make an informed decision with respect thereto. Executed or true and correct copies of any waiver or consent effected pursuant to the

provisions of this Agreement shall be delivered by the Borrower to each Bank forthwith following the date on which the same shall have been executed and delivered by the requisite percentage of Banks. No Loan Party will, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any Bank (in its capacity as such) as consideration for or as an inducement to the entering into by such Bank of any waiver or amendment of any of the terms and provisions of this Agreement unless such remuneration is concurrently paid, on the same terms, ratably to all such Banks.

SECTION 9.06. Margin Stock Collateral. Each of the Banks represents to the Agent and each of the other Banks that it in good faith is not, directly or indirectly (by negative pledge or otherwise), relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Agreement.

SECTION 9.07. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that no Loan Party may assign or otherwise transfer any of its rights under this Agreement.

(b) Any Bank may at any time sell to one or more Persons (each a "Participant") participating interests in any Advance owing to such Bank, any Note held by such Bank, any Commitment hereunder or any other interest of such Bank hereunder. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank's obligations under this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Note for all purposes under this Agreement, and the Borrower and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. In no event shall a Bank that sells a participation be obligated to the Participant to take or refrain from taking any action hereunder except that such Bank may agree that it will not (except as provided below), without the consent of the Participant, agree to (i) the change of any date fixed for the payment of principal of or interest on the related Advance or Advances, (ii) the change of the amount of any principal, interest or fees due on any date fixed for the payment thereof with respect to the related Advance or Advances, (iii) the change of the principal of the related Advance or Advances, (iv) any change in the rate at which either interest is payable thereon or (if the Participant is entitled to any part thereof) facility fee is payable hereunder from the rate at which the Participant is entitled to receive interest or facility fee (as the case may be) in respect of such participation, (v) the release or substitution of all or any substantial part of the collateral (if any) held as security for the Obligations, or (vi) the release of any guaranty given to support payment of the Guaranteed Obligations. Each Bank selling a participating interest in any Advance, Note, Commitment or other interest under this Agreement shall, within 10 Domestic Business Days of such sale, provide the Borrower and the Agent with written notification stating that such sale has occurred and identifying the Participant and the interest purchased by such Participant. The Loan Parties agree that each Participant shall be entitled to the benefits of Article VIII with respect to its participation in Loans outstanding from time to time.

(c) Any Bank may at any time assign to one or more banks or financial institutions (each an "Assignee") all, or a proportionate part of all, of its rights and obligations under this Agreement, the Notes and the other Loan Documents, and such Assignee shall assume all such rights and obligations, pursuant to an Assignment and Acceptance in the form attached hereto as Exhibit J, executed by such Assignee, such transferor Bank and the Agent (and, in the case of: (i) an Assignee that is not then a Bank or an Affiliate of a Bank; and (ii) an assignment not made during the existence of a Default or an Event of Default, by the Borrower); provided that (i) no interest may be sold by a Bank pursuant to this paragraph (c) unless the Assignee shall agree to assume ratably equivalent portions of the transferor Bank's Commitment, (ii) the amount of the Commitment of the assigning Bank being assigned pursuant

to such assignment (determined as of the effective date of the assignment) shall be equal to \$5,000,000 (or any larger multiple of \$1,000,000), (iii) no interest may be sold by a Bank pursuant to this paragraph (c) to any Assignee that is not then a Bank or an Affiliate of a Bank without the consent of the Borrower, which consent shall not be unreasonably withheld, provided that the Borrower's consent shall not be necessary with respect to any assignment made during the existence of a Default or an Event of Default; (iv) a Bank may not have more than two Assignees that are not then Banks at any one time, and (v) no interest may be sold by a Bank pursuant to this paragraph (c) to any Assignee that is not then a Bank or an Affiliate of a Bank, without the consent of the Agent, which consent shall not be unreasonably withheld, provided, that although the Agent's consent may not be necessary with respect to an Assignee that is then a Bank or an Affiliate of a Bank, no such assignment shall be effective until the conditions set forth in the following sentence are satisfied. Upon (A) execution of the Assignment and Acceptance by such transferor Bank, such Assignee, the Agent and (if applicable) the Borrower, (B) delivery of an executed copy of the Assignment and Acceptance to the Borrower and the Agent, (C) payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, and (D) payment by the assigning Bank of a processing and recordation fee of \$3,500 to the Agent if the Assignee is not a Bank or Affiliate of a Bank and \$1,000 if the Assignee is a Bank or Affiliate of a Bank, such Assignee shall for all purposes be a Bank party to this Agreement and shall have all the rights and obligations of a Bank under this Agreement to the same extent as if it were an original party hereto with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by the Borrower, the Banks or the Agent shall be required. Upon the consummation of any transfer to an Assignee pursuant to this paragraph (c), the transferor Bank, the Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to each of such Assignee and such transferor Bank.

(d) Subject to the provisions of Section 9.08, the Loan Parties authorize each Bank to disclose to any Participant, Assignee or other transferee (each a "Transferee") and any prospective Transferee any and all financial and other information in such Bank's possession concerning the Loan Parties which has been delivered to such Bank by the Loan Parties pursuant to this Agreement or which has been delivered to such Bank by the Loan Parties in connection with such Bank's credit evaluation prior to entering into this Agreement.

(e) No Transferee shall be entitled to receive any greater payment under Section 8.03 than the transferor Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Borrower's prior written consent or by reason of the provisions of Section 8.02 or 8.03 requiring such Bank to designate a different Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

(f) Anything in this Section 9.07 to the contrary notwithstanding, any Bank may assign and pledge all or any portion of the Loan and/or obligations owing to it to any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned Loan and/or obligations made by the Borrower to the assigning and/or pledging Bank in accordance with the terms of this Agreement shall satisfy the Borrower's obligations hereunder in respect of such assigned Loan and/or obligations to the extent of such payment. No such assignment shall release the assigning and/or pledging Bank from its obligations hereunder.

SECTION 9.08. Confidentiality. Each Bank agrees to exercise its best efforts to keep any information delivered or made available by the Loan Parties to it which is clearly indicated to be confidential information, confidential from anyone other than persons employed or retained by such Bank who are or are expected to become engaged in evaluating, approving, structuring or administering the Loan; provided, however, that nothing herein shall prevent any Bank from disclosing such information (i) to any other Bank, (ii) upon the order of any court or administrative agency, (iii) upon the request or demand of any regulatory agency or authority having jurisdiction over such Bank, (iv) which has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which the Agent, any Bank or their respective Affiliates may be a party, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to such Bank's legal counsel and independent auditors and (viii) to any actual or proposed Participant, Assignee or other Transferee of all or part of its rights hereunder which has agreed in writing to be bound by the provisions of this Section 9.08.

SECTION 9.09. Representation by Banks. Each Bank hereby represents that it is a commercial lender or financial institution which makes loans in the ordinary course of its business and that it will make its Advances hereunder for its own account in the ordinary course of such business; provided, however, that, subject to Section 9.07, the disposition of the Note or Notes held by that Bank shall at all times be within its exclusive control.

SECTION 9.10. Obligations Several. The obligations of each Bank hereunder are several, and no Bank shall be responsible for the obligations or commitment of any other Bank hereunder. Nothing contained in this Agreement and no action taken by the Banks pursuant hereto shall be deemed to constitute the Banks to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Bank shall be a separate and independent debt, and each Bank shall be entitled to protect and enforce its rights arising out of this Agreement or any other Loan Document and it shall not be necessary for any other Bank to be joined as an additional party in any proceeding for such purpose.

SECTION 9.11. Survival of Certain Obligations. Sections 8.03(a), 8.03(b), 8.05 and 9.03, and the obligations of the Loan Parties thereunder, shall survive, and shall continue to be enforceable notwithstanding, the termination of this Agreement, the Swing Line facility described in Section 2.15 and the Commitments and the payment in full of the principal of and interest on all Advances and Swing Line Advances.

SECTION 9.12. North Carolina Law. This Agreement and each Note shall be construed in accordance with and governed by the law of the State of North Carolina.

SECTION 9.13. Severability. In case any one or more of the provisions contained in this Agreement, the Notes or any of the other Loan Documents should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby and shall be enforced to the greatest extent permitted by law.

SECTION 9.14. Interest. In no event shall the amount of interest due or payable hereunder or under the Notes exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made to any Bank by the Borrower or inadvertently received by any Bank, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify such Bank in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Banks not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

SECTION 9.15. Interpretation. No provision of this Agreement or any of the other Loan Documents shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.

SECTION 9.16. Consent to Jurisdiction. The Loan Parties (a) submit to personal jurisdiction in the State of North Carolina, the courts thereof and the United States District Courts sitting therein, for the enforcement of this Agreement, the Notes and the other Loan Documents, (b) waives any and all personal rights under the law of any jurisdiction to object on any basis (including, without limitation, inconvenience of forum) to jurisdiction or venue within the State of North Carolina for the purpose of litigation to enforce this Agreement, the Notes or the other Loan Documents, and (c) agrees that service of process may be made upon it in the manner prescribed in Section 9.01 for the giving of notice to the Borrower. Nothing herein contained, however, shall prevent the Agent from bringing any action or exercising any rights against any security and against the Loan Parties personally, and against any assets of the Loan Parties, within any other state or jurisdiction.

SECTION 9.17. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

SECTION 9.18. Post-Closing Actions. Notwithstanding anything to the contrary contained in this Agreement or the other Loan Documents, the parties hereto acknowledge and agree that not later than November 30, 2007, or such other date as may be agreed to by the Agent, in its sole discretion, the Borrower shall have delivered to the Agent Securities Account Control Agreements for such accounts and in form and content reasonably satisfactory to the Agent.

All provisions of this Agreement and the other Loan Documents (including, without limitation, all conditions precedent, representations, warranties, covenants, events of default and other agreements herein and therein) shall be deemed modified to the extent necessary to effect the foregoing (and to permit the taking of the actions described above within the time periods required above, rather than as otherwise provided in the Loan Documents); provided that (x) to the extent any representation and warranty would not be true because the foregoing actions were not taken on the date of this Agreement the respective representation and warranty shall be required to be true and correct in all material respects at the time the respective action is taken (or was required to be taken) in accordance with the foregoing provisions of this Section 9.18 and (y) all representations and warranties relating to the Collateral Documents shall be required to be true immediately after the actions required to be taken by this Section 9.18 have been taken (or were required to be taken). The acceptance of the benefits of the Advances shall constitute a covenant and agreement by each Loan Party to the Agent that the actions required pursuant to this Section 9.18 will be, or have been, taken within the relevant time periods referred to in this Section 9.18 and that, at such time, all representations and warranties contained in this Agreement and the other Loan Documents shall then be true and correct without any modification pursuant to this Section 9.18. The parties hereto acknowledge and agree that the failure to take any of the actions required above, within the relevant time periods required above, shall give rise to an immediate Event of Default pursuant to this Agreement.

ARTICLE X

GUARANTY

SECTION 10. Licensee Loan Guaranty. The Borrower hereby acknowledges and agrees that a termination of the Commitments under the Credit Agreement (whether on the Termination Date or at any time prior to the Termination Date for any reason) shall constitute termination of the Credit Agreement for purposes of subsection (f) of the definition of “Guaranty Trigger Event” set forth in the Licensee Loan Guarantees.

SECTION 10.01. Unconditional Guaranty. Each Guarantor hereby irrevocably, unconditionally and jointly and severally guarantees, each as a primary obligor and not merely as a surety, to the Agent, the Issuing Banks and the Banks (including, without limitation, the Swing Line Lender) the due and punctual payment of the principal of and the premium, if any, and interest on the Guaranteed Obligations and any and all other amounts due under or pursuant to the Loan Documents, when and as the same shall become due and payable (whether at stated maturity or by optional or mandatory prepayment or by declaration, redemption or otherwise) in accordance with the terms of the Loan Documents. The Guarantors’ guaranty under this Section is an absolute, present and continuing guarantee of payment and not of collectibility, and is in no way conditional or contingent upon any attempt to collect from the Borrower, any of the Guarantors or any other guarantor of the Guaranteed Obligations (or any portion thereof) or upon any other action, occurrence or circumstances whatsoever. In the event that the Borrower or any Guarantor shall fail so to pay any such principal, premium, interest or other amount to the Agent, an Issuing Bank or a Bank, the Guarantors will pay the same forthwith, without demand, presentment, protest or notice of any kind (all of which are waived by the Guarantors to the fullest extent permitted by law), in lawful money of the United States, at the place for payment specified in Loan Documents or specified by such Agent in writing, to such Agent. The Guarantors further agree, promptly after demand, to pay to the Agent, the Issuing Banks and Banks the costs and expenses incurred by such Agent, an Issuing Bank or Bank in connection with enforcing the rights of such Agent, Issuing Banks and Banks against the Borrower and any or all of the Guarantors (whether in a bankruptcy proceeding or otherwise) following any default in payment of any of the Guaranteed Obligations or the obligations of the Guarantors hereunder, including, without limitation, the fees and expenses of counsel to the Agent, Issuing Banks and such Banks.

SECTION 10.02. Obligations Absolute. The obligations of the Guarantors hereunder are and shall be absolute and unconditional, irrespective of the validity, regularity or enforceability of this Agreement, any of the Guaranteed Obligations or any of the Loan Documents, shall not be subject to any counterclaim, set-off, deduction or defense based upon any claim any of the Guarantors may have against the Borrower, any other Guarantor or the Agent, either Issuing Bank or any Bank hereunder or otherwise, and shall remain in full force and effect without regard to, and shall not be released, discharged or in any way affected by, to the fullest extent permitted by law, any circumstance or condition whatsoever (whether or not any of the Guarantors shall have any knowledge or notice thereof), including, without limitation:

(a) any amendment or modification of or supplement to any of the Loan Documents or any other instrument referred to herein or therein, or any assignment or transfer of any thereof or of any interest therein, or any furnishing or acceptance of additional security for any of the Guaranteed Obligations;

(b) any waiver, consent or extension under any Loan Document or any such other instrument, or any indulgence or other action or inaction under or in respect of, or any extensions or renewals of, any Loan Document, any such other instrument or any Guaranteed Obligation;

(c) any failure, omission or delay on the part of the Agent to enforce, assert or exercise any right, power or remedy conferred on or available to the Agent, either Issuing Bank or any Bank against the Borrower or any Guarantor, any Subsidiary of the Borrower or any other Guarantor;

(d) any bankruptcy, insolvency, readjustment, composition, liquidation or similar proceeding with respect to the Borrower, any Subsidiary of the Borrower or any Guarantor or any property of the Borrower or any such Subsidiary or any unavailability of assets against which the Guaranteed Obligations, or any of them, may be enforced;

(e) any merger or consolidation of the Borrower, any Subsidiary of the Borrower or any Guarantor or any of the Guarantors into or with any other Person or any sale, lease or transfer of any or all of the assets of any of the Guarantors, the Borrower or any Subsidiary of the Borrower to any Person;

(f) any failure on the part of the Borrower or any Subsidiary of the Borrower or any Guarantor for any reason to comply with or perform any of the terms of any agreement with any of the Guarantors;

(g) any exercise or non-exercise by the Agent, either Issuing Bank or any Bank, of any right, remedy, power or privilege under or in respect of any of the Loan Documents or the Guaranteed Obligations, including, without limitation, under this Section;

(h) any default, failure or delay, willful or otherwise, in the performance or payment of any of the Guaranteed Obligations;

(i) any furnishing or acceptance of security, or any release, substitution or exchange thereof, for any of the Guaranteed Obligations;

(j) any failure to give notice to any of the Guarantors of the occurrence of any breach or violation of, or any event of default or any default under or with respect to, any of the Loan Documents or the Guaranteed Obligations;

(k) any partial prepayment, or any assignment or transfer, of any of the Guaranteed Obligations; or

(l) any other circumstance (other than indefeasible payment in full) which might otherwise constitute a legal or equitable discharge or defense of a guarantor or which might in any manner or to any extent vary the risk of such Guarantor.

The Guarantors covenant that their respective obligations hereunder will not be discharged except by complete performance of the obligations contained in the Loan Documents and this Agreement and the final and indefeasible payment in full of the Guaranteed Obligations. The Guarantors unconditionally waive, to the fullest extent permitted by law (A) notice of any of the matters referred to in this Section, (B) any and all rights which any of the Guarantors may now or hereafter have arising under, and any right to claim a discharge of the Guarantor's obligations hereunder by reason of the failure or refusal by the Agent, either Issuing Bank or any Bank to take any action pursuant to a notice given under, Sections 26-7, 26-8 or 26-9 of the North Carolina General Statutes or any similar or successor provisions,

(C) all notices which may be required by statute, rule of law or otherwise to preserve any of the rights of the Agent, either Issuing Bank or any Bank against the Guarantors, including, without limitation, presentment to or demand of payment from the Borrower, any of the Borrower's Subsidiaries or any of the other Guarantors with respect to any Loan Document or this agreement, notice of acceptance of the Guarantors' guarantee hereunder and/or notice to the Borrower, any of the Borrower's Subsidiaries or any Guarantor of default or protest for nonpayment or dishonor, (D) any diligence in collection from or protection of or realization upon all or any portion of the Guaranteed Obligations or any security therefor, any liability hereunder, or any party primarily or secondarily liable for all or any portion of the Guaranteed Obligations, and (E) any duty or obligation of the Agent, either Issuing Bank or any Bank to proceed to collect all or any portion of the Guaranteed Obligations from, or to commence an action against, the Borrower, any Guarantor or any other Person, or to resort to any security or to any balance of any deposit account or credit on the books of the Agent, either Issuing Bank or any Bank in favor of the Borrower, any Guarantor or any other Person, despite any notice or request of any of the Guarantors to do so.

SECTION 10.03. Continuing Obligations; Reinstatement. The obligations of the Guarantors under this Article X are continuing obligations and shall continue in full force and effect until such time as all of the Guaranteed Obligations (and any renewals and extensions thereof) shall have been finally and indefeasibly paid and satisfied in full. The obligations of the Guarantors under this Article X shall continue to be effective or be automatically reinstated, as the case may be, if any payment made by the Borrower, any Guarantor or any Subsidiary of the Borrower or any Guarantor on, under or in respect of any of the Guaranteed Obligations is rescinded or must otherwise be restored or returned by the recipient upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower, any Guarantor or any such Subsidiary, or upon or as a result of the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to the Borrower, any Guarantor or any such Subsidiary or any substantial part of the property of the Borrower, any Guarantor or any such Subsidiary, or otherwise, all as though such payment had not been made. If an event permitting the acceleration of all or any portion of the Guaranteed Obligations shall at any time have occurred and be continuing, and such acceleration shall at such time be stayed, enjoined or otherwise prevented for any reason, including without limitation because of the pendency of a case or proceeding relating to the Borrower, any Guarantor or any Subsidiary of the Borrower or any Guarantor under any bankruptcy or insolvency law, for purposes of this Article X and the obligations of the Guarantors hereunder, such Guaranteed Obligations shall be deemed to have been accelerated with the same effect as if such Guaranteed Obligations had been accelerated in accordance with the terms of the applicable Loan Documents or of this Agreement.

SECTION 10.04. Additional Security, Etc. The Guarantors authorize the Agent on behalf of the Issuing Banks and Banks without notice to or demand on the Guarantors and without affecting their liability hereunder, from time to time (a) to obtain additional or substitute endorsers or guarantors; (b) to exercise or refrain from exercising any rights against, and grant indulgences to, the Borrower, any Subsidiary of the Borrower, any other Guarantor or others; and (c) to apply any sums, by whomsoever paid or however realized, to the payment of the principal of, premium, if any, and interest on, and other obligations consisting of, the Guaranteed Obligations. The Guarantors waive any right to require the Agent, either Issuing Bank or any Bank to proceed against any additional or substitute endorsers or guarantors or the Borrower or any of their Subsidiaries or any other Person or to pursue any other remedy available to the Agent, either Issuing Bank or any such Bank.

SECTION 10.05. Information Concerning the Borrowers. The Guarantors assume all responsibility for being and keeping themselves informed of the financial condition and assets of the Borrower, the other Guarantors and their respective Subsidiaries, and of all other circumstances bearing

upon the risk of nonpayment of the Guaranteed Obligations and the nature, scope and extent of the risks which the Guarantors assume and insure hereunder, and agree that neither the Agent, either Issuing Bank nor any Bank shall have any duty to advise the Guarantors of information known to the Agent, either Issuing Bank or any such Bank regarding or in any manner relevant to any of such circumstances or risks.

SECTION 10.06. Guarantors' Subordination. The Guarantors hereby absolutely subordinate, both in right of payment and in time of payment, any present and future indebtedness of the Borrower or any Subsidiary of the Borrower or any Guarantor to any or all of the Guarantors to the indebtedness of the Borrower or any such Subsidiary to the Issuing Banks or the Banks (or any of them), *provided* that the Guarantors may receive scheduled payments of principal, premium (if any) and interest in respect of such present or future indebtedness so long as there is no Event of Default then in existence.

SECTION 10.07. Waiver of Subrogation. Notwithstanding anything herein to the contrary, the Guarantors hereby waive any right of subrogation (under contract, Section 509 of the Bankruptcy Code or otherwise) or any other right of indemnity, reimbursement or contribution and hereby waive any right to enforce any remedy that the Agent, either Issuing Bank or any Bank now has or may hereafter have against the Borrower, any Guarantor or any endorser or any other guarantor of all or any part of the Guaranteed Obligations, and the Guarantors hereby waive any benefit of, and any right to participate in, any security or collateral given to the Agent, either Issuing Bank or any Bank to secure payment or performance of the Guaranteed Obligations or any other liability of the Borrower to the Agent, either Issuing Bank or any Bank. The waiver contained in this Section shall continue and survive the termination of this Agreement and the final and indefeasible payment in full of the Guaranteed Obligations.

SECTION 10.08. Enforcement. In the event that the Guarantors shall fail forthwith to pay upon demand of the Agent, either Issuing Bank or any Bank any amounts due pursuant to this Article X or to perform or comply with or to cause performance or compliance with any other obligation of the Guarantors under this Agreement, the Agent, either Issuing Bank or any Bank shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid or for the performance of or compliance with such terms, and may prosecute any such action or proceeding to judgment or final decree and may enforce such judgment or final decree against the Guarantors and collect in the manner provided by law out of the property of the Guarantors, wherever situated, any monies adjudged or decreed to be payable. The obligations of the Guarantors under this Agreement are continuing obligations and a fresh cause of action shall arise in respect of each default hereunder.

SECTION 10.09. Miscellaneous. Except as may otherwise be expressly agreed upon in writing, the liability of the Guarantors under this Article X shall neither affect nor be affected by any prior or subsequent guaranty by the Guarantors of any other indebtedness to the Agent, the Issuing Banks or the Banks. Notwithstanding anything in this Article X to the contrary, the maximum liability of each Guarantor hereunder shall in no event exceed the maximum amount which could be paid out by such Guarantor without rendering such Guarantor's obligations under this Article X, in whole or in part, void or voidable under applicable law, including, without limitation, (i) the Bankruptcy Code of 1978, as amended, and (ii) any applicable state or federal law relative to fraudulent conveyances.

SECTION 10.10. Amended, Restated and Replacement Agreement. This Agreement amends, restates and replaces in its entirety the Original Credit Agreement, all effective as of the Restatement Effective Date. Any reference to the "Bassett Credit Agreement" contained in a Licensee Loan Guaranty shall refer to this Agreement. The term "Financial Agreement" as defined in the Hedge Agreement shall include, without limitation, this Agreement.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, under seal, by their respective authorized officers as of the day and year first above written.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

[Corporate Seal]

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Barry C. Safrit
Telecopy number: (276) 629-6332
Telephone number: (276) 629-6000

BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, INC.

[Corporate Seal]

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Barry C. Safrit
Telecopy number: (276) 629-6332
Telephone number: (276) 629-6000

THE E.B. MALONE CORPORATION

[Corporate Seal]

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Barry C. Safrit
Telecopy number: (276) 629-6332
Telephone number: (276) 629-6000

BASSETT DIRECT STORES, INC.

[Corporate Seal]

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Barry C. Safrit
Telecopy number: (276) 629-6332
Telephone number: (276) 629-6000

BASSETT DIRECT NC, LLC

By: Bassett Direct Stores, Inc., its sole
Manager (SEAL)

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Barry C. Safrit
Telecopy number: (276) 629-6332
Telephone number: (276) 629-6000

BASSETT DIRECT SC, LLC

By: Bassett Direct Stores, Inc., its sole
Manager (SEAL)

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Barry C. Safrit
Telecopy number: (276) 629-6332
Telephone number: (276) 629-6000

COMMITMENTS

\$40,000,000

(Letter of Credit

Commitment: \$20,000,000)

TOTAL COMMITMENTS:

\$40,000,000.00

BRANCH BANKING AND TRUST COMPANY, as an Issuing
Bank, Swing Line Lender, Bank and an Agent

By: /s/ J.H. Sorrells, III (SEAL)

J.H. Sorrells, III, Senior Vice President

Branch Banking and Trust Company

2120 Langhorne Road

Lynchburg, Virginia 24501

Attention: J.H. Sorrells, III

Telecopy number: (434) 847-3839

Telephone number: (434) 847-3868

THIRD AMENDED AND RESTATED GENERAL SECURITY AGREEMENT

THIS THIRD AMENDED AND RESTATED GENERAL SECURITY AGREEMENT, dated as of the 31st day of October, 2007 (the "Agreement"), is made among BASSETT FURNITURE INDUSTRIES, INCORPORATED (the "Borrower"), BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, INC., THE E.B. MALONE CORPORATION, BASSETT DIRECT STORES, INC., BASSETT DIRECT NC, LLC AND BASSETT DIRECT SC, LLC (collectively, the "Guarantors," the Borrower and the Guarantors being collectively called the "Grantors"), and BRANCH BANKING AND TRUST COMPANY, as agent (in such capacity, the "Agent") for the Secured Parties as defined herein.

WITNESSETH:

RECITALS:

Reference is made to that certain Third Amended and Restated Credit Agreement dated as of October 31, 2007 (as amended or modified from time to time, the "Credit Agreement"), among the Borrower, the Guarantors, the financial institutions party thereto, as banks (the "Banks"), Branch Banking and Trust Company, as an Issuing Bank, Swing Line Lender and the Agent.

Each of the Guarantors has agreed to guarantee, among other things, all the obligations of the Borrower under the Credit Agreement, the Letter of Credit Agreement and the other Loan Documents. The obligations of the Banks to extend credit and of the Issuing Banks to issue the Letters of Credit under the Credit Agreement and the other Loan Documents are conditioned upon, among other things, the execution and delivery by the Grantors of a security agreement in the form hereof to secure (a) the due and punctual payment by the Borrower of (i) the principal of and interest on the Notes, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, and any renewals, modifications or extensions thereof, in whole or in part; (ii) each payment required to be made by the Borrower under the Letter of Credit Agreements in respect of any of the Letters of Credit, when and as due, including payments in respect of reimbursement of disbursements, interest thereon and obligations, if any, to provide cash collateral and any renewals, modifications or extensions thereof, in whole or in part; and (iii) all other monetary obligations of the Borrower to the Secured Parties under the Credit Agreement and the other Loan Documents (including, without limitation, the Licensee Loan Guaranty) to which the Borrower is or is to be a party, and any renewals, modifications or extensions thereof, in whole or in part; (b) the due and punctual performance of all other obligations of the Borrower under the Credit Agreement and the other Loan Documents (including, without limitation, the Licensee Loan Guaranty) to which the Borrower is or is to be a party, and any renewals, modifications or extensions thereof, in whole or in part; and (c) the due and punctual payment and performance of all obligations of each of the Guarantors under the Credit Agreement and the other Loan Documents to which it is or is to be a party and any renewals, modifications or extensions thereof, in whole or in part (all the foregoing indebtedness, liabilities and obligations being collectively called the "Obligations").

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Grantors and the Agent, the parties agree as follows:

1. Definitions. As herein used, the following terms shall have the following meanings:

(a) "Account Debtor" means any Person who is or may become obligated to a Grantor under, with respect to or on account of an Account.

(b) "Account" means any and all accounts (as that term is defined in the U.C.C.) of any Grantor and includes, without limitation, any and all rights of any Grantor to payment for goods sold or leased or for services rendered whether due or to become due, whether or not earned by performance and whether now existing or arising in the future, including, without limitation, Accounts from Affiliates of the Grantors.

(c) "Chattel Paper" means any and all chattel paper (as that term is defined in the U.C.C.), whether tangible or electronic, of any Grantor.

(d) "Collateral" means (i) all Accounts, General Intangibles, Documents, Chattel Paper, Instruments, and Investment Property now existing or hereafter arising of each Grantor; (ii) all guarantees of each Grantor's existing and future Accounts, General Intangibles, Chattel Paper and Instruments and all other security held by any Grantor for the payment and satisfaction thereof; (iii) all Inventory now owned or hereafter acquired by any Grantor; (iv) any and all moneys, sums and amounts now or hereafter on deposit in the Collateral Reserve Account or otherwise to the credit of or belonging to any Grantor in the Collateral Reserve Account; (v) any and all now owned or hereafter acquired or arising Deposit Accounts, Letter of Credit Rights, Goods (as that term is defined in the U.C.C.) and Supporting Obligations; (vi) all books and records of the Grantors (including, without limitation, computer records, tapes, discs and programs and all other media, written, electric, magnetic or otherwise, containing such records) which relate to any Grantor's Inventory, Accounts, Deposit Accounts, Letter of Credit Rights, Goods, Supporting Obligations, General Intangibles, Chattel Paper and Instruments or guarantees thereof; (vii) all insurance on all of the foregoing and the proceeds of that insurance; and (viii) all cash and noncash proceeds and products of all of the foregoing and the proceeds and products of other proceeds and products.

(e) "Collateral Reserve Account" means a non-interest bearing, deposit account which the Grantors may be required to open and maintain with the Agent for the benefit of the Secured Parties pursuant to Section 5.

(f) “Credit Documents” means the Credit Agreement, the Notes, the Letter of Credit Agreements, the Collateral Documents and all other Loan Documents.

(g) “Deposit Account” means all deposit accounts (as that term is defined in the U.C.C.) of any Grantor, including without limitation, any and all moneys, sums and amounts now or hereafter on deposit with any Secured Party or otherwise to the credit of or belonging to any Grantor.

(h) “Documents” means any and all documents (as that term is defined in the U.C.C.) of any Grantor.

(i) “Event of Default” shall have the meaning assigned to it in Section 7 hereof.

(j) “General Intangibles” means all general intangibles (as that term is defined in the U.C.C.) of any Grantor arising from, in connection with or related to any Account, Investment Property or any Inventory (including, without limitation, all payment intangibles (as that term is defined in the U.C.C.) and software, company records (paper and electronic), correspondence, credit files, records and other documents, computer programs, computer software, computer tapes and cards and other paper and documents in the possession or control of any Grantor or in the possession or control of any affiliate or computer service bureau.

(k) “Instruments” means all instruments (as that term is defined in the U.C.C.) of any Grantor arising from, in connection with or related to any Account, Investment Property or any Inventory, including without limitation, checks, notes, certificated certificates of deposit, investment securities, negotiable instruments and writings evidencing a right to the payment of money of a type transferred in the ordinary course of business by delivery with any necessary instrument or assignment.

(l) “Inventory” means any and all inventory (as that term is defined in the U.C.C.) of any Grantor and shall include, without limitation, tangible personal property held for sale or lease or to be furnished under contracts of service, tangible personal property which any such Grantor has so leased or furnished, and raw materials, work in process and materials used, produced or consumed in such Grantor’s business, and shall include tangible personal property returned to any such Grantor by a purchaser or lessor thereof following the sale or lease thereof by any such Grantor.

(m) “Investment Property” means any and all: (1) investment property (as that term is defined in the U.C.C.) of any Grantor; (2) securities (as that term is defined in the U.C.C.) of any Grantor; (3) financial assets (as that term is defined in the U.C.C.) of any Grantor; (4) security entitlements (as that term is defined in the U.C.C.) of any Grantor and (5) securities accounts (as that term is defined in the U.C.C.) of any Grantor.

(n) "Letter of Credit Rights" means any and all letter of credit rights (as that term is defined in the U.C.C.) arising from, in connection with or related to any Account, Investment Property or any Inventory.

(o) "Obligations" has the meaning set forth in the Recitals.

(p) "Person" means an individual, a corporation, a limited liability company, a government or governmental subdivision or agency or instrumentality, a business trust, an estate, a trust, a partnership, a cooperative, an association, two or more Persons having a joint or common interest or any other legal or commercial entity.

(q) "Proceeds" means any and all proceeds (as that term is defined in the U.C.C.), including without limitation, whatever is received when Collateral is sold, exchanged, collected or otherwise disposed of.

(r) "Secured Parties" means (a) the Banks, party to the Credit Agreement, and (b) the Agent in its capacity as such under the Credit Agreement, this Agreement and each other Loan Document, (c) the Issuing Banks, in their capacity as such under the Letter of Credit Agreements, (d) the Secured Parties described in the foregoing subsections (a) through (c) inclusive of this definition of "Secured Parties" as beneficiaries of each indemnification obligation undertaken by any Grantor under any Loan Document; and (e) the successors and assigns of the foregoing.

(s) "Supporting Obligations" means any and all supporting obligations (as that term is defined in the U.C.C.) arising from, in connection with or related to any Account, Investment Property or any Inventory .

(t) "U.C.C." means the Uniform Commercial Code as in effect in the State of North Carolina.

Terms used herein and not otherwise defined herein shall have the meanings set forth in the Credit Agreement. The rules of interpretation specified in Section 1.02 of the Credit Agreement shall be applicable to this Agreement.

2. Security Interest. In consideration of and in order to secure the fulfillment, satisfaction, payment and performance of all of the Obligations, each Grantor hereby assigns, pledges, hypothecates and sets over to the Agent, its successors and its assigns, for the benefit of the Secured Parties, and grants to the Agent, its successors and its assigns, for the benefit of the Secured Parties, a security interest in all of the Collateral.

3. Care of Collateral. The Grantors have the risk of loss of the Collateral. The Agent shall have no duty of care with respect to the Collateral, except that the Agent shall exercise reasonable care with respect to Collateral in its custody, but shall be deemed to have exercised reasonable care if such property is accorded treatment substantially equal to that which the Agent

accords its own property, or if the Agent takes such action with respect to the Collateral as a Grantor shall request in writing but no failure to comply with any such request nor any omission to do any such act requested by a Grantor shall be deemed a failure to exercise reasonable care, nor shall the Agent's failure to take steps to collect any income accruing on the Collateral or to preserve rights against any parties or property be deemed a failure to have exercised reasonable care with respect to Collateral in its custody. The rights and security interest herein provided are granted as security only and shall not subject the Agent or any Secured Party to, or in any way alter or modify, any obligation or liability of any Grantor with respect to or arising out of any of the Collateral.

4. Set-Off. In addition to the rights and security interest elsewhere herein set forth, the Agent may, at its option at any time(s) after the occurrence of an Event of Default, and with or without notice to any Grantor, appropriate and apply to the payment or reduction, either in whole or in part, of the amount owing on any one or more of the Obligations, whether or not then due, any and all moneys now or hereafter on deposit in the Collateral Reserve Account or otherwise to the credit of or belonging to a Grantor in the Collateral Reserve Account, it being understood and agreed that the Agent shall not be obligated to assert or enforce any rights or security interest hereunder or to take any action in reference thereto, and that the Agent may in its discretion at any time(s) relinquish its rights as to particular Collateral hereunder without thereby affecting or invalidating the Agent's rights hereunder as to all or any other Collateral hereinbefore referred to.

5. Collection of Accounts.

(a) On the Restatement Effective Date, each Grantor shall notify each Account Debtor to make all payments on the Accounts Receivable Collateral to a lockbox specified by the Agent. Upon the occurrence of an Event of Default: (1) the Grantors shall establish and maintain with the Agent a Collateral Reserve Account; (2) all payments received at the lockbox shall be deposited by the Agent into the Collateral Reserve Account; and (3) each Grantor immediately upon receipt shall transfer and deliver to the Agent all cash, checks, drafts, items and other instruments for the payment of money which such Grantor now has or may at any time hereafter receive in full or partial payment for the Inventory Collateral or otherwise as proceeds of the Accounts Receivable Collateral and, pending such transfer and delivery, such Grantor shall be deemed to hold same in trust for the benefit of the Agent. All collected balances in the Collateral Reserve Account shall be applied by the Agent on a daily basis in ratable payment of amounts outstanding under first, the Swing Line Advances and then, to the Advances of the several Banks and then, at the request of the Required Banks, to the Letter of Credit Advances and the other Obligations, as the Required Banks shall direct the Agent. No Grantor shall be entitled to draw on the Collateral Reserve Account without the prior written consent of the Agent; provided, however, that at any time during which collected balances exist in the Collateral Reserve Account, if there are no amounts outstanding under the Notes and no other Obligations are due and payable, and provided that no Default or Event of Default is in existence, a Grantor may withdraw such collected balances, or any portion thereof, therefrom. The Agent may, additionally, at any time in its sole discretion, enforce Grantor's rights against the Account

Debtors, including, without limitation, direct Account Debtors to make payments on the Accounts Receivable Collateral, or portions thereof, directly to the Agent and the Account Debtors are hereby authorized and directed to do so by a Grantor upon the Agent's direction, and the funds so received shall be also deposited in the Collateral Reserve Account and applied as aforesaid.

(b) Upon occurrence of an Event of Default, the Agent shall have the right at any time, acting if it so chooses in the name of any or all of the Grantors, to collect the Accounts, to sell, assign, compromise, discharge or extend the time for payment of any Account, to institute legal action for the collection of any Account, to apply all amounts in the Collateral Reserve Account to payment of the Obligations, and to do all acts and things necessary or incidental thereto and the Grantors hereby ratify all such acts. The Agent may at any time after the occurrence of such Event of Default and without notice to any Grantor, notify any Account Debtor or guarantor thereof that the Account owed by such Account Debtor has been assigned to the Agent and is to be paid directly to the Agent. At the Agent's request the Grantors will so notify Account Debtors and shall indicate on all billings to Account Debtors that payments thereon are to be made to the Agent. In the event Account Debtors are so notified, no Grantor shall compromise, discharge, extend the time for payment or otherwise grant any indulgence or allowance with respect to any Account without the prior written consent of the Agent.

(c) Each Grantor irrevocably designates and appoints the Agent, effective upon the occurrence of an Event of Default, its true and lawful attorney either in the name of the Agent or in the name of such Grantor to ask for, demand, sue for, collect, compromise, compound, receive, receipt for and give acquittances for any and all sums owing or which may become due upon any items of the Inventory Collateral or the Accounts Receivable Collateral and, in connection therewith, to take any and all actions as the Agent may deem necessary or desirable in order to realize upon the Inventory Collateral and the Accounts Receivable Collateral, including, without limitation, power to endorse in the name of such Grantor, any checks, drafts, notes or other instruments received in payment of or on account of the Inventory Collateral or the Accounts Receivable Collateral, but the Agent shall not be under any duty to exercise any such authority or power or in any way be responsible for the collection of the Inventory Collateral or the Accounts Receivable Collateral.

6. Representations, Warranties and Covenants as to Collateral.

Each Grantor represents, warrants and covenants to and for the benefit of the Agent and the Secured Parties that:

(a) Sale of Collateral. No Grantor will sell, lease, exchange, or otherwise dispose of any of the Collateral without the prior written consent of the Agent; provided, however, prior to the occurrence of an Event of Default, Accounts may be collected in accordance with Section 5(a) and Inventory Collateral may be sold in the ordinary course of business for cash or on open account or on terms of payment ordinarily extended to its customers. Upon the sale, exchange or other disposition of the Inventory Collateral, the security

interest and lien created and provided for herein, without break in continuity and without further formality or act, shall continue in and attach to any proceeds thereof, including, without limitation, accounts, contract rights, shipping documents, documents of title, bills of lading, warehouse receipts, dock warrants, dock receipts and cash or non-cash proceeds, and in the event of any unauthorized sale, shall continue in the Inventory Collateral itself.

(b) Accounts. All existing and future Accounts included in the Collateral are or will be bona fide existing obligations created by the sale and delivery of merchandise or the rendering of services to customers and arose or will arise in the ordinary course of business; and that such Accounts are not and will not be subject to defense, set-off or counterclaim which in the aggregate would materially impair the value of such Accounts as collateral for the Obligations. No Grantor will, without the Agent's prior written consent, grant any extension of the time of payment of any of the Accounts, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business or otherwise in accordance with prudent and reasonable business practices.

(c) Good Title; No Existing Encumbrances. The Grantors own the Collateral free and clear of any prior Lien, and no financing statements or other evidences of the grant of a security interest respecting the Collateral exist on the public records.

(d) Right to Grant Security Interest; No Further Encumbrances. The Grantors have the right to grant a security interest in the Collateral. The Grantors will pay all taxes and other charges against the Collateral (including, without limitation, property, use and sales taxes), and no Grantor will use the Collateral illegally or allow the Collateral to be encumbered except for the security interest in favor of the Agent granted herein.

(e) Location of Collateral. The Grantors hereby represent and warrant to the Agent and the Banks that, as of the date hereof, the Collateral is situated only at one or more of the Collateral Locations and the Grantors covenant with the Agent not to locate the Collateral at any location other than a Collateral Location without at least 30 days written notice to the Agent. The Executive Office of each Grantor is such Grantor's chief executive office (if such Grantor has more than one place of business) or place of business (if such Grantor has one place of business). In addition, to the extent the Grantors should warehouse any of the Inventory Collateral at any time hereafter, the Grantors acknowledge and agree that such warehousing may be conducted only by warehousemen who have been pre-approved by the Agent and who, in any event, shall issue non-negotiable warehouse receipts in the Agent's name to evidence any such warehousing of goods constituting Inventory Collateral. If the Grantors consign any of the Inventory Collateral, it will comply with the Uniform Commercial Code of any state where such Inventory Collateral is located with respect thereto, and shall file, cause the filing and hereby authorizes the Agent to file in the appropriate public office or offices UCC-1 financing statements showing such Grantor or Grantors, as the case may be, as consignor and the Agent as assignee of consignor, and will furnish copies thereof to the Agent. If any of the Inventory

Collateral or any records concerning the Collateral are at any time to be located on premises leased by a Grantor or on premises owned by a Grantor subject to a mortgage or other lien, such Grantor shall so notify the Agent and shall if requested by the Agent obtain and deliver or cause to be delivered to the Agent, prior to delivery of any Inventory Collateral or records concerning the Collateral to said premises, an agreement, in form and substance satisfactory to the Agent, waiving the landlord's or mortgagee's or lienholder's right to enforce any claim against the Grantors for monies due under the landlord's lien, mortgage or other lien by levy or distraint or other similar proceedings against the Inventory Collateral or records concerning the Collateral and assuring the Agent's ability to have access to the Inventory Collateral and records concerning the Collateral in order to exercise its right hereunder to take possession thereof.

(f) Collateral Status. The Grantors will promptly notify the Agent if there is any adverse change in the status of the Collateral that materially impairs its value or collectibility, or if any defenses, set-offs or counterclaims are asserted by Account Debtors which in the aggregate materially impair the value or collectibility of the Accounts.

(g) Delivery of Certain Collateral. The Grantors have delivered all agreements, letters of credit, promissory notes, instruments, certificates of deposit, chattel paper or anything else, the physical possession of which is necessary in order for the Agent, on behalf of the Secured Parties, to perfect or preserve the priority of its security interest therein. If at any time any Collateral is evidenced by any promissory note or other instrument, the Grantors shall promptly notify the Agent and deliver such promissory note or other instrument to the Agent.

(h) Purchase of Collateral. No Grantor has purchased any of the Collateral in a bulk transfer or in a transaction which was outside the ordinary course of the business of the seller to such Grantor.

(i) Possession of Franchises, Licenses, Etc. The Grantors possess all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, and all patents, trademarks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary for the ownership, maintenance and operation of any of their respective property and assets, and no Grantor is in violation of any term or condition thereof which would or might have a material adverse effect on its business, financial condition or assets. The Grantors have furnished the Agent and Banks an accurate and complete description of all registered copyrights, patents and trademarks of the Grantors.

(j) Records Respecting Collateral. The Grantors shall keep complete and accurate books and records and make all necessary entries thereon to reflect the transactions and facts giving rise to the Collateral and payments, credits and adjustments applicable thereto. All books and records of the Grantors with respect to the Collateral will be kept at the Executive Office (as it may be changed pursuant to Section 6(e)) and will not be removed from such address without the prior written consent of the Agent.

(k) Further Assurances. Each Grantor shall duly execute and/or deliver (or cause to be duly executed and/or delivered) to the Agent and Secured Parties any instrument, invoice, document, document of title, dock warrant, dock receipt, warehouse receipt, bill of lading, order, financing statement, assignment, waiver, consent or other writing which may be reasonably necessary to the Agent or any Secured Parties to carry out the terms of this Agreement and any of the other Loan Documents and to perfect its security interest in and facilitate the collection of the Collateral, the proceeds thereof, and any other property at any time constituting security to the Secured Parties. Each Grantor shall perform or cause to be performed such acts as the Agent or any Secured Party may request to establish and maintain for the Agent and the Secured Parties a valid and perfected security interest in and security title to the Collateral, free and clear of any Liens other than in favor of the Agent and the Secured Parties.

(l) Maintenance of Insurance. In addition to and cumulative with any other requirements herein imposed on the Grantors with respect to insurance, the Grantors shall maintain insurance with insurance companies, satisfactory to the Agent on such of the Grantors' respective properties and assets, in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity, but in any event to include public liability, worker's compensation, business interruption, malicious mischief, errors and omissions, loss, damage, flood, windstorm, fire, theft, extended coverage and product liability insurance in amounts satisfactory to the Agent, which such insurance shall not be cancellable or altered (or the coverage thereunder reduced or restricted) by any Grantor, unless with the prior written consent of the Agent, or by the insurer of such Grantor, unless with at least 30 days advance written notice to the Agent thereof. The Grantors shall deliver to the Agent on the Closing Date and at such other times as the Agent may request, a detailed list of such insurance then in effect stating the names of the insurance companies, the amounts and rates of insurance, the date of expiration thereof, the properties and risks covered thereby and the insured with respect thereto, and, within 30 days after notice in writing from the Agent, obtain such additional insurance as the Agent, at the request of the Required Banks, may reasonably request. The Grantors will pay all premiums on the insurance referred to herein as and when they become due and shall do all things necessary to maintain the insurance in effect. The Agent may act as the Grantor's agent in adjusting or compromising any loss under any such insurance policy and in collecting and receiving the proceeds from any such policy. In the event of any loss under any such policy of insurance, the insurer named therein is hereby authorized and directed by the Grantor to make payment for such loss to the Agent, for the benefit of the Secured Parties, as their interests may appear, rather than to the Grantors and the Agent jointly. If any Grantor shall default in its obligation hereunder to insure the Collateral in a manner satisfactory to the Agent, then the Agent shall have the right (but not the obligation) to procure such insurance and to charge the costs of same to the Grantors, which costs shall be added to and become a part of the unpaid principal amount of the Obligations, shall bear interest at the Default Rate or the highest contract rate permitted by applicable law whichever is less; such interest shall be payable on demand by the Agent and shall be secured by the Collateral. The proceeds of all such insurance, if any loss should occur, may be applied by the Agent to the payment of the Obligations or to the replacement of any of the Collateral damaged or destroyed, as the Agent may elect or direct in its sole discretion. Each Grantor hereby appoints (which appointment constitutes a power coupled

with an interest and is irrevocable as long as any of the Obligations remain outstanding) Agent as its lawful attorney-in-fact with full authority to make, adjust, settle claims under and/or cancel such insurance and to endorse the applicable Grantor's name on any instruments or drafts issued by or upon any insurance companies.

(m) Change of Chief Executive Office. The Grantors hereby understand and agree that if, at any time hereafter, any Grantor elects to move its Executive Office, or if any Grantor elects to change its name, identity, state of incorporation or organization, any tradename used to identify it in the conduct of its business or in the ownership of its properties, or its structure to other than as existing on the date hereof, the Grantors will notify the Agent in writing at least 30 days prior thereto.

(n) Waivers. With respect to each of the Collateral Locations, the Grantors will obtain such waivers of lien, estoppel certificates or subordination agreements as the Agent may reasonably require to insure the priority of its security interest in that portion of the Collateral situated at such locations.

(o) Name and Jurisdiction of Organization. The exact legal name of each Grantor and the state of incorporation or organization for each Grantor is as set forth below:

Bassett Furniture Industries, Incorporated	Virginia
Basset Furniture Industries of North Carolina, Inc.	North Carolina
The E.B. Malone Corporation	Delaware
Bassett Direct Stores, Inc.	Virginia
Bassett Direct NC, LLC	Virginia
Bassett Direct SC, LLC	Virginia

(p) Control Agreements. If requested by Agent, each Grantor will obtain and deliver or cause to be delivered to the Agent, a control agreement in form and substance satisfactory to Agent with respect to the Collateral with respect to: (i) Deposit Accounts; (ii) Letter-of-Credit Rights; (iii) Investment Property and/or (iv) electronic Chattel Paper.

(q) Marking of Chattel Paper. No Grantor will create any Chattel Paper without placing a legend on the Chattel Paper acceptable to the Agent indicating that the Agent has a security interest in the Chattel Paper.

(r) Purchase Money Security Interests. To the extent the Obligations are used to purchase Collateral, Debtor's repayment of the Loan shall apply on a "first-in-first-out" basis so that the portion of the Obligations used to purchase a particular item of Collateral shall be paid in the chronological order the Grantor purchased the Collateral.

(s) Business Purpose. None of the Obligations is a Consumer Transaction, as defined in the U.C.C., and none of the Collateral has been or will be purchased or held primarily for personal, family or household purposes.

7. **Events of Default.** The happening of any one or more of the following events shall constitute an Event of Default hereunder: (a) the nonpayment when due of any of the Obligations which nonpayment is not fully cured within the applicable grace period therefor, if any; (b) the failure to perform, observe or fulfill any covenant or obligation contained in, or the occurrence of an event of default under, any of the Credit Documents, which failure or default is not fully cured within the applicable grace period therefor, if any; or (c) the occurrence of an Event of Default (as defined in the Credit Agreement).

8. **Remedies.** Upon the occurrence of an Event of Default, or at any time thereafter, the Agent shall have all of the rights and remedies available at law (including, without limitation, those provided to a secured party by the U.C.C.), or in equity to collect, enforce or satisfy any Obligations then owing, whether by acceleration or otherwise. In addition thereto, each Grantor further agrees that (i) in the event that notice is necessary under applicable law, written notice mailed to a Grantor at such Grantor's address given below, ten (10) business days prior to the date of public sale of any of the Collateral subject to the security interest created herein or prior to the date after which private sale or any other disposition of said Collateral will be made shall constitute reasonable notice, but notice given in any other reasonable manner or at any other time shall be sufficient; (ii) in the event of sale or other disposition of any such Collateral, the Agent may apply the proceeds of any such sale or disposition to the satisfaction of the Agent's reasonable attorneys' fees, legal expenses, and other costs and expenses incurred in connection with the Agent's taking, retaking, holding, preparing for sale, and selling of the Collateral; (iii) without precluding any other methods of sale, the sale of Collateral shall have been made in a commercially reasonable manner if conducted in conformity with reasonable commercial practices of banks disposing of similar property but in any event the Agent may sell on such terms as the Agent may choose, without assuming any credit risk and without any obligation to advertise or give notice of any kind; and (iv) the Agent may require the Grantors to assemble the Collateral, taking all necessary or appropriate action to preserve and keep it in good condition, and make such available to the Agent at a place and time convenient to both parties, all at the expense of the Grantors; (v) the Agent has no obligation to repair, clean-up or otherwise prepare the Collateral for sale; and (vi) the Agent may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral. Furthermore, in any such event, to the extent permitted under applicable law, full power and authority are hereby given the Agent to sell, assign, and deliver the whole of the Collateral or any part(s) thereof, at any time(s) at any broker's board, or at public or private sale, at the Agent's option, and no delay on the Agent's part in exercising any power of sale or any other rights or options hereunder, and no notice or demand, which may be given to or made upon any or all of the Grantors by the Agent or any Secured Party with respect to any power of sale or other right or option hereunder, shall constitute a waiver thereof, or limit or impair the Agent's right to take any action or to exercise any power of sale or any other rights hereunder, without notice or demand, or prejudice the Agent's rights as against the Grantors in any respect. The Grantors hereby waive and release to the fullest extent permitted by law any right or equity of redemption with respect to the Collateral, whether before or after sale hereunder, and all rights, if any, of

marshaling the Collateral and any other security for the Obligations or otherwise. At any such sale, unless prohibited by applicable law, the Agent may bid for and purchase all or any part of the Collateral so sold free from any such right or equity of redemption. If Agent sells any of the Collateral upon credit, the Grantors will be credited only with payments actually made by the purchaser, received by the Agent and applied to the indebtedness of the purchaser. In the event the purchaser fails to pay for the Collateral, the Agent may resell the Collateral and the Grantors shall be credited with the proceeds of the sale as and when received, less expenses. In the event the Agent purchases any of the Collateral being sold, the Agent may pay for the Collateral by crediting some or all of the Obligations of the Grantors. The Agent shall not be liable for failure to collect or realize upon any or all of the Collateral or for any delay in so doing nor shall the Agent be under any obligation to take any action whatsoever with regard thereto. The Agent has no obligation to attempt to satisfy the Obligations by collecting them from any other person liable for them and the Agent may release, modify or waive any collateral provided by any other Person to secure any of the Obligations, all without affecting the Agent's rights against the Grantors. The Grantors waive any right they may have to require the Agent to pursue any third Person for any of the Obligations. The Agent may sell the Collateral without giving any warranties as to the Collateral and may specifically disclaim any warranties of title or the like. This procedure will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

9. Continuing Security Interest. Any and all of the Agent's rights with respect to the security interests hereunder shall continue unimpaired, and the Grantors shall be and remain obligated in accordance with the terms hereof, notwithstanding the release or substitution of any Collateral at any time or of any rights or interests therein, or any delay, extension of time, renewal, compromise or other indulgence granted by the Agent or any Secured Party in reference to any of the Obligations, or any promissory note, draft, bill of exchange or other instrument or Credit Document given in connection therewith, the Grantors hereby waiving all notice of any such delay, extension, release, substitution, renewal, compromise or other indulgence, and hereby consenting to be bound thereby as fully and effectually as if the Grantors had expressly agreed thereto in advance.

10. No Waiver. No delay on the Agent's part in exercising any power of sale, option or other right hereunder, and no notice or demand which may be given to or made upon any Grantor by the Agent, shall constitute a waiver thereof, or limit or impair the Agent's right to take any action or to exercise any other power of sale, option or any other right hereunder, without notice or demand, or prejudice the Agent's rights as against any Grantor in any respect.

11. Financing Statements. Each Grantor authorizes the Agent to file Financing Statements or amendments thereto with respect to any of the Collateral in any location deemed necessary and appropriate by the Agent; each Grantor agrees to reimburse the Agent for the expense of any such filing in any location deemed necessary and appropriate by the Agent. To the extent lawful, each Grantor hereby appoints the Agent as its attorney-in-fact (without requiring the Agent to act as such) to execute any financing statement in the name of such Grantor, and to perform all other acts that the Agent deems appropriate to perfect and continue its security interest in, and to protect and preserve, the Collateral.

12. Power of Attorney. Each Grantor hereby appoints any officer or agent of the Agent as such Grantor's true and lawful attorney-in-fact with power to endorse the name of such Grantor upon any notes, checks, drafts, money orders or other instruments of payment or Collateral which may come into possession of the Agent; to sign and endorse the name of such Grantor upon any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against Account Debtors, assignments, verifications and notices in connection with Accounts; to give written notice to such office and officials of the United States Postal Service to affect such change or changes of address so that all mail addressed to any or all Grantors may be delivered directly to the Agent (the Agent will return all mail not related to the Obligations or the Collateral); granting unto such Grantor's said attorney full power to do any and all things necessary to be done with respect to the above transactions as fully and effectively as the Grantor might or could do, and hereby ratifying all its said attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney shall be irrevocable for the term of this Agreement and all transactions hereunder.

13. Remedies, Etc., Cumulative. Each right, power and remedy of the Agent provided for in this Agreement or the Credit Documents or in any of the other instruments or agreements securing the Obligations or now or hereafter existing at law or in equity or by statute shall be cumulative and concurrent and shall be in addition to every other such right, power or remedy. The exercise or beginning of the exercise by the Agent of any one or more of the rights, powers or remedies provided for in this Agreement, the Credit Documents or in any such other instrument or agreement now or hereafter existing at law or in equity or by statute or otherwise shall not preclude the simultaneous or later exercise by the Agent of all such other rights, powers or remedies, and no failure or delay on the part of the Agent to exercise any such right, power or remedy shall operate as a waiver thereof.

14. Continuing Agreement. This is a continuing agreement and shall remain in full force and effect until terminated by written agreement of the parties and until all of the principal of, premium, if any, and interest on all of the Obligations have been fully paid. This Agreement and the liens and security interests created and granted hereunder shall remain in effect, notwithstanding the fact that at any time or from time to time there may be no Obligations outstanding, in order to secure all future Obligations. If this Security Agreement is revoked by operation of law as against any Grantor, such Grantor will indemnify and save the Agent and its successors or assigns, harmless from any loss which may be suffered or incurred by them in making, giving, granting or extending any loans or other credit, financing or financial accommodations, or otherwise acting, hereunder prior to receipt by the Agent of notice in writing of such revocation.

15. Miscellaneous. This Agreement shall be governed by the laws of the State of North Carolina in all respects, including matters of construction, validity and performance except to the extent that the remedies provided herein with respect to any of the collateral are governed by the laws of any jurisdiction other than North Carolina; section headings herein are for the convenience of reference only and shall not affect the construction or interpretation of or alter or

modify the provisions of this Agreement; none of the terms or provisions of this Agreement may be waived, altered, modified, limited or amended except by an agreement expressly referring hereto and to which the Agent consents in writing duly signed for the Agent and on the Agent's behalf; the rights granted to the Agent herein shall be supplementary and in addition to those granted to the Agent and/or the Secured Parties in any Credit Documents; the addresses of the parties for delivery of notices, requests, demands and other communications hereunder are as set further below. Each of the Grantors hereby agrees that all of their indebtedness, liabilities and obligations under this Agreement, the Credit Agreement, the Notes and the other Loan Documents shall be joint and several. No reference to "proceeds" in this Agreement authorizes any sale, transfer, or other disposition of the Collateral by any Grantor.

16. Duties of Agent. The Agent has been appointed by the Secured Parties pursuant to the Credit Agreement. Its duties to the Secured Parties, powers to act on behalf of the Secured Parties, and immunity are set forth solely therein, and shall not be altered by this Security Agreement.

17. Amended and Restated Agreement. This Agreement amends, restates and replaces in its entirety that certain Second Amended and Restated General Security Agreement, dated as of October 29, 2004, among the parties hereto.

[Remainder of page intentionally left blank]

GRANTORS:

BASSETT FURNITURE INDUSTRIES, INCORPORATED

By: /s/ Barry C. Safrit (SEAL)

Name: Barry C. Safrit

Title: Senior Vice President and
Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)

Name: Jay R. Hervey

Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated

3525 Fairystone Park Highway

P. O. Box 626

Bassett, Virginia 24055

Telecopy Number: (276) 629-6332

Telephone Number: (276) 629-6000

BASSETT FURNITURE INDUSTRIES OF NORTH
CAROLINA, INC.

By: /s/ Barry C. Safrit (SEAL)

Name: Barry C. Safrit

Title: Senior Vice President and
Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)

Name: Jay R. Hervey

Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated

3525 Fairystone Park Highway

P. O. Box 626

Bassett, Virginia 24055

Telecopy Number: (276) 629-6332

Telephone Number: (276) 629-6000

THE E.B. MALONE CORPORATION

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and
Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P. O. Box 626
Bassett, Virginia 24055
Telecopy Number: (276) 629-6332
Telephone Number: (276) 629-6000

BASSETT DIRECT STORES, INC.

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and
Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P. O. Box 626
Bassett, Virginia 24055
Telecopy Number: (276) 629-6332
Telephone Number: (276) 629-6000

BASSETT DIRECT NC, LLC

By: Bassett Direct Stores, Inc., its sole
Manager (SEAL)

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and
Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P. O. Box 626
Bassett, Virginia 24055
Telecopy Number: (276) 629-6332
Telephone Number: (276) 629-6000

BASSETT DIRECT SC, LLC

By: Bassett Direct Stores, Inc., its sole
Manager (SEAL)

By: /s/ Barry C. Safrit (SEAL)
Name: Barry C. Safrit
Title: Senior Vice President and
Chief Financial Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P. O. Box 626
Bassett, Virginia 24055
Telecopy Number: (276) 629-6332
Telephone Number: (276) 629-6000

LIST OF SUBSIDIARIES*

- (a) Bassett Furniture Industries of North Carolina, LLC. (North Carolina limited liability Corporation)
- (b) The E.B. Malone Corporation (Delaware Corporation)
- (c) Bassett Direct Stores, LLC. (Virginia limited liability Corporation)
- (d) Bassett Direct NC, LLC (Virginia limited liability company)
- (e) Bassett Direct SC, LLC (Virginia limited liability company)
- (f) The Accessories Group, Inc. (Virginia Corporation)
- (g) Bassett Industries Alternative Asset Fund, L.P. (99.95% ownership) (Delaware limited partnership)
- (h) LRG Furniture, LLC (Virginia limited liability company)
- (i) BDP, LC (Texas limited liability company)
- (j) BFD-Atlanta, LLC (Virginia limited liability company)
- (k) BD Boston, LLC (Virginia limited liability corporation)
- (l) BDU NY, LLC (Virginia limited liability company)

* All subsidiaries are wholly-owned unless otherwise noted.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 33-52405) pertaining to the Bassett Furniture Industries, Incorporated 1993 Long Term Incentive Plan,
- (2) Registration Statement (Form S-8 No. 33-52407) pertaining to the Bassett Furniture Industries, Incorporated 1993 Stock Plan for Non-Employee Directors,
- (3) Registration Statement (Form S-8 No. 333-60327) pertaining to the Bassett Furniture Industries, Incorporated 1997 Employee Stock Plan, and
- (4) Registration Statement (Form S-8 No. 333-43188) pertaining to the Bassett Furniture Industries, Incorporated 2000 Qualified Employee Stock Purchase Plan, the Bassett Furniture Industries, Incorporated 1997 Employee Stock Plan, and the Bassett Furniture Industries, Incorporated 1993 Stock Plan for Non-Employee Directors

of our reports dated February 6, 2008, with respect to the consolidated financial statements and schedule of Bassett Furniture Industries, Incorporated and the effectiveness of internal control over financial reporting of Bassett Furniture Industries, Incorporated, included in this Annual Report (Form 10-K) for the year ended November 24, 2007.

/s/ Ernst & Young LLP

Greensboro, North Carolina
February 6, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Bassett Furniture Industries, Incorporated
Bassett, Virginia

We consent to incorporation by reference in the Registration Statements (Nos. 33-52405, 33-52407, 333-60327 and 333-43188) on Form S-8 of Bassett Furniture Industries, Incorporated and Subsidiaries of our report dated January 12, 2008, relating to the consolidated balance sheets of International Home Furnishings Center, Inc. and Subsidiaries as of October 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended October 31, 2007, which report is included in the annual report on Form 10-K of Bassett Furniture Industries, Incorporated and Subsidiaries.

/s/ Dixon Hughes PLLC
Dixon Hughes PLLC

High Point, North Carolina
February 6, 2008

CERTIFICATIONS

I, Robert H. Spilman, Jr., certify that:

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

February 7, 2008

/s/ ROBERT H. SPILMAN, JR.

Robert H. Spilman, Jr.
President and Chief Executive Officer

CERTIFICATIONS

I, Barry C. Safrit, certify that:

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

February 7, 2008

/s/ BARRY C. SAFRIT

Barry C. Safrit
Senior Vice President and Chief Financial Officer

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

In connection with the Annual Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-K for the period ending November 24, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Robert H. Spilman, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Robert H. Spilman, Jr.

Robert H. Spilman, Jr.
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Bassett Furniture Industries, Incorporated and will be retained by Bassett Furniture Industries, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Annual Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-K for the period ending November 24, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I Barry C. Safrit, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ BARRY C. SAFRIT

Barry C. Safrit
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Bassett Furniture Industries, Incorporated and will be retained by Bassett Furniture Industries, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.