UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

FORM 10-K

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

For the fiscal year ended November 24, 2001 Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| VIRGINIA | 54-0135270 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3525 FAIRYSTONE PARK HIGHWAY BASSETT, VIRGINIA | 24055 |
| (Address of principal executive offices) | (Zip Code) |

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

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

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

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

[X] Yes [ ] No

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of February 19, 2002 was $202,464,529.

The number of shares of the Registrant's common stock outstanding on February 19, 2002 was 11,730,274.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 24, 2001 (the "Annual Report") are incorporated by reference into Parts I and II of this Form 10-K.

(2) Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2002 Annual Meeting of Stockholders to be held March 26, 2002, 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.

PART I

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

GENERAL DEVELOPMENT OF BUSINESS

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

Material Changes in the Development of Business in the last five years are as follows:

There have been two significant business developments that have materially affected the Company's operations over the last five years. First, the Company has created and re-channeled sales through a vertically integrated retail sales network. This strategy both builds on the Company's strengths (brand name, balance sheet, product offerings) and better positions the Company to capitalize on the changing furniture retail environment. The independently owned licensee stores, known as Bassett Furniture Direct, accounted for 36% of the Company's sales in 2001. There were 68 stores operating at November 24, 2001. Second, the Company has restructured production capacities and eliminated costs to closely align manufacturing capabilities with the Company's target markets. These efforts have resulted in the elimination of approximately 4,000 salaried and hourly positions over the last five years.

The Company restructured production capacities for its Wood Division in 2001. During the first quarter, production was moved from one facility to another and a wood manufacturing facility was identified for closure and was subsequently closed in the second quarter. Additionally, 60 corporate office positions were eliminated in the first and second quarters of 2001. Ongoing efforts to match production with demand, offer more competitively priced products and operate more efficient manufacturing facilities resulted in the announcement and subsequent closure of two additional facilities in Bassett, Virginia during the third quarter of 2001. Production has been moved to other manufacturing facilities in Virginia or has been outsourced. Approximately 800 positions were eliminated as a result of this restructuring activity. Restructuring charges of $6,952 were recognized in 2001. The Company also recorded unusual and non-recurring charges of $1,051 for inventory losses related to discontinued product. This amount is included in 2001 cost of sales.

The Company made a decision in late 2000 to consolidate production in its Wood Division. This included transferring certain products to different facilities, reducing one facility to rough-end operations only, and eliminating approximately 300 salaried and hourly positions. As a result, the Company recorded a restructuring charge in 2000 of $6,680, of which, $5,800 related to the write-down of property and equipment and $880 related to severance and related employee benefits costs.

Early in fiscal year 2000, the Company merged all of its eight Company-owned Bassett Furniture Direct (BFD) stores with a licensee's five BFD stores to form a joint venture known as the LRG Furniture, LLC ("LRG"). Refer to Note G of the Consolidated Financial Statements included in the Annual Report for more information about the joint venture.

During 1999 the Company expanded its BFD retail store concept by adding five corporate owned stores to its existing network of licensee operated stores. Additionally, the Company took over operations of two financially troubled BFD stores operated by licensees.

During 1999, the Company sold substantially all of the assets of its Bedding Division to Premier Bedding Group LLC ("PBG"). The net assets sold, which totaled $8,400, were exchanged for $6,500 in cash and a $1,900 convertible note receivable. Refer to Note B of the Consolidated Financial Statements included in the Annual Report for more information about the bedding sale.

During 1997, the Company commenced the restructuring of certain of its operations and recorded restructuring and impaired asset charges of $20,646. The restructuring plan was the result of management's decision to focus on its core Bassett product line and efforts to improve operating efficiencies. The principal actions of the plan included the closure or sale of fourteen manufacturing facilities, elimination of three product lines (National/Mt. Airy, Impact and veneer production) and the severance of approximately 1,000 employees.

Refer to Note N of the Consolidated Financial Statements included in the Annual Report for a detail of restructuring activity and refer to the Management's Discussion and Analysis section of the Annual Report for additional discussion on these topics.

OPERATING SEGMENTS

The Company's primary business is in wholesale home furnishings. The wholesale home furnishings business is involved principally in the manufacture, sale and distribution of furniture products to a network of independently owned stores and stores owned by an affiliate of the Company. The wholesale business consists primarily of three operating segments: wood, upholstery and import.

Refer to Note R of the Consolidated Financial Statements included in the Annual Report for more information about segment information for 1999, 2000 and 2001 and refer to the Management's Discussion and Analysis section of the Annual Report for additional discussion on this topic.

DESCRIPTION OF BUSINESS

The Company is a manufacturer of quality home furnishings and sells a full range of furniture products and accessories through department and furniture stores and an exclusive network of retail stores, some of which are owned by an affiliate while others are independently-owned. Retail stores are located throughout the United States. The Company has ten manufacturing facilities throughout the United States.

The wood segment is engaged in the manufacture and sale of wood furniture, including bedroom and dining suites and accent pieces, to independent retailers and a retailer, which is an affiliate of the Company. The wood segment accounted for 57%, 62% and 66% of total net sales during 2001, 2000 and 1999, respectively. The Company currently has six wood manufacturing facilities. The upholstery segment is involved in the manufacture and sale of upholstered frames and cut upholstery items having a variety of frame and fabric options, including sofas, chairs, and love seats. The Company currently has three upholstery manufacturing facilities. The upholstery segment accounted for 29%, 27% and 26% of total net sales during 2001, 2000 and 1999, respectively. The import segment sources product, principally from Asia, and sells this product to independent and affiliated retailers. The import segment accounted for 11%, 8% and 5% of total net sales during 2001, 2000 and 1999, respectively.

Raw materials used by the Company are generally available from numerous sources and are obtained principally from domestic sources. The Company has also sought to source component parts from overseas markets when it is economically advantageous. The Company currently assembles and finishes these imported components in several of its plants in the United States.

The Company's trademarks , including "Bassett" and the names of its marketing divisions, products and collections are significant to the conduct of its business. This importance is due to consumer recognition of the names and identification with the Company's broad range of products. Certain of the Company's trademarks are licensed to independent retailers for use in full store presentations and in store gallery presentations of the Company's products. The Company also owns certain patents and licenses that are important in the conduct of the Company's business.

The furniture industry in which the Company competes is not considered to be a seasonal industry. However, working capital levels will fluctuate based on overall business conditions, and desired service levels.

Sales to one customer (JC Penney Company) amounted to approximately 15% of gross sales in 2001, 16% and 16% of gross sales in 2000 and 1999, respectively. Additionally, sales to LRG, an affiliate of the Company, were 10% of total sales in 2001 and 7% of total sales in 2000. The Company's backlog of orders believed to be firm was at $19,000 at November 24, 2001 and

$22,000 at November 25, 2000. It is expected that the November 24, 2001 backlog will be filled within the 2002 fiscal year.

The furniture industry is very competitive and there are a large number of manufacturers both within the United States and offshore who compete in the market on the basis of product quality, price, style, delivery and service. Additionally, certain retailers are increasingly sourcing imported product directly, thus bypassing domestic furniture manufacturers. Based on annual sales revenue, the Company is one of the largest furniture manufacturers located in the United States. The Company has been successful in this competitive environment because its products represent excellent value combining attractive prices, quality and styling; prompt delivery; and courteous service.

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

In management's view, the Company has complied in all material respects with all federal, state and local standards in the area of safety, health and pollution and environmental controls. Compliance with these standards did result in a charge to earnings in 1997 and capital spending in 1998 and 1999, but otherwise, has not had a material adverse effect on past earnings or competitive position. The Company is involved in environmental matters at certain of its plant facilities, which arise in the normal course of business. Although the final outcome of these environmental matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

The Company had approximately 2,900 employees at November 24, 2001.

The Company has several investments in affiliated companies, including a minority interest in International Home Furnishings Center, Inc. (IHFC) which is a lessor of permanent exhibition space to furniture and accessory manufacturers. The IHFC financial statements are included on pages F-1 to F-15. The Company owns a majority interest in The Bassett Industries Alternative Asset Fund, LP, which invests in a variety of other private partnerships, employing a combination of investment strategies. The Bassett Industries Alternative Asset Fund's year ended on December 31, 2001, as such its financial statements have not been included in this Form 10-K. Form 10-K will be amended to include such statements when available. The Company owns a majority interest in LRG Furniture, LLC, (LRG), which is a retailer of home furnishings. The LRG financial statements are included on pages F-16 to F-28.

FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The Company has no foreign operations, and its export sales were approximately $3.2 million, $4.9 million, and $10.6 million in 2001, 2000, and 1999 respectively.

ITEM 2. PROPERTIES

At November 24, 2001 the Company owned the following manufacturing facilities, by segment:

Wood Segment:

J. D. Bassett Manufacturing Company *
Bassett, VA

Bassett Superior Lines
Bassett, VA

Bassett Chair Company *
Bassett, VA

Bassett Table Company *
Bassett, VA

Bassett Furniture Industries
Macon, GA

Bassett Dining Table Top
Martinsville, VA

Bassett Furniture Industries
Dublin, GA

Bassett Furniture Industries
Mt. Airy, NC

Bassett Fiberboard
Bassett, VA

Upholstery Segment:

Bassett Upholstery Division
Newton, NC

Bassett Upholstery Division
Hiddenite, NC

Bassett Upholstery
Los Angeles, CA

Other:

Weiman Upholstery
Christiansburg, VA

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

The Company owned the real estate of certain Bassett Furniture Direct retail stores, approximating 25,000 square feet each, in the following cities:

Real Estate:

Greenville, SC
Concord, NC
Greensboro, NC
Fredericksburg, VA
Knoxville, TN
Gulfport, MS
Chesterfield, VA

Louisville, KY

In addition, the Company owns leasehold improvements in Hickory, NC and Arlington, TX, and raw land, intended for retail use, in Houston, TX and Denver, CO. All of the properties noted above are operated by Bassett Furniture Direct licensees.

The Company also owns its general corporate office building, three warehouses , and an outlet store all located in Bassett, Virginia.

In general, these facilities are suitable and are considered to be adequate for the continuing operations involved. All facilities, except those held for sale, are in regular use and provide more than adequate capacity for the Company's manufacturing needs.

The following facilities were sold or disposed of during 2001:

Showroom
Thomasville, NC

Bassett Upholstery
Conover, NC

Bassett Upholstery
Claremont, NC

Warehouse
Los Angeles, CA

## ITEM 3. LEGAL PROCEEDINGS

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately $8,000 as the result of COLI interest deductions through 1998. The Internal Revenue Service, on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. The IRS has received favorable rulings on the non-deductibility of COLI loan interest. Management understands that these rulings and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome should not be material to the Company's future results of operations.

The Company is also 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 management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

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

None.

ITEM 4b. EXECUTIVE OFFICERS OF THE REGISTRANT

John E. Bassett III, 43, served from 1988 to 1997 as the Vice President and General Manager of Bassett Table and as Vice President of Wood Manufacturing since 1997.

Grover S. Elliott, 61, was the Chief Financial Officer for Cochrane Furniture from 1993 until 1996 and has been with the Company as Vice President of Finance and Investor Relations since 1996.

Jay R. Hervey, Esq., 42, was an Associate with the Richmond Office of McGuireWoods, LLP from 1992 to 1997 and has been the General Counsel, Vice President and Secretary for the Company since 1997.

Dennis Hoy, 43, was a furniture buyer with Marlo Furniture from 1987 until 1996 and has been with the Company since 1996, as Casegoods and Merchandise Manager and as Vice President of Merchandising. In 1999, he was promoted to Vice President and General Manager, Upholstery.

Jack R. Johnson, Jr., 41, has been a sales representative for the Company since 1989 and joined the Company as the Vice President of In-store Licensing in 1999. In 2000, he was promoted to the Vice President of Retail and Marketing.

Matthew S. Johnson, 40, has been with the Company for 16 years, most recently as Vice President of Wood Merchandising. In 2000, he was promoted to Vice President of Merchandising and Design.

Charles T. King, 39, was with Coopers and Lybrand from 1985 to 1988, and McMillan, Pate and King, CPA's from 1989 to 1998 and joined the Company in 1998 as Retail Controller. In 2001, he was promoted to Vice President and Controller.

Thomas E. Prato, 46, has been with the Company since 1987 in Advertising and Sales Management and has been the Vice President of Sales since 1998.

Barry C. Safrit, 39, was with CHF Industries from 1995 until 1998 as Controller and as Chief Financial Officer and joined the Company as Vice President and Chief Accounting Officer in 1998 and was promoted to Chief Financial Officer in 2001.

Keith R. Sanders, 57, was with Ethan Allen from 1995 until 1998 as the Vice President of Manufacturing and Vice President of Upholstery and has been the Vice President of Upholstery Manufacturing for the Company from 1998 to 1999. In 1999, he was promoted to Executive Vice President, Operations.

Robert H. Spilman, Jr., 45, has been with the Company since 1984. He was the Company's Executive Vice President of Marketing and Merchandising from 1994 until 1997 and served as President and Chief Operating Officer from 1997 to 2000. In 2000, he was promoted to Chief Executive Officer and President.

Thomas R. Swanston, 70, was with Ethan Allen from 1992 until 1999 as General Manager of Business Development, and later served as advisor to the chairman. He joined the Company as Executive Vice President of Sales and Marketing in 2001.

## PART II

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

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

ITEM 6. SELECTED FINANCIAL DATA

The information for the five years ended November 24, 2001, contained in "Other Business Data" in the Annual Report is incorporated herein by reference thereto.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes to consolidated financial statements of the Registrant and its subsidiaries contained in the Annual Report are incorporated herein by reference thereto. In addition, financial statements of the registrant's significant non-consolidated subsidiaries are included in this Form 10-K on pages F-1 to F-15 and F-16 to F-28.

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

None.

## PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained on pages 3 through 5 and page 11 of the Proxy Statement under the "Election of Directors" and "Section 16 (a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference thereto. Please see section entitled "Executive Officers of the Registrant" in Item 4b of Part I of this report for information concerning executive officers.

ITEM 11. EXECUTIVE COMPENSATION

The information contained on pages 6 through 11 of the Proxy Statement under the captions "Organization, Compensation and Nominating Committee Report," "Stockholder Return Performance Graph," "Executive Compensation," "Supplemental Retirement Income Plan," "Deferred Compensation Agreement," and "Director Compensation" is incorporated herein by reference thereto.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

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

(a) (1) The following consolidated financial statements of the registrant and its subsidiaries, included in the Annual Report are incorporated herein by reference thereto:

Consolidated Balance Sheets--November 24, 2001 and November 25, 2000

Consolidated Statements of Income--Years Ended November 24, 2001, November 25, 2000 and November 27, 1999

Consolidated Statements of Stockholders' Equity--Years Ended November 24, 2001, November 25, 2000 and November 27, 1999

Consolidated Statements of Cash Flows-- Years Ended November 24, 2001, November 25, 2000 and November 27, 1999

Notes to Consolidated Financial Statements

Report of Independent Public Accountants

International Home Furnishings Center, Inc. Financial Statements are included herein on pages F-1 to F-15.

LRG Furniture, LLC Financial Statements are included herein on pages F-16 in F-28.

(2) Financial Statement Schedule:
Schedule II - Analysis of Valuation and Qualifying Accounts for the years ended November 24, 2001, November 25, 2000, and November 27, 1999

(3) Listing of Exhibits

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

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

4A. Credit Agreement with a Bank Group dated October 25, 2000 is incorporated herein by reference to Form 10-K for the fiscal year ended November 25, 2000.

4B. First Amendment to Credit Agreement with a Bank Group dated October 5, 2001, is filed herewith.

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

| | | |
|---|---|---|
| ** | 10B. | Bassett Executive Deferred Compensation Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 1997. |
| ** | 10C. | Bassett Supplemental Retirement Income Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 1997. |
| ** | 10D. | Bassett 1993 Stock Plan for Non-Employee Directors 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. |
| | 13. | Portions of the Registrant's Annual Report to Stockholders for the year ended November 24, 2001. |
| | 21. | List of subsidiaries of the Registrant |
| | 23A. | Consent of Independent Public Accountants is filed herewith. |
| | 23B. | Consent of Independent Auditors is filed herewith. |

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

(b) No reports on Form 8-K were filed during the last quarter of the Registrant's 2001 fiscal year.

SIGNATURES

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

BASSETT FURNITURE INDUSTRIES, INCORPORATED (Registrant)

By: /s/ PAUL FULTON — Date: 2/21/02
Paul Fulton
Chairman of the Board of Directors

By: /s/ ROBERT H. SPILMAN JR. — Date: 2/21/02
Robert H. Spilman Jr.
President and Chief Executive Officer
Director

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

By: /s/ AMY W. BRINKLEY — Date: 2/21/02
Amy W. Brinkley
Director

By: /s/ PETER W. BROWN — Date: 2/21/02
Peter W. Brown
Director

By: /s/ WILLIE D. DAVIS — Date: 2/21/02
Willie D. Davis
Director

By: /s/ ALAN T. DICKSON — Date: 2/21/02
Alan T. Dickson
Director

By: /s/ HOWARD H. HAWORTH — Date: 2/21/02
Howard H. Haworth
Director

By: — Date: 2/21/02
Michael E. Murphy
Director

By: /s/ DALE C. POND — Date: 2/21/02
Dale C. Pond
Director

By: /s/ DAVID A. STONECIPHER — Date: 2/21/02
David A. Stonecipher
Director

By: /s/ BARRY C. SAFRIT — Date: 2/21/02
Barry C. Safrit
Vice President and Chief Financial Officer

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

CERTAIN EXHIBITS

YEAR ENDED NOVEMBER 24, 2001

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

BASSETT, VIRGINIA

INTERNATIONAL HOME FURNISHINGS
CENTER, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2001, 2000 AND 1999

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY

TABLE OF CONTENTS

# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of International Home Furnishings Center, Inc. and subsidiary as of October 31, 2001 and 2000 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, 2001. 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 auditing standards generally accepted in the United States of America. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Home Furnishings Center, Inc. and subsidiary at October 31, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

High Point, North Carolina
November 30, 2001

/s/ DIXON ODOM, PLLC

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2001 AND 2000

| ASSETS | 2001 | 2000 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 8,848,172 | $ 4,859,447 |
| Restricted cash | 24,479,827 | 2,275,974 |
| Short-term investments | 98,570 | 94,489 |
| Receivables | | |
| Trade | 2,552,434 | 2,646,756 |
| Interest | 10,677 | 9,279 |
| Deferred income tax asset | 3,028,000 | 600,000 |
| Prepaid expenses | 192,271 | 717,172 |
| TOTAL CURRENT ASSETS | 39,209,951 | 11,203,117 |
| PROPERTY AND EQUIPMENT, at cost | | |
| Land and land improvements | 3,293,772 | 3,293,772 |
| Buildings, exclusive of theater complex | 88,350,771 | 75,391,981 |
| Furniture and equipment | 3,707,139 | 3,717,945 |
| Construction in progress | - | 11,569,301 |
| | 95,351,682 | 93,972,999 |
| Accumulated depreciation | (46,121,761) | (46,022,092) |
| | 49,229,921 | 47,950,907 |
| OTHER ASSETS | | |
| Theater complex, at cost less amortization | 890,344 | 933,599 |
| Deferred financing costs, net of accumulated amortization of $508,803 and $187,943 at October 31, 2001 and 2000, respectively | 2,411,052 | 396,766 |
| Interest rate cap agreement, at fair value | 46,613 | - |
| | 3,348,009 | 1,330,365 |
| | $ 91,787,881 | $ 60,484,389 |

| LIABILITIES AND STOCKHOLDERS' DEFICIT | 2001 | 2000 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable, trade | $ 1,014,684 | $ 3,994,972 |
| Accrued property taxes | 1,840,732 | 1,702,341 |
| Other accrued expenses | 851,281 | 693,418 |
| Rents received in advance | 7,765,348 | 1,502,952 |
| Income taxes payable | 1,949,956 | - |
| Current maturities of long-term debt | 2,627,187 | 9,995,880 |
| TOTAL CURRENT LIABILITIES | 16,049,188 | 17,889,563 |
| LONG-TERM DEBT | 130,555,336 | 45,658,704 |
| OTHER LONG-TERM LIABILITIES | | |
| Supplemental retirement benefits | 1,924,223 | 1,745,023 |
| Deferred income taxes | 587,000 | 1,090,000 |
| | 2,511,223 | 2,835,023 |
| COMMITMENTS (Note G) | | |
| STOCKHOLDERS' DEFICIT | | |
| Common stock, $5 par value, 1,000,000 shares authorized, 527,638 shares issued in 2001 and 2000 | 2,638,190 | 2,638,190 |
| Additional paid-in capital | 169,360 | 169,360 |
| Accumulated deficit | (60,135,416) | (8,706,451) |
| | (57,327,866) | (5,898,901) |
| | $ 91,787,881 | $ 60,484,389 |

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED OCTOBER 31, 2001, 2000 AND 1999

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| OPERATING REVENUES | | | |
| Rental income | $ 34,682,203 | $ 31,620,514 | $ 31,684,174 |
| Other revenues | 6,973,398 | 6,922,474 | 6,472,825 |
| TOTAL OPERATING REVENUES | 41,655,601 | 38,542,988 | 38,156,999 |
| OPERATING EXPENSES | | | |
| Compensation and benefits | 4,642,208 | 4,242,802 | 4,084,283 |
| Market and promotional | 2,589,746 | 2,593,966 | 2,558,772 |
| Maintenance and building costs | 1,012,997 | 858,194 | 862,804 |
| Depreciation expense | 2,647,449 | 2,179,109 | 2,202,723 |
| Rent | 152,234 | 152,234 | 152,234 |
| Property taxes and insurance | 2,269,932 | 1,997,121 | 1,987,898 |
| Utilities | 1,872,132 | 1,655,730 | 1,652,068 |
| Other operating costs | 1,373,183 | 535,776 | 617,201 |
| TOTAL OPERATING EXPENSES | 16,559,881 | 14,214,932 | 14,117,983 |
| INCOME FROM OPERATIONS | 25,095,720 | 24,328,056 | 24,039,016 |
| NONOPERATING INCOME | | | |
| Interest income | 1,071,901 | 808,703 | 929,317 |
| Dividend income | 4,597 | 4,652 | 3,692 |
| TOTAL NONOPERATING INCOME | 1,076,498 | 813,355 | 933,009 |
| NONOPERATING EXPENSES | | | |
| Interest expense | 7,870,387 | 4,109,489 | 4,936,077 |
| TOTAL NONOPERATING EXPENSES | 7,870,387 | 4,109,489 | 4,936,077 |
| INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM | 18,301,831 | 21,031,922 | 20,035,948 |
| PROVISION FOR INCOME TAXES | 7,166,000 | 8,101,000 | 7,770,000 |
| INCOME BEFORE EXTRAORDINARY ITEM | 11,135,831 | 12,930,922 | 12,265,948 |
| EXTRAORDINARY ITEM | | | |
| Loss on early extinguishment of debt, net of income tax benefit of $1,217,000 | (1,886,426) | - | - |
| NET INCOME | $ 9,249,405 | $ 12,930,922 | $ 12,265,948 |
| BASIC EARNINGS PER COMMON SHARE | | | |
| Income before extraordinary item | $ 21.11 | $ 24.51 | $ 23.25 |
| Extraordinary item | (3.58) | - | - |
| Net income | $ 17.53 | $ 24.51 | $ 23.25 |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 527,638 | 527,638 | 527,638 |

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
YEARS ENDED OCTOBER 31, 2001, 2000 AND 1999

| | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Total |
|---|---|---|---|---|
| BALANCE (DEFICIT), OCTOBER 31, 1998 | $ 2,638,190 | $ 169,360 | $ (20,712,371) | $ (17,904,821) |
| Net income | - | - | 12,265,948 | 12,265,948 |
| Dividends paid ($25.00 per common share) | - | - | (13,190,950) | (13,190,950) |
| BALANCE (DEFICIT), OCTOBER 31, 1999 | 2,638,190 | 169,360 | (21,637,373) | (18,829,823) |
| Net income | - | - | 12,930,922 | 12,930,922 |
| BALANCE (DEFICIT), OCTOBER 31, 2000 | 2,638,190 | 169,360 | (8,706,451) | (5,898,901) |
| Net income | - | - | 9,249,405 | 9,249,405 |
| Dividends paid ($115.00 per common share) | - | - | (60,678,370) | (60,678,370) |
| BALANCE (DEFICIT), OCTOBER 31, 2001 | $ 2,638,190 | $ 169,360 | $ (60,135,416) | $ (57,327,866) |

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2001, 2000 AND 1999

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net income | $ 9,249,405 | $ 12,930,922 | $ 12,265,948 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 3,209,295 | 2,301,760 | 2,325,374 |
| Decrease in fair value of interest rate cap agreement | 265,887 | - | - |
| Loss on early extinguishment of debt | 3,103,426 | - | - |
| Provision for losses on accounts receivable | 25,154 | 6,341 | 1,360 |
| (Gain) loss on disposal of assets | 45,352 | (3,134) | - |
| Deferred income taxes | (2,931,000) | (354,000) | (500,000) |
| Change in assets and liabilities | | | |
| (Increase) decrease in trade and interest receivables | 67,770 | (394,166) | (68,728) |
| (Increase) decrease in prepaid expenses | 524,901 | 89,057 | (750,264) |
| Increase (decrease) in accounts payable and accrued expenses | 39,047 | 207,521 | (139,200) |
| Increase (decrease) in rents received in advance | 6,262,396 | (110,737) | 134,806 |
| Increase in supplemental retirement benefits | 179,200 | 240,796 | 541,136 |
| Increase in income taxes payable | 1,949,956 | - | - |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 21,990,789 | 14,914,360 | 13,810,432 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase and construction of property and equipment | (6,690,764) | (8,764,159) | (337,457) |
| Proceeds from sale of property and equipment | - | 4,000 | - |
| Purchase of short-term investments | (4,081) | (3,711) | (7,135) |
| Increase in restricted cash | (22,203,853) | - | - |
| NET CASH USED BY INVESTING ACTIVITIES | (28,898,698) | (8,763,870) | (344,592) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issuance of long-term debt | 135,000,000 | - | - |
| Principal payments on long-term debt | (57,472,061) | (9,295,564) | (8,667,074) |
| Cost incurred to extinguish debt early | (2,720,580) | - | - |
| Purchase of interest rate cap | (312,500) | - | - |
| Dividends paid | (60,678,370) | - | (13,190,950) |
| Financing costs paid | (2,919,855) | - | - |
| NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES | 10,896,634 | (9,295,564) | (21,858,024) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 3,988,725 | (3,145,074) | (8,392,184) |
| CASH AND CASH EQUIVALENTS, BEGINNING | 4,859,447 | 8,004,521 | 16,396,705 |
| CASH AND CASH EQUIVALENTS, ENDING | $ 8,848,172 | $ 4,859,447 | $ 8,004,521 |

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED OCTOBER 31, 2001, 2000 AND 1999

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | | |
| Cash paid during the year for: | | | |
| Income taxes | $ 6,302,511 | $ 8,357,298 | $ 9,049,420 |
| Interest, net of amount capitalized | 7,699,674 | 4,166,000 | 4,988,768 |
| SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES | | | |
| Accounts payable incurred for acquisition of property and equipment | $ 201,715 | $ 2,924,796 | $ - |

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE A - DESCRIPTION OF BUSINESS

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies relative to the carrying values of property and equipment, theater complex and interest rate cap agreement are indicated in the captions on the consolidated balance sheets. 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 subsidiary, IHFC Properties, L.L.C., a company organized on December 21, 2000. All material intercompany transactions have been eliminated. The Company and its subsidiary are referred to collectively herein as "the Company." Notwithstanding the consolidation of the Company and IHFC Properties, L.L.C. in these financial statements, IHFC Properties, L.L.C. is a separate entity, with separate assets and liabilities and has its own separate financial statements.

Rental Income

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

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.

Investment Securities

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities (Continued)

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 or commits to holding debt securities to their maturities, investments in debt and marketable equity securities have been classified as available-for-sale. Available-for-sale securities are stated at fair value, and unrealized holding gains and losses, if significant, net of the related deferred tax effect, are reported as a separate component of 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. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," 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 on the interest method over the term of the related debt. Amortization expense charged to operations during the years ended October 31, 2001, 2000 and 1999 was $522,725, $83,530 and $83,530, respectively.

Derivative Instruments

As disclosed in Note E, the Company entered into an interest rate cap agreement to limit its exposure to increasing interest cost on its term debt. The Company's investment in the agreement is carried at fair value, and changes in fair value are included in earnings. The agreement is not designated as a hedge.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Earnings Per Common Share

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 dilutive potential common shares.

Retirement Plans

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

In 1991, the Company adopted a nonqualified supplemental retirement benefits plan for key management employees. Benefits payable under the plan are based upon the participant's average compensation during his last five years of employment and are reduced by benefits payable under the Company's qualified retirement plan and by one-half of the participant's social security benefits. Benefits under the plan do not vest until the attainment of normal retirement age; however, a reduced benefit is payable if employment terminates prior to normal retirement age because of death or disability. The vested portion of the benefits under this plan amounted to approximately $1,345,000 at October 31, 2001. The Company has no obligation to fund this supplemental plan.

Fair Value of Financial Instruments

The carrying amount of the Company's significant financial instruments, none of which are held for trading purposes, approximates fair value at October 31, 2001 and 2000. Cash, cash equivalents and restricted cash approximate fair value because of the short maturities of these instruments. Long-term debt approximates fair value because of its floating interest rate terms.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

NOTE C - RESTRICTED CASH

The Company has restricted, interest-bearing cash accounts held by the lender under the escrow provisions of the term loan agreement described in Note E. The restricted cash balances are held for the following purposes at October 31, 2001:

| | |
|---|---|
| Taxes and insurance | $ 767,025 |
| Required repairs | 1,120,729 |
| Replacements | 142,251 |
| Environmental | 802,882 |
| Debt service | 7,438,700 |
| Operating expenses | 677,394 |
| Ground rent | 48,360 |
| Cash management | 13,482,486 |
| | $ 24,479,827 |

All rents and other income from operation of the Company's property are deposited directly into a lockbox account controlled by the lender under the Company's cash management agreement. In May and November of each year during the term of the loan, the lender will disburse to the Company amounts in the cash management account in excess of the amounts needed to replenish the various escrow accounts.

The Company has granted the lender a security interest in each of the restricted cash accounts as additional security for the outstanding term loan.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE D - INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale securities as of October 31, 2001 and 2000:

| | 2001 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Debt securities | | | | |
| State and local governments | $ 3,015,466 | $ - | $ - | $ 3,015,466 |
| Corporate | 3,000,000 | - | - | 3,000,000 |
| Equity securities | 98,570 | - | - | 98,570 |
| | $ 6,114,036 | $ - | $ - | $ 6,114,036 |

| | 2000 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Debt securities | | | | |
| State and local governments | $ 3,825,717 | $ - | $ - | $ 3,825,717 |
| Equity securities | 94,489 | - | - | 94,489 |
| | $ 3,920,206 | $ - | $ - | $ 3,920,206 |

Available-for-sale securities are classified in the following balance sheet captions as of October 31, 2001 and 2000:

| | 2001 | 2000 |
|---|---|---|
| Cash and cash equivalents | $ 6,015,466 | $ 3,825,717 |
| Short-term investments | 98,570 | 94,489 |
| | $ 6,114,036 | $ 3,920,206 |

All the Company's debt securities mature within three months.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2001 and 2000:

| | 2001 | 2000 |
|---|---|---|
| Term note payable, consisting of three components - A ($94,482,523), B ($12,000,000), and C ($26,700,000). Principal payments are due monthly based on an amortization schedule provided by the lender and are applied first to component A. Interest is payable monthly at varying rates for the three components - LIBOR plus 1.92% for component A, LIBOR plus 2.22% for component B, and LIBOR plus 2.72% for component C. At October 31, 2001, the interest rates were 4.5575% for component A, 4.8575% for component B, and 5.3575% for component C. The note matures in December 2003 and has two one-year extension periods available, which the Company intends to exercise. The loan is collateralized by land and buildings, restricted cash (Note C), rents and assignment of leases with tenants. | $ 133,182,523 | $ - |
| Term note payable, repaid in fiscal year ended October 31, 2001. | $ - | $ 55,654,584 |
| | 133,182,523 | 55,654,584 |
| Less current maturities | 2,627,187 | 9,995,880 |
| | $ 130,555,336 | $ 45,658,704 |

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

| Year Ending October 31, | |
|---|---|
| 2002 | $ 2,627,187 |
| 2003 | 2,880,776 |
| 2004 | 3,158,841 |
| 2005 | 3,463,746 |
| 2006 | 121,051,973 |
| | $ 133,182,523 |

During the year ended October 31, 2001, the Company entered into an interest rate cap agreement that has a notional amount of $133,182,523 at October 31, 2001. The notional amount will decrease as principal payments are made on the Company's term debt and will be equal to the term debt until the agreement expires January 3, 2004. Under the agreement, the Company will receive an amount equal to the interest it incurs on its term debt in excess of 8%, if any. The $265,887 decrease in the fair value of the interest rate cap agreement was charged to earnings during the year ended October 31, 2001.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE E - LONG-TERM DEBT (CONTINUED)

Total interest cost incurred for the years ended October 31, 2001, 2000 and 1999 was $8,241,933, $4,303,766 and $4,936,077, respectively. Of the interest cost for the years ended October 31, 2001 and 2000, $371,546 and $194,277, respectively, was capitalized as part of the building construction costs. There was no interest capitalized in the year ended October 31, 1999.

The Company recorded an extraordinary loss of $1,886,426 after income taxes as a result of the early extinguishment of term debt in the amount of $54,039,689. The loss consisted primarily of costs associated with the early extinguishment and the write-off of unamortized financing costs of $382,846. The extinguishment of the debt was financed with a portion of the proceeds from the $135,000,000 term loan.

NOTE F - INCOME TAXES

The provision for income taxes consists of the following for the years ended October 31, 2001, 2000 and 1999:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Federal: | | | |
| Current | $ 7,365,000 | $ 6,975,000 | $ 6,765,000 |
| Deferred | (2,415,000) | (287,000) | (395,000) |
| | 4,950,000 | 6,688,000 | 6,370,000 |
| State: | | | |
| Current | 1,515,000 | 1,480,000 | 1,505,000 |
| Deferred | (516,000) | (67,000) | (105,000) |
| | 999,000 | 1,413,000 | 1,400,000 |
| TOTAL | $ 5,949,000 | $ 8,101,000 | $ 7,770,000 |

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:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Income taxes computed at the federal statutory rate | $ 5,319,000 | $ 7,360,000 | $ 7,013,000 |
| State taxes, net of federal benefit | 649,000 | 918,000 | 910,000 |
| Nontaxable investment income | (48,000) | (112,000) | (180,000) |
| Other, net | 29,000 | (65,000) | 27,000 |
| | $ 5,949,000 | $ 8,101,000 | $ 7,770,000 |

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE F - INCOME TAXES (CONTINUED)

The components of deferred income taxes consist of the following:

| | 2001 | 2000 |
|---|---|---|
| Deferred income tax assets: | | |
| Rents received in advance | $ 3,028,000 | $ 600,000 |
| Supplemental retirement benefits | 750,000 | 700,000 |
| Interest rate cap | 70,000 | - |
| Deferred financing costs | 9,000 | - |
| TOTAL DEFERRED TAX ASSETS | 3,857,000 | 1,300,000 |
| Deferred income tax liabilities: | | |
| Depreciation | (1,416,000) | (1,790,000) |
| TOTAL NET DEFERRED TAX ASSETS (LIABILITIES) | $ 2,441,000 | $ (490,000) |

NOTE G - LAND LEASE COMMITMENT

During 1975, the Company completed construction of an eleven-story exhibition building. The building is constructed on land leased from the City of High Point, North Carolina under a noncancelable lease. The lease is for an initial term of fifty years with three options to renew for periods of ten years each and a final renewal option for nineteen years. Annual rental under the lease is $152,234 as of October 31, 2001 and is subject to adjustment at the end of each five-year period, such adjustment being computed as defined in the lease agreement. As part of the lease agreement, the Company constructed a theater complex for public use and office space for use by the City of High Point on the lower levels of the building. Annual rental cash payments over the initial fifty-year lease term are being reduced by $39,121 which represents amortization of the cost of the theater and office complex constructed for the City of High Point. At the termination of the lease, the building becomes the property of the City of High Point. Under the terms of the lease, the Company is responsible for all expenses applicable to the exhibition portion of the building. The City of High Point is responsible for all expenses applicable to the theater complex and office space constructed for use by the City.

NOTE H - RETIREMENT EXPENSE

Amounts expensed under the Company's retirement plans amounted to $350,669, $394,166 and $691,698 for the years ended October 31, 2001, 2000 and 1999, respectively, including $179,200, $240,796 and $541,136 under the supplemental retirement benefits plan for the years ended October 31, 2001, 2000 and 1999, respectively.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
OCTOBER 31, 2001, 2000 AND 1999

NOTE I - 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. Accumulated depreciation on this property amounted to $42,925,163 at October 31, 2001 and $42,943,916 at October 31, 2000. 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, 2001, exclusive of amounts due under escalation provisions of lease agreements:

| Year Ending October 31, | |
|---|---|
| 2002 | $ 30,048,586 |
| 2003 | 26,019,227 |
| 2004 | 22,329,312 |
| 2005 | 15,028,725 |
| 2006 | 2,073,780 |
| Total minimum future rentals | $ 95,499,630 |

Rental income includes contingent rentals under escalation provisions of leases of $1,164,693, $823,536 and $1,322,521 for the years ended October 31, 2001, 2000 and 1999, respectively. Rental income from related parties amounted to $2,682,719, $2,374,813 and $1,980,775 for the years ended October 31, 2001, 2000 and 1999, respectively.

NOTE J - 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, 2001, the Company's bank balances exceeded federally insured limits by $16,509,628. The Company's trade accounts receivable are generally collateralized by merchandise in leased exhibition spaces which is in the Company's possession.

NOTE K - 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.

LRG FURNITURE, LLC

Financial Statements
As of November 30, 2001 and 2000
Together with Report of Independent Public Accountants

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of
LRG Furniture, LLC:

We have audited the accompanying balance sheets of LRG FURNITURE, LLC (a Virginia limited liability company) as of November 30, 2001 and 2000, and the related statements of operations and changes in members' deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LRG Furniture, LLC as of November 30, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Houston, Texas
December 21, 2001

/s/ Arthur Andersen, LLP

LRG FURNITURE, LLC

BALANCE SHEETS -- NOVEMBER 30, 2001 AND 2000

| ASSETS | 2001 | 2000 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 2,456,466 | $ 4,191,154 |
| Accounts receivable, net of allowances of $60,910 and $104,000 in 2001 and 2000, respectively | 644,338 | 681,167 |
| Merchandise inventories, net | 10,119,254 | 11,785,997 |
| Prepaid expenses | 72,053 | 106,310 |
| Total current assets | 13,292,111 | 16,764,628 |
| PROPERTY AND EQUIPMENT: | | |
| Computer equipment | 374,909 | 343,577 |
| Store fixtures | 355,885 | 268,302 |
| Office furniture, fixtures and equipment | 1,027,155 | 1,222,508 |
| Leasehold improvements | 1,369,775 | 1,590,578 |
| Vehicles | 174,798 | 115,692 |
| | 3,302,522 | 3,540,657 |
| Less - Accumulated depreciation | (661,893) | (345,033) |
| | 2,640,629 | 3,195,624 |
| OTHER ASSETS, NET (NOTE 3) | 776,379 | 825,775 |
| | $16,709,119 | $20,786,027 |

| LIABILITIES AND MEMBERS' DEFICIT | 2001 | 2000 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current portion of long-term debt (Note 5) | $ 2,466,836 | $ 1,548,636 |
| Accounts payable, primarily to Members (Note 7) | 9,882,446 | 10,970,062 |
| Customer deposits | 2,390,342 | 2,983,731 |
| Accrued liabilities | 1,026,186 | 909,448 |
| Total current liabilities | 15,765,810 | 16,411,877 |
| LONG-TERM DEBT (NOTE 5) | 1,306,344 | 3,299,364 |
| NOTES PAYABLE TO MEMBERS AND DEFERRED INTEREST PAYABLE (NOTE 5) | 13,291,482 | 7,981,333 |
| COMMITMENTS AND CONTINGENCIES (NOTES 6, 9 AND 11) | | |
| MEMBERS' DEFICIT | (13,654,517) | (6,906,547) |
| | $16,709,119 | $20,786,027 |

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

LRG FURNITURE, LLC

STATEMENTS OF OPERATIONS AND CHANGES IN MEMBERS' DEFICIT
FOR THE YEARS ENDED NOVEMBER 30, 2001 AND 2000

| | 2001 | 2000 |
|---|---|---|
| SALES | $ 62,577,684 | $63,058,739 |
| COST OF GOODS SOLD | 34,638,022 | 34,849,470 |
| Gross profit | 27,939,662 | 28,209,269 |
| OPERATING AND GENERAL EXPENSES | 33,553,602 | 37,294,558 |
| Loss from operations | (5,613,940) | (9,085,289) |
| INTEREST EXPENSE | 1,134,030 | 498,747 |
| NET LOSS | (6,747,970) | (9,584,036) |
| MEMBERS' (DEFICIT) EQUITY, BEGINNING OF YEAR | (6,906,547) | 2,677,489 |
| MEMBERS' DEFICIT, END OF YEAR | $(13,654,517) | $(6,906,547) |

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

LRG FURNITURE, LLC

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2001 AND 2000

| | 2001 | 2000 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | $(6,747,970) | $(9,584,036) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 406,772 | 345,033 |
| Amortization | 422,014 | 53,568 |
| Loss on sale of property and equipment | 235,312 | 0 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 36,829 | 71,918 |
| Merchandise inventories | 2,173,743 | (2,245,991) |
| Prepaid expenses | 39,757 | 54,805 |
| Accounts payable and accrued liabilities | (327,544) | 1,131,932 |
| Customer deposits | (739,389) | (1,509,920) |
| Other | (5,049) | (4,596) |
| Net cash used in operating activities | (4,505,525) | (11,687,287) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (206,232) | (617,582) |
| Proceeds on sale of property and equipment | 204,389 | 0 |
| Net cash used in investing activities | (1,843) | (617,582) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt | 500,000 | 4,848,000 |
| Repayment of long-term debt | (1,827,320) | (2,175,000) |
| Proceeds from notes payable to Members | 4,100,000 | 7,808,000 |
| Net cash provided by financing activities | 2,772,680 | 10,481,000 |
| NET DECREASE IN CASH | (1,734,688) | (1,823,869) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 4,191,154 | 6,015,023 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | $ 2,456,466 | $ 4,191,154 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - CASH PAID DURING THE YEAR FOR INTEREST | $ 479,430 | $ 393,886 |

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

LRG FURNITURE, LLC

NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2001 AND 2000

1. HISTORY AND ORGANIZATION

LRG Furniture, LLC (the Company) was formed as a limited liability company under the laws of Virginia on November 29, 1999. The Company was formed as a joint venture between Bassett Furniture Industries, Inc. (Bassett) and Bassett Direct Plus Texas, LLC (BDPT) (collectively referred to herein as the Members). Bassett and BDPT were credited with 51% and 49%, respectively, of the combined members' equity of $2,677,489 at the date of formation.

2. CONTINUING OPERATIONS

The Company has experienced significant losses from operations since inception. The Company incurred a net loss of $6,748,000 and $9,584,000 in the years 2001 and 2000, respectively, and has Members' deficit of $13,655,000 and $6,907,000 as of November 30, 2001 and 2000, respectively. Management has implemented a profit improvement program that includes evaluation and realignment of the Company's business to improve profitability. This program has resulted in significant operational changes, overall downsizing of the Company's administrative and operating overhead and disposals or planned disposals of selected stores (see Note 11). These store disposals will leave the Company with seven stores in the Texas and Nevada markets. As a result of these actions, the Company expects to substantially reduce losses from operations, however, there can be no assurances that management's program will be successful.

The Members have historically provided, and are currently providing, sufficient financial support to the Company to fund the Company's obligations and working capital requirements as those obligations become due. The Members loaned a total of $4,100,000 to the Company in 2001 and $7,808,000 in 2000 (see Note 5). Management of Bassett has committed to provide the necessary level of financial support to the Company to enable it to pay its obligations as they become due through November 30, 2003. Bassett, however, is not legally obligated to provide such support. In addition, Bassett has guaranteed repayment of all of the Company's third-party long-term debt.

3. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

The Company currently operates 12 retail furniture stores in North Carolina, Virginia, Kentucky, Nevada and Texas (see Note 11). These stores operate under the "Bassett Furniture Direct" name and substantially all of their purchases are contractually obligated from Bassett and its affiliates.

USE OF ESTIMATES

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

RECLASSIFICATIONS

For comparative purposes, certain amounts in the 2000 financial statements have been reclassified to conform with the 2001 presentation.

CASH AND CASH EQUIVALENTS

Cash includes cash on hand, cash in banks and deposits in-transit from credit card companies.

REVENUE RECOGNITION AND CONCENTRATION OF CREDIT RISK

The Company recognizes revenue upon the delivery of products to its customers. There is no concentration of credit risk to any one customer. Allowances are provided for estimated losses associated with anticipated future returns of products sold by the Company and inability of customers to pay balances due. Actual product returns and cash collections could differ from management's estimates making it reasonably possible that a change in these estimates could occur in the near term.

MERCHANDISE INVENTORIES

Merchandise inventories are stated at the lower of first-in, first-out (FIFO) cost or market. Allowances are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value. Shipping and handling costs associated with inbound freight are included in cost of sales and amounts related to merchandise inventory on hand at year-end are capitalized in merchandise inventories.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

| | |
|---|---|
| Computer equipment | 3-5 years |
| Store fixtures | 7 years |
| Office furniture, fixtures and equipment | 7 years |
| Leasehold improvements | Life of lease |
| Vehicles | 5 years |

When property is sold or retired, the cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the statement of operations and changes in members' equity. Expenditures for maintenance and repairs are charged to operations as incurred.

OTHER ASSETS

Other assets are comprised primarily of an assumed lease contract with an independent third party that has terms that are favorable to its local market value and refundable deposits with various utilities and property lessors. The favorable lease contract, which has a gross balance of $758,867, is amortized over the lease term, which is 15 years. Accumulated amortization related to this favorable lease contract was $107,136 and $53,568 in 2001 and 2000, respectively. The deposits are refundable at the discretion of the utility or lessor as applicable.

LONG-LIVED ASSETS

The Company applies Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which requires that long-lived assets and certain identifiable intangible assets to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event assets are impaired, losses are recognized based on the excess carrying amounts over the estimated discounted future cash flows or fair market value of the asset. SFAS No. 121 also requires that assets to be disposed of be reported at the lower of the carrying amount or the fair market value less selling costs. Management does not believe there are any impairments of long-lived assets at November 30, 2001.

PREOPENING EXPENSES

Preopening expenses, which consist primarily of payroll and occupancy costs, are expensed as incurred. Preopening expenses were $177,000 and $450,000 in 2001 and 2000, respectively.

ADVERTISING COSTS

The Company expenses advertising costs as incurred. Advertising expense was $4,355,000 and $5,931,000 in 2001 and 2000, respectively.

SHIPPING AND HANDLING FEES AND COSTS

In September 2000, the Emerging Issues Task Force issued EITF 00-10, "Accounting for Shipping and Handling Fees and Costs" (EITF 00-10). EITF 00-10 requires shipping and handling fees billed to customers to be classified as revenue and shipping and handling costs to be either classified as cost of sales or disclosed in the notes to the consolidated financial statements. The Company includes shipping and handling fees billed to customers in net sales. Shipping and handling costs associated with outbound freight are included in operating and general expenses and totaled $6,442,000 and $7,012,000 in fiscal 2001 and 2000, respectively.

CUSTOMER DEPOSITS

Customer deposits relate to amounts paid by customers to the Company at the time they order goods. These deposits are applied to the ultimate sales price once goods are delivered to the customer, and are recognized as revenue at that time.

INCOME TAXES

The Company is treated as a pass-through entity for federal income tax purposes. As a result, the Company is not subject to income tax, but rather the liability for income taxes from the taxable income generated by the Company is the obligation of the Members. The Company is treated similarly for state income tax purposes and, under current law in the states in which the Company is conducting business, the Company is not subject to state income taxes. Accordingly, no provision or benefit for federal and state income taxes has been recorded in the accompanying financial statements.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts receivable, accounts payable and long-term debt. Because of their short maturity, the carrying amounts of cash, accounts receivable and accounts payable approximate fair value. The carrying amounts of long-term debt approximate fair value due to the variable rate nature of bank debt and the Company's belief that its interest rates on fixed interest rate debt due to its Members approximate fair value rates for the Company.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." This statement amends the accounting and reporting standards of Statement No. 133 for certain derivative instruments and certain hedging activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company adopted the provisions of this statement in 2001 and the impact of adopting the statement is immaterial.

In April 2001, the Company adopted SFAS No. 140, "Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities." This statement replaces SFAS No. 125, but carries over most of the provisions of SFAS No. 125 without reconsideration. The impact of adopting this pronouncement was not material to the Company's financial statements.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations." This statement requires that all business combinations initiated after June 30, 2001, be accounted for by the purchase method, eliminating the availability of the pooling-of-interests method. In addition SFAS No. 141 requires recognition of intangible assets apart from goodwill if they meet certain criteria. Any acquisition activity performed by the Company subsequent to the effective date of this statement will be accounted for under the purchase method. Management does not expect the impact of adopting SFAS No. 141 to be material to the Company's financial statements.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This statement supercedes APB Opinion No. 17. SFAS No. 142 establishes new standards for measuring the carrying value of goodwill related to acquired companies. Instead of amortizing goodwill over a fixed period of time, the Company will instead measure the fair value of acquiring businesses annually to determine if goodwill has been impaired. The Company plans to adopt this statement in fiscal 2002. Amortization of intangibles recorded in fiscal 2001 that may no longer be recorded after implementation was $367,569 (see Note 4). Management is currently assessing other implementation issues and has not yet determined whether, or the extent to which, it will affect the financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets." This statement supercedes SFAS No. 121. In addition, this statement addresses the accounting for the segment of a business accounted for as a discontinued operation under APB Opinion 30. This statement would impact the Company's reporting if the Company chose to discontinue an operation, and becomes effective for the Company in fiscal 2003. Management does not expect the impact of adopting SFAS No. 144 to be material to the Company's financial statements.

4. ACQUISITION OF LOUISVILLE STORE

On December 15, 2000, the Company acquired the assets and assumed the liabilities of a third-party Bassett Furniture Direct licensee in Louisville, Kentucky, in a noncash transaction. The fair value of liabilities assumed (primarily customer deposits and loans payable which are discussed further in Note 5) exceeded the fair value of assets acquired (primarily inventory and leasehold improvements) by $367,569, which was recorded as an intangible asset. The intangible asset, which relates primarily to acquired order book and customer lists, was amortized as operating and general expenses during 2001. As part of the transaction, Bassett purchased the related building and was leasing it to the Company on a month-to-month basis. This store was sold subsequent to year-end (see Note 11).

5. LONG-TERM DEBT AND NOTES PAYABLE TO MEMBERS

Long-term debt and notes payable to Members at November 30, 2001 and 2000, consisted of the following:

| | 2001 | 2000 |
|---|---|---|
| Long-term debt: | | |
| Unsecured notes with a bank, payable in monthly installments as discussed below from January 2001 to June 2004, plus interest payable monthly ranging from prime plus 0.5% to 1.0%, as defined in the agreement (prime was 5.0% at November 30, 2001) | $ 3,773,180 | $ 4,848,000 |
| Notes payable to Members: | | |
| Unsecured notes and deferred interest payable to Bassett, accrues interest at 8% per year, principle and interest due November 1, 2004 | 10,316,667 | 6,173,333 |
| Unsecured demand note payable to Bassett, does not bear interest | 566,815 | 0 |
| Unsecured note payable to BDPT, interest payable quarterly at 8% per year, $1,808,000 due November 30, 2003, $600,000 due November 30, 2004 | 2,408,000 | 1,808,000 |
| Total notes payable to Members and deferred interest payable | 13,291,482 | 7,981,333 |
| Total long-term debt and notes payable to Members | 17,064,662 | 12,829,333 |
| Less - Current maturities of long-term debt | (2,466,836) | (1,548,636) |
| | $14,597,826 | $11,280,697 |

The aggregate future annual maturities of long-term debt and deferred interest payable are as follows:

| | |
|---|---|
| 2002 | $ 2,466,836 |
| 2003 | 3,014,344 |
| 2004 | 11,583,482 |
| 2005 | 0 |
| | $17,064,662 |

At various dates from March 16, 2000, to August 15, 2000, the Company entered into a total of eight unsecured notes with a bank for $606,000 each for a total of $4,848,000. Each note has deferred principal payments of $22,444 beginning 9 months from the close of each note and continuing for 27 months thereafter. The proceeds of these notes were used primarily to pay for new store opening inventory. The balance due on these notes at November 30, 2001 and 2000, is $3,142,256 and $4,848,000, respectively. Repayment of these loans is guaranteed by Bassett.

On June 4, 2001, the Company entered into an unsecured note with the same bank for $500,000. The note has deferred principal payments of $16,667 beginning 6 months from the close of the note and continuing for 29 months thereafter. The proceeds of this note were used primarily to pay for the new store opening inventory. The balance due on this note at November 30, 2001, is $500,000. Repayment of this loan is guaranteed by Bassett.

In connection with the acquisition of the Louisville store as discussed in Note 4, the Company assumed a $252,500 unsecured note payable with the same bank. The note requires monthly principal payments of $18,704 through June 30, 2002. The balance due on this note at November 30, 2001, is $130,924. Repayment of this note is guaranteed by Bassett.

On June 1, 2000, August 1, 2000, and May 1, 2001, the Company entered into three unsecured notes with Bassett for $1,000,000, $5,000,000 and $3,500,000, respectively. All of these notes have the same terms and have deferred principal and interest payments, all payable November 1, 2004 (see Note 11).

In connection with the acquisition of the Louisville store as discussed in Note 4, the Company assumed an unsecured demand note due to Bassett of $566,815 which is still outstanding at November 30, 2001.

On November 30, 2000 and 2001, the Company entered into unsecured notes with BDPT for $1,808,000 and $600,000, respectively. These unsecured notes contain various restrictive covenants which include, among others, limitations on loans and contingent liabilities except in the normal course of business. As of November 30, 2001, the Company was in compliance with all of these covenants.

6. LEASE COMMITMENTS

The Company's administrative offices and retail locations are leased under noncancelable operating lease agreements that expire from 2003 to 2016. Most of these leases contain renewal options of 3 to 35 years. Certain of the lease agreements for retail locations require the payment of contingent rentals based on a percentage of sales above stipulated levels. No contingent rental expense was incurred during 2001 or 2000. Certain of the lease agreements contain rent escalation clauses that are not significant. Total rent expense for 2001 and 2000 was $6,242,000 and $6,201,000, respectively. Rent expense related to locations owned or leased from the Members was $3,952,000 in 2001 and $3,823,000 in 2000.

Future minimum lease commitments for the office and retail locations under operating leases having initial terms in excess of one year are as follows:

| | BASSETT | BDPT | OTHER | TOTAL |
|---|---|---|---|---|
| 2002 | $ 924,000 | $ 2,483,000 | $ 1,766,000 | $ 5,173,000 |
| 2003 | 924,000 | 2,483,000 | 1,732,000 | 5,139,000 |
| 2004 | 924,000 | 2,483,000 | 1,203,000 | 4,610,000 |
| 2005 | 924,000 | 2,483,000 | 1,061,000 | 4,468,000 |
| 2006 | 924,000 | 2,483,000 | 1,061,000 | 4,468,000 |
| Thereafter | 8,111,000 | 21,879,000 | 3,630,000 | 33,620,000 |
| | $ 12,731,000 | $ 34,294,000 | $ 10,453,000 | $ 57,478,000 |

Subsequent to November 30, 2001, the Company sold one store to a third party. The third party assumed the lease related to the store (see Note 11). As such, the lease commitment related to this store is not included in the future minimum lease commitments above.

Additionally, Bassett will be assuming the "Bassett" and substantially all of the "Other" lease commitments detailed above in connection with the planned sale of certain stores to Bassett (see Note 11).

7. OTHER RELATED-PARTY TRANSACTIONS

Substantially all purchases of merchandise inventories are made from Bassett and its affiliates. These related entities sell products to the Company at prices and terms equal to their normal selling prices and terms to unrelated entities. Accounts payable due to these related parties was $9,230,000 and $10,534,000 in 2001 and 2000, respectively.

Interest expense on borrowings from related parties as described in Note 5 was $789,000 in 2001 and $173,000 in 2000. Portions of these amounts are included in notes payable to Members and deferred interest payable in the accompanying balance sheets at November 30, 2001 and 2000, respectively.

The Company paid salaries to principals of the Members for administrative and executive services in the amount of $300,000 in both 2001 and 2000.

8. BENEFIT PLAN

EMPLOYEE SAVINGS PLAN

The Company maintains a qualified 401(k) employee savings plan covering substantially all full-time employees. Under the plan, employees may elect to contribute up to 15% of their compensation annually. Under the plan, the Company is not required to make contributions to the plan and no contributions were made in 2001 or 2000.

9. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENTS

The Company has certain obligations under various employment agreements through November 30, 2004, that stipulate, among other things, certain levels of compensation, bonus potential, other miscellaneous benefits and severance arrangements. Potential contingent liabilities under these arrangements approximate $450,000.

LITIGATION

The Company is involved in various legal proceedings encountered in the normal course of business. In the opinion of management, based on the factors presently known, the resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

10. MEMBERS' DEFICIT

The Members' deficit account in the accompanying balance sheets reflects the initial capital contributed by the Members of $2,677,489 and all losses of the Company since inception. No distributions have been made to the Members since inception. Under the terms of the Limited Liability Company Agreement (the LLC Agreement), profits and losses and any distributions of the Company are allocated to its members based upon the Members' relative ownership interests in the Company and are made at the sole discretion of the Board of Managers. Members may not assign or transfer their rights without consent of the other Member. Both Members have two positions each in the Board of Managers. There is a single class of Members with the same rights, powers, duties, obligations, preferences and privileges. Each Member's liability is limited to the sum of its capital contributions, its share of any undistributed assets of the Company and any amounts previously distributed to it from the Company.

As stated in the Articles of Organization, the latest date on which the Company is to dissolve is November 30, 2019.

11. SALES AND CLOSURE OF RETAIL STORES

In December 2000, the Company sold its retail store operation in Columbia, South Carolina, to an unrelated local furniture retailer. The transaction involved the sale of inventory, property, equipment and leasehold improvements. The buyer also assumed the customer deposit liability and the future lease commitments for the store facility. The Company incurred a loss of $97,000 primarily related to the disposal of property and equipment. As management made the decision to dispose of this store before year-end and management knew that the book value of the property exceeded fair value at year-end, management accrued for these impaired assets in the accompanying 2000 statement of operations and changes in members' deficit.

The Company sold its retail furniture store in Knoxville, Tennessee, in January 2001 to an unrelated third party. Substantially all of the inventory in that location had been sold through a liquidation sale that began in September 2000. The lease for this location has been assumed by an unrelated third party, who will utilize the store as a "Bassett Furniture Direct" store going forward. Losses due to this transaction were insignificant.

The Company closed its retail furniture store in Fredericksburg, Virginia, in March 2001. Substantially all of the inventory in that location was liquidated by May 2001. The lease for this location was terminated by Bassett, the owner of the property, concurrent with the closure of the store. Losses due to the closure of this store were insignificant.

The Company sold its retail furniture store in Hickory, North Carolina, to Bassett in July 2001. The principal terms of the agreement called for inventory and property to be sold at net book value to Bassett. Additionally, Bassett assumed the customer deposit liability and the lease of the retail facility in Hickory. There was no gain or loss associated with this transaction.

The Company sold its retail furniture store in Greenville, South Carolina, to an unrelated third party, in August 2001. The transaction involved the sale of inventory, property, equipment and leasehold improvements. The buyer also assumed the customer deposit liability and the future lease commitments for the store. The Company incurred a loss of approximately $140,000 primarily related to the disposal of property and equipment.

Subsequent to November 30, 2001, the Company sold its retail furniture store in Louisville, Kentucky to an unrelated local furniture retailer. The purchaser has purchased substantially all assets and assumed all liabilities of the store. Related losses on this transaction are not significant.

Subsequent to November 30, 2001, the Company and Bassett entered into an agreement in principle to restructure the balance sheet and streamline the operations of the Company. The agreement calls for Bassett to forgive debt due by the Company of $2,150,000. Also, as part of the agreement, the Company will sell the five remaining stores in North Carolina and Virginia to Bassett for net book value as of the effective date of the agreement of approximately $188,000 ($5,405,000 of assets and $5,217,000 of liabilities) including bank debt of approximately $1,481,000.

Sales related to all stores sold, closed or planned to be sold included in the statement of operations and changes in Members' deficit for the year ended November 30, 2001, were $27,944,000 and related loss from operations was $4,892,000.

INDEX TO FORM 10-K SCHEDULE

Report of Independent Public Accountants

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

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements included in the Bassett Furniture Industries, Incorporated Annual Report to Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 15, 2002. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule on page F-30 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP

Greensboro, North Carolina,
January 15, 2002

BASSETT FURNITURE INDUSTRIES, INC.

Schedule II

Analysis of Valuation and Qualifying Accounts
For the Years Ended November 24, 2001, November 25, 2000 and November 27, 1999
(in thousands)

| | Balance Beginning Of Period | Additions Charged to Cost and Expenses | Deductions (1) | Other | Balance End Of Period |
|---|---|---|---|---|---|
| For the Year Ended November 27, 1999: | | | | | |
| Reserve deducted from assets to which it applies- Allowance for doubtful accounts | $2,200 | $680 | $(322) | --- | $2,558 |
| Restructuring reserve | $2,489 | --- | $(1,173) | --- | $1,316 |
| For the Year Ended November 25, 2000: | | | | | |
| Reserve deducted from assets to which it applies- Allowance for doubtful accounts | $2,558 | $4,150 | $(58) | --- | $6,650 |
| Restructuring reserve | $1,316 | $880 | $(853) | --- | $1,343 |
| For the Year Ended November 24, 2001: | | | | | |
| Reserve deducted from assets to which it applies- Allowance for doubtful accounts | $6,650 | $481 | $(4,631) | --- | $2,500 |
| Restructuring reserve | $1,343 | $2,402 | $(3,163) | --- | $582 |

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

INDEX TO EXHIBITS

| Exhibit No. | |
|---|---|
| 3B | Bylaws, as amended |
| 4B | First Amendment to Credit Agreement with a Bank Group dated October 5, 2001 |
| 13 | Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 24, 2001 |
| 21 | List of subsidiaries of registrant |
| 23A | Consent of Independent Public Accountants |
| 23B | Consent of Independent Auditors |

# BY-LAWS
# OF
# BASSETT FURNITURE INDUSTRIES, INC.

## ARTICLE I. OFFICES

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

## ARTICLE II. SHAREHOLDERS

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

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

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

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

SECTION 5. QUORUM. A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of Shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice.

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

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

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

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

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

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

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

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

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

## ARTICLE III. BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE IV. OFFICERS

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

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

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

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

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

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

SECTION 7. VICE PRESIDENTS. In the absence of the President or in event of his death, inability or refusal to act, a Vice President shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents shall perform such other duties as from time to time may be assigned to them by the President or by the Board of Directors.

SECTION 8. SECRETARY. The Secretary shall: (a) keep the minutes of the Shareholders and of the Board of Directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-laws or as required by law; (c) be custodian of the corporate records and of the Seal of the Corporation and see that the Seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its Seal is duly authorized; (d) keep a register of the post office address of each

Shareholder which shall be furnished to the Secretary by such Shareholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

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

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

## ARTICLE V. CONTRACTS, LOANS, CHECKS AND DEPOSITS

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

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

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

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

## ARTICLE VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. Such certificates shall be signed by the President and by the Secretary or by such other Officers authorized by law and by the Board of Directors so to do and may (but not need) be sealed with the seal of the Corporation. All certificates for shares shall be consecutively numbered or otherwise identified. The seal of the Corporation and any or all of the signatures on a share certificate may be facsimile. If any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar on the date of issue.

SECTION 2. TRANSFER OF SHARES. The Board of Directors may make rules and regulations concerning the issue, registration and transfer of certificates representing the shares of the Corporation. Transfers of shares and of the certificates representing such shares shall be made upon the books of the Corporation by surrender of the certificates representing such shares accompanied by written assignments given by the owners or their attorneys-in-fact.

SECTION 3. RESTRICTION ON TRANSFER. To the extent that any provision of the Rights Agreement between the Corporation and First Union National Bank, as Rights Agent, dated June 23, 1998, is deemed to constitute a restriction on the transfer of any securities of the Corporation, including, without limitation, the Rights, as defined therein, such restriction is hereby authorized by the By-laws of the Corporation.

SECTION 4. LOST OR DESTROYED SHARE CERTIFICATES. The Corporation may issue a new share certificate in the place of any certificate theretofore issued which is alleged to have been lost or destroyed and may require the owner of such certificate, or his legal representative, to give the Corporation a bond, with or without surety, or such other agreement, undertaking or security as the Board of Directors shall determine is appropriate, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction or the issuance of any such new certificate.

## ARTICLE VII. FISCAL YEAR

The fiscal year of the Corporation shall begin on the first Sunday after the last Saturday in November and end on the last Saturday of November of each year.

## ARTICLE VIII. DIVIDENDS

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

## ARTICLE IX. SEAL

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

## ARTICLE X. WAIVER OF NOTICE

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

## ARTICLE XI. AMENDMENTS

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

## ARTICLE XII. INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

# FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT (this "Amendment") is made as of the 5th day of October, 2001, by and among BASSETT FURNITURE INDUSTRIES, INCORPORATED, a Virginia corporation (the "Borrower"), BRANCH BANKING AND TRUST COMPANY, as Agent, Issuing Bank and a Bank, COMPASS BANK, FIFTH THIRD BANK and FIRST TENNESSEE BANK NATIONAL ASSOCIATION (collectively referred to herein as the "Banks") and 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 referred to herein as the "Guarantors").

## R E C I T A L S:

The Borrower, the Agent, the Guarantors and the Banks have entered into a certain Credit Agreement dated October 25, 2000 (the "Credit Agreement"). Capitalized terms used in this Amendment which are not otherwise defined in this Amendment shall have the respective meanings assigned to them in the Credit Agreement.

The Borrower and Guarantors have requested the Agent and the Banks to amend the Credit Agreement to modify certain provisions of the Credit Agreement as more fully set forth herein. The Banks, the Agent, the Guarantors and the Borrower desire to amend the Credit Agreement upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the Recitals and the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower, the Guarantors, the Agent and the Banks, intending to be legally bound hereby, agree as follows:

SECTION 1. Recitals. The Recitals are incorporated herein by reference and shall be deemed to be a part of this Amendment.

SECTION 2. Amendments. The Credit Agreement is hereby amended as set forth in this Section 2.

SECTION 2.01. Amendment to Section 1.01. (a) Section 1.01 of the Credit Agreement is hereby amended to include the following new definitions:

> "Availability Threshold" shall mean: (i) at all times prior to the first day of Fiscal Year 2003, an amount equal to $20,000,000; and (ii) commencing on the first day of Fiscal Year 2003 and continuing thereafter, an amount equal to zero.

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

"Licensee Lender" means BB&T.

"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.

"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.

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

"Test Debt" shall mean the sum of: (1) the aggregate outstanding principal amount of all Advances, Letter of Credit Advances, Licensee Loans, Swing Line Advances and Undrawn Amounts; plus (2) all Contingent BFD Liabilities; provided, however, for the purposes of Section 5.35 Contingent BFD Liabilities shall utilize an Applicable Percentage equal to (1) 37.5% if the Person whose obligations under the Guaranteed BFD Lease are guaranteed is an Affiliate of the Borrower or any Consolidated Subsidiary; and (2) 25% if the Person whose obligations under the Guaranteed BFD Lease are guaranteed is not an affiliate of the Borrower or any Consolidated Subsidiary.

"Test Assets" means as of any date, the sum of: (1) cash and cash equivalents of the Borrower and Consolidated Subsidiaries on such date, plus (2) the Contingent BFD Borrowing Base.

(b) Section 1.01 of the Credit Agreement is hereby amended to amend the following definitions:

"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.

"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 determined by deducting the Availability Threshold applicable on the date of determination from 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.

"Comprehensive Fixed Charge Coverage Ratio" shall be determined as of the end of each Fiscal Quarter and: (1) for each Fiscal Quarter ending in Fiscal Year 2002, shall mean the ratio of: (A)(i) Consolidated Comprehensive EBITDA for the Fiscal Quarter then ending and the preceding Fiscal Quarters, if any during Fiscal Year 2002, plus all obligations of the Borrower or any of its Consolidated Subsidiaries as lessee under operating leases, for the Fiscal Quarter then ending and the preceding Fiscal Quarters, if any during Fiscal Year 2002, less (ii) the sum of the aggregate taxes on income paid by the Borrower and its Consolidated Subsidiaries during the Fiscal Quarter then ending and the preceding Fiscal Quarters, if any during Fiscal Year 2002, all Dividends paid or declared by the Borrower and its Consolidated Subsidiaries during such period, plus Annual Maintenance Capital Expenditures during such period, to (B) the sum of: (i) Consolidated Fixed Charges for the Fiscal Quarter then ending and the preceding Fiscal Quarters, if any during Fiscal Year 2002, plus (ii) all payments during such period by the Borrower or any of its Consolidated Subsidiaries under Guaranteed BFD Leases; and (2) for each Fiscal Quarter ending in Fiscal Year 2003 and thereafter, shall mean the ratio of: (A)(i) Consolidated Comprehensive EBITDA for the period of four consecutive Fiscal Quarters most recently ended on or prior to such date, plus all obligations of the Borrower or any of its Consolidated Subsidiaries as lessee under operating leases, for the period of four consecutive Fiscal Quarters most recently ended on or prior to such date, less (ii) the sum of the aggregate taxes on income paid by the Borrower and its Consolidated Subsidiaries during such period of four consecutive Fiscal Quarters most recently ended on or prior to such date, all Dividends paid or declared by the Borrower and its Consolidated Subsidiaries during such period, plus Annual Maintenance Capital Expenditures during such period, to (B) the sum of: (i) Consolidated Fixed Charges for the period of four consecutive fiscal quarters most recently ended on or prior to such date, plus (ii) all payments during such period by the Borrower or any of its Consolidated Subsidiaries under Guaranteed BFD Leases.

"Consolidated Comprehensive EBITDA" shall be determined as of the end of each Fiscal Quarter and (A) for each Fiscal Quarter ending in Fiscal Year 2002, shall mean: (1) EBITDA, of the Borrower and its Consolidated Subsidiaries, for the Fiscal Quarter then ending and the preceding Fiscal Quarters, if any, during Fiscal Year 2002, minus (2) non-cash income of the Borrower and its Consolidated Subsidiaries; all determined for the Fiscal Quarter then ending and the preceding Fiscal Quarters, if any, during Fiscal Year 2002, in accordance with GAAP. In the event earnings of any Person that is not a Consolidated Subsidiary of the Borrower are remitted to the Borrower or any Consolidated Subsidiary of the Borrower such earnings shall not be included in Consolidated Comprehensive EBITDA until actually paid to the Borrower or such Consolidated Subsidiary and upon such payment shall be allocated among the Fiscal Quarter then ended and the preceding Fiscal Quarters, if any, during Fiscal Year 2002, on the basis that such earnings were reported by the Borrower and its Consolidated Subsidiary; and (B) for each Fiscal Quarter ending in Fiscal Year 2003 and thereafter, shall mean: (1) EBITDA, of the Borrower and its Consolidated Subsidiaries, for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters, minus (2) non-recurring or non-cash income of the Borrower and its Consolidated Subsidiaries for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters, all as determined in accordance with GAAP. For purposes of clarification and not in limitation of the foregoing, subitem (B)(2) shall include (and thereby the following shall be subtracted from EBITDA) without limitation to the extent the following were included in computing Consolidated Net Income for such period: (i) non-recurring capital gains realized by the Borrower or any Subsidiary of the Borrower from Investments or the Bassett Asset Fund; and (ii) any other amounts realized by the Borrower or any Subsidiary that exceeds the actual, recurring earnings arising from any Investment including without limitation the Bassett Asset Fund or IHFC. In the event earnings of any Person that is not a Consolidated Subsidiary of the Borrower are remitted to the Borrower or any Consolidated Subsidiary of the Borrower such earnings shall not be included in Consolidated Comprehensive EBITDA until actually paid to the Borrower or such Consolidated Subsidiary and upon such payment shall be allocated among the Fiscal Quarter then ended and the immediately preceding three Fiscal Quarters on the basis that such earnings were reported by the Borrower and its Consolidated Subsidiary.

"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.

"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 Bank, 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.

"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 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.

"Obligations" means the collective reference to all indebtedness, obligations and liabilities to the Agent, the Issuing Bank, 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.

"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.

"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.

"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.

SECTION 2.02. Amendment to Section 2.01. Section 2.01 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

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 2.03. Amendment to Section 2.03(e). Section 2.03(e) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

(e) The Issuing Bank 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.

SECTION 2.04. Amendment to Section 2.06(a). Section 2.06(a) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

SECTION 2.06. Interest Rates. (a) "Applicable Margin" shall mean: (1) prior to the first Rate Determination Date occurring in Fiscal Year 2003, 1.625%; and (2) commencing on the first Rate Determination Date occurring in Fiscal Year 2003 and continuing thereafter a percentage determined quarterly based upon the ratio of Consolidated Total Debt (calculated as of the last day of each Fiscal Quarter) to

Consolidated Comprehensive EBITDA (calculated as of the last day of each Fiscal Quarter for the Fiscal Quarter then ended and the immediately preceding three Fiscal Quarters), as follows::

| Ratio of Consolidated Total Debt to Consolidated Comprehensive EBITDA | Euro-Dollar Loans and Letters of Credit |
|---|---|
| Greater than 2.5 but equal To or less than 3.00 | 1.375% |
| Greater than 2.0 but Equal to or less than 2.5 | 1.125% |
| Greater than 1.5 but Equal to or less than 2.0 | .875% |
| Less than or equal to 1.5 | .625% |

The Applicable Margin shall be effective as of the date (herein, the "Rate Determination Date") which is the first day of the first calendar month after the day the Agent receives the quarterly financial statements for the Fiscal Quarter which the foregoing ratio is being determined shall remain effective from such Rate Determination Date until the date which is the first day of the first calendar month after the day the Agent receives the quarterly financial statements for the Fiscal Quarter in which such Rate Determination Date falls (which latter date shall be a new Rate Determination Date); provided that (i) for the period from and including the Closing Date to but excluding the Rate Determination Date next following the Closing Date, the Applicable Margin shall be 1.375% for a Euro-Dollar Loan and Letters of Credit, (ii) in the case of any Applicable Margin determined for the fourth and final Fiscal Quarter of a Fiscal Year, such Applicable Margin shall be redetermined based upon the annual audited financial statements for the Fiscal Year ending on the last day of such final Fiscal Quarter, and if such Applicable Margin as so redetermined shall be different from the Applicable Margin for such date determined on the Rate Determination Date for such fourth Fiscal Quarter, such redetermined Applicable Martin shall be effective retroactive to the Rate Determination Date, and the Borrower, the Agent and the Banks, as applicable, shall within 10 days of such redetermination, make a payment (in the case of amounts owing by the Borrower to the Banks) or provide a credit applicable to future amounts payable by the Borrower hereunder (in the case of amounts owing by the Banks to the Borrower) equal to the difference between the interest and letter of credit fees actually paid under this Agreement and the interest and fees that would have been paid under this Agreement had the Applicable Margin as originally determined been equal to the Applicable Margin as redetermined, and (iii) if on any Rate Determination Date the Borrower shall have failed to deliver to the Bank the financial statements required to be delivered pursuant to Section 5.01(a) or Section 5.01(b) with respect to the Fiscal Year or Fiscal Quarter, as the case may be, most recently ended prior to such Rate Determination Date, then for the period beginning on such Rate Determination Date and ending on the earlier of (A) the date on which the Borrower shall deliver to the Bank the financial statements to be delivered pursuant to Section 5.01(b) with respect to such Fiscal Quarter or any subsequent Fiscal Quarter, or (B) the date on which the Borrower shall deliver to the Bank annual financial statements required to be delivered pursuant to Section 5.01(a) with respect to the Fiscal Year which includes such Fiscal Quarter or any subsequent Fiscal Year, the Loan shall bear interest at a rate per annum equal to the Default Rate at all times during such period. Any change in the Applicable Margin on any Rate Determination Date shall result in a corresponding change, effective on and as of such Rate Determination Date, in the interest rate applicable to the Loan and in the fees applicable to each Letter of Credit outstanding on such Rate Determination Date; provided; that no Applicable Margin shall be decreased pursuant to this Section 2.06 if a Default is in existence on the Rate Determination Date.

SECTION 2.05. Amendment to Section 2.11. Section 2.11 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

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 2.06. Amendment to Section 2.15. Section 2.15(a) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

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.

SECTION 2.07. Addition of Section 2.16. The Credit Agreement is hereby amended to include a new Section 2.16 to read as follows:

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 $10,000,000; and

(v) 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) except as may otherwise be agreed upon by Borrower and Agent, 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) except as may otherwise be agreed upon by Borrower and Agent, 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 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 October 5, 2001, 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: (A) for the period between October 5, 2001 and the first

Rate Determination Date occurring in Fiscal Year 2003, 1.625%; and (B) for the period between the first Rate Determination Date occurring in Fiscal Year 2003 through the Termination Date, 1.375%. 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 collectability 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 Bank 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.

SECTION 2.08. Amendment to Section 3.02(d). Section 3.02(d) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

(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.

SECTION 2.09. Amendment to Section 3.03(c). Section 3.03(c) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

(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;

SECTION 2.10. Amendment to Section 5.01(d). Section 5.01(d) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

(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 Vice President - Chief Accounting Officer or the Vice President - Finance 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 and 5.34 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 and, (iii) 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;

SECTION 2.11. Amendment to Section 5.01(m). Section 5.01(m) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

(m) as soon as available and in any event by the 15th Domestic Business Day of each succeeding month, a Borrowing Base Certification Report, a Liquidity Borrowing Base Certification Report (during the period Section 5.35 is applicable) and a Contingent BFD Liabilities Borrowing Base Certification Report, in form and content reasonably satisfactory to the Agent, dated as of the last day the immediately preceding month, the statements which, in each instance, shall be certified as to truth and accuracy by the Vice President - Chief Accounting Officer, Vice President - Finance or other authorized officer of the Borrower and each Guarantor;

SECTION 2.12. Amendment to Sections 5.03 and 5.04. Sections 5.03 and 5.04 of the Credit Agreement are hereby amended and restated to read in their entirety as follows:

SECTION 5.03. Ratio of Consolidated Total Debt to Consolidated Comprehensive EBITDA. At the end of each Fiscal Quarter during the periods commencing with the Fiscal Quarter ending November 25, 2000 and ending on the last day of the Second Fiscal Quarter of Fiscal Year 2001 and commencing with the first day of the First Fiscal Quarter of Fiscal Year 2003 and continuing through the Termination Date, the ratio of Consolidated Total Debt to Consolidated Comprehensive EBITDA for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters will not at any time exceed 3.00 to 1.00.

SECTION 5.04. Ratio of Consolidated Total Debt to Consolidated Operating EBITDA. At the end of each Fiscal Quarter during the period set forth below, commencing with the Fiscal Quarter ending November 25, 2000, the ratio of Consolidated Total Debt to Consolidated Operating EBITDA for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters shall at no time be more than the ratio corresponding to such Fiscal Quarter in the following table:

| Consolidated Total Debt to Consolidated Operating EBITDA | Period |
|---|---|
| <=4.25 | Closing Date through the last day of Fiscal Year 2000 |
| <=4.0 | The first day of the First Fiscal Quarter of Fiscal Year 2001 through the last day of the Second Fiscal Quarter of Fiscal Year 2001 |
| <=3.0 | The first day of the First Fiscal Quarter of Fiscal Year 2003 through the Termination Date |

SECTION 2.13. Amendment to Section 5.10. Section 5.10 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

SECTION 5.10. Fixed Charge Coverage. At the end of each Fiscal Quarter set forth below, the Comprehensive Fixed Charge Coverage Ratio shall not be less than the ratio corresponding to such Fiscal Quarter in the following table:

| Comprehensive Fixed Charge Coverage Ratio | Period |
|---|---|
| >=1.0 | The first day of the first Fiscal Quarter of Fiscal Year 2002 through the last day of the first Fiscal Quarter of Fiscal Year 2002 |
| >=1.15 | The first day of the second Fiscal Quarter of Fiscal Year 2002 through the last day of the second Fiscal Quarter of Fiscal Year 2002 |
| >=1.30 | The first day of the third Fiscal Quarter of Fiscal Year 2002 through the last day of the third Fiscal Quarter of Fiscal Year 2002 |
| >=1.50 | The first day of the fourth Fiscal Quarter of Fiscal Year 2002 through the last day of the fourth Fiscal Quarter of Fiscal Year 2002 |
| >=3.00 | The first day of the first Fiscal Quarter of Fiscal Year 2003 through the termination Date |

SECTION 2.14. Addition of Section 5.35. The Credit Agreement is hereby amended to include a new Section 5.35 to read as follows:

SECTION 5.35 Liquidity Borrowing Base. At the end of each fiscal month commencing with the fiscal month beginning on September 30, 2001 and continuing through the last day of Fiscal Year 2002, the ratio of Test Debt to Test Assets shall not be greater than 1.0.

SECTION 2.15. Amendment to Section 6.01(n). Section 6.01(n) of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

(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

SECTION 2.16. Amendment to Sections 6.05(c) through (h) and addition of Section 6.05(i). Sections 6.05 (c) through (h) of the Credit Agreement are hereby amended and restated to read in their entirety, together with a new Section 6.05(i) as follows:

(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 Bank, 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.

SECTION 2.17. Addition of Exhibit P. The Credit Agreement is hereby amended to include a new Exhibit P to read as set forth on Exhibit P attached hereto.

SECTION 3. Amendment to Security Agreement. The second paragraph in the section "Recitals" of the Security Agreement is amended and restated to read in its entirety as follows: 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, the Licensee Loan Guarantees and the other Loan Documents. The obligations of the Banks to extend credit and of the Issuing Bank 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 hereof, 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, modification or extensions thereof, in whole or in part; (iii) each payment required to be made by the Borrower under the Licensee Loan Guaranties, when and as due, including, without limitation, payments in respect of repayment of Licensee Loans, interest thereon and obligations, if any, to provide cash collateral, purchase any Licensee Loan, and any renewals, modifications or extensions thereof in whole or in part; and (iv) all other monetary obligations of the Borrower to the Secured Parties under the Credit Agreement and the other Loan Documents 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 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").

SECTION 4. Conditions to Effectiveness. The effectiveness of this Amendment and the obligations of the Banks hereunder are subject to the following conditions, unless the Banks waive such conditions:

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

(b) the fact that the representations and warranties of the Borrower and Guarantors contained in Section 6 of this Amendment shall be true on and as of the date hereof.

SECTION 5. No Other Amendment. Except for the amendments set forth above, the text of the Credit Agreement shall remain unchanged and in full force and effect. This Amendment is not intended to effect, nor shall it be construed as, a novation. The Credit Agreement and this Amendment shall be construed together as a single agreement. Nothing herein contained shall waive, annul, vary or affect any provision, condition, covenant or agreement contained in the Credit Agreement, except as herein amended, nor affect nor impair any rights, powers or remedies under the Credit Agreement as hereby amended. The Banks and the Agent do hereby reserve all of their rights and remedies against all parties who may be or may hereafter become secondarily liable for the repayment of the Notes. The Borrower and Guarantors promise and agree to perform all of the requirements, conditions, agreements and obligations under the terms of the Credit Agreement, as heretofore and hereby amended and the other Loan Documents, the Credit Agreement, as amended, and the other Loan Documents being hereby ratified and affirmed. The Borrower and the Guarantors hereby expressly agree that the Credit Agreement, as amended, and the other Loan Documents are in full force and effect.

SECTION 6. Representations and Warranties. The Borrower and Guarantors hereby represent and warrant to each of the Banks as follows:

(a) No Default or Event of Default, nor any act, event, condition or circumstance which with the passage of time or the giving of notice, or both, would constitute an Event of Default, under the Credit Agreement or any other Loan Document has occurred and is continuing unwaived hereby or otherwise by the Banks on the date hereof.

(b) The Borrower and Guarantors have the power and authority to enter into this Amendment and to do all acts and things as are required or contemplated hereunder, or thereunder, to be done, observed and performed by them.

(c) This Amendment has been duly authorized, validly executed and delivered by one or more authorized officers of the Borrower and Guarantors and constitutes legal, valid and binding obligations of the Borrower and Guarantors enforceable against them in accordance with its terms, provided that such enforceability is subject to general principles of equity.

(d) The execution and delivery of this Amendment and the performance hereunder by the Borrower and Guarantors do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over the Borrower or any Guarantor, nor be in contravention of or in conflict with the articles of incorporation, bylaws or other organizational documents of the Borrower or any Guarantor, or the provision of any statute, or any judgment, order or indenture, instrument, agreement or undertaking, to which the Borrower or any Guarantor is party or by which the assets or properties of the Borrower or any Guarantor are or may become bound.

SECTION 7. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which, taken together, shall constitute one and the same agreement.

SECTION 8. Governing Law. This Amendment shall be construed in accordance with and governed by the laws of the State of North Carolina.

SECTION 9. Effective Date. Sections 2.12 and 2.13 of this Amendment shall be effective as of May 27, 2001 (the "Effective Date").

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 11. Reduction of Commitment. Effective October 9, 2001, the Borrower hereby proportionately reduces the Commitments by an aggregate amount of $10,000,000. After giving effect to such reduction, the respective Commitments of the Banks are as follows: (1) Branch Banking and Trust Company: $35,000,000.00; (2) Compass Bank: $13,000,000.00 (3) Fifth Third Bank: $6,000,000.00; and (4) First Tennessee National Association: $6,000,000.00.

SECTION 12. Fee. The Borrower hereby agrees to pay to each Bank an amendment fee in an amount equal to such Bank's Commitment (after giving effect to the reduction set forth in Section 11) multiplied by .050%.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed and delivered, or have caused their respective duly authorized officers or representatives to execute and deliver, this Amendment as of the day and year first above written.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

By: ______________________________________ (SEAL)

Title: ___________________________________

BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, INC.

By: ______________________________________ (SEAL)

Title: ___________________________________

THE E.B. MALONE CORPORATION

By: ______________________________________ (SEAL)

Title: ___________________________________

BASSETT DIRECT STORES, INC.

By: ______________________________________ (SEAL)

Title: ___________________________________

BASSETT DIRECT NC, LLC

By: ______________________________________ (SEAL)

Title: ___________________________________

BASSETT DIRECT SC, LLC

By: ______________________________________ (SEAL)

Title: ___________________________________

BRANCH BANKING AND TRUST COMPANY, as
Agent, Issuing Bank and as a Bank

By: ______________________________________ (SEAL)

Title: ___________________________________

COMPASS BANK

By: ______________________________________ (SEAL)

Title: ___________________________________

FIFTH THIRD BANK

By: ______________________________________ (SEAL)

Title: ___________________________________

FIRST TENNESSEE BANK NATIONAL
ASSOCIATION

By: ______________________________________ (SEAL)

Title: ___________________________________

CONSOLIDATED BALANCE SHEETS
Bassett Furniture Industries, Incorporated and Subsidiaries
November 24, 2001, and November 25, 2000
(dollars in thousands except per share data)

| ASSETS | 2001 | 2000 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 5,347 | $ 3,259 |
| Accounts receivable, net (Note G) | 51,487 | 70,309 |
| Inventories | 32,244 | 50,201 |
| Refundable income taxes | 2,728 | 580 |
| Deferred income taxes | 3,841 | 6,457 |
| Other current assets | 2,955 | 2,655 |
| | 98,602 | 133,461 |
| PROPERTY AND EQUIPMENT, NET | 90,407 | 93,972 |
| OTHER ASSETS | | |
| Investment securities | 9,116 | 15,043 |
| Investments in affiliated companies (Note F) | 62,636 | 69,155 |
| Deferred income taxes | 6,528 | 1,755 |
| Notes receivable, net (Note G) | 14,551 | 14,367 |
| Other, net | 19,563 | 18,927 |
| | 112,394 | 119,247 |
| | $ 301,403 | $ 346,680 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 15,010 | $ 20,310 |
| Accrued liabilities | 18,250 | 21,583 |
| | 33,260 | 41,893 |
| LONG-TERM LIABILITIES | | |
| Employee benefits | 10,596 | 10,647 |
| Long-term debt | 7,482 | 45,000 |
| Deferred revenue from affiliate (Note F) | 15,593 | - |
| | 33,671 | 55,647 |
| COMMITMENTS AND CONTINGENCIES (NOTES G, O AND P) | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, par value $5 a share, 50,000,000 shares authorized, issued and outstanding - 11,727,192 in 2001 and 11,764,760 in 2000 | 58,636 | 58,824 |
| Retained earnings | 173,011 | 185,293 |
| Accumulated other comprehensive income - unrealized holding gains, net of income tax | 3,047 | 5,418 |
| Unamortized stock compensation | (222) | (395) |
| | 234,472 | 249,140 |
| | $ 301,403 | $ 346,680 |

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

CONSOLIDATED STATEMENTS OF INCOME
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 24, 2001, November 25, 2000 and November 27, 1999
(dollars in thousands except per share data)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net sales | $ 305,676 | $ 367,444 | $ 394,412 |
| Cost of sales | 254,456 | 302,281 | 309,316 |
| Gross profit | 51,220 | 65,163 | 85,096 |
| Selling, general and administrative expenses | 54,477 | 61,854 | 72,711 |
| Gains on sales of property and equipment, net | (5,297) | (175) | (89) |
| Restructuring and impaired asset charges | 6,952 | 6,680 | - |
| Income (loss) from operations | (4,912) | (3,196) | 12,474 |
| Income from affiliated companies, net | 2,032 | 10,172 | 12,587 |
| Interest expense | (2,819) | (4,508) | (1,012) |
| Other income, net | 2,015 | 12,599 | 2,169 |
| Income (loss) before income tax benefit (provision) and cumulative effect of accounting change | (3,684) | 15,067 | 26,218 |
| Income tax benefit (provision) | 1,042 | (4,671) | (8,264) |
| Income (loss) before cumulative effect of accounting change | (2,642) | 10,396 | 17,954 |
| Cumulative effect of accounting change, net of income tax | - | (364) | - |
| Net income (loss) | $ (2,642) | $ 10,032 | $ 17,954 |
| Net income (loss) per share | | | |
| Basic earnings (loss) per share: | | | |
| Income (loss) before cumulative effect of accounting change | $ (0.23) | $ 0.88 | $ 1.44 |
| Cumulative effect of accounting change | - | (0.03) | - |
| Net income (loss) per share | $ (0.23) | $ 0.85 | $ 1.44 |
| Diluted earnings (loss) per share: | | | |
| Income (loss) before cumulative effect of accounting change | $ (0.23) | $ 0.88 | $ 1.44 |
| Cumulative effect of accounting change | - | (0.03) | - |
| Net income (loss) per share | $ (0.23) | $ 0.85 | $ 1.44 |

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, 2001, November 25, 2000, and November 27, 1999
(dollars in thousands except per share data)

| | Common Stock Shares | Common Stock Amount | Additional paid-in Capital | Retained earnings | Accumulated Other comprehensive income | Unamoritized stock compensation | Total |
|---|---|---|---|---|---|---|---|
| BALANCE, NOVEMBER 28, 1998 | 12,884,953 | $ 64,425 | $ - | $ 193,130 | $ 8,286 | $ (929) | $ 264,912 |
| Net Income | - | - | - | 17,954 | - | - | 17,954 |
| Net change in unrealized holding gains | - | - | - | - | (293) | - | (293) |
| Comprehensive Income | | | | | | | 17,661 |
| Dividends ($.80 per share) | - | - | - | (9,983) | - | - | (9,983) |
| Issuance of common stock | 2,806 | 14 | 45 | - | - | - | 59 |
| Purchase and retirement of common stock | (792,990) | (3,965) | (45) | (13,128) | - | - | (17,138) |
| Amortization of stock compensation | - | - | - | - | - | 240 | 240 |
| BALANCE, NOVEMBER 27, 1999 | 12,094,769 | 60,474 | - | 187,973 | 7,993 | (689) | 255,751 |
| Net Income | - | - | - | 10,032 | - | - | 10,032 |
| Net change in unrealized holding gains | - | - | - | - | (2,575) | - | (2,575) |
| Comprehensive Income | | | | | | | 7,457 |
| Dividends ($.80 per share) | - | - | - | (9,497) | - | - | (9,497) |
| Issuance of common stock | 9,288 | 46 | 82 | - | - | - | 128 |
| Purchase and retirement of common stock | (332,083) | (1,660) | (133) | (2,923) | - | - | (4,716) |
| Issuance of restricted stock | 4,724 | 24 | 51 | | | (75) | - |
| Forfeitures of restricted stock | (11,938) | (60) | - | (292) | - | 352 | - |
| Amortization of stock compensation | - | - | - | - | - | 17 | 17 |
| BALANCE, NOVEMBER 25, 2000 | 11,764,760 | 58,824 | - | 185,293 | 5,418 | (395) | 249,140 |
| Net Loss | - | - | - | (2,642) | - | - | (2,642) |
| Net change in unrealized holding gains | - | - | - | - | (2,371) | - | (2,371) |
| Comprehensive loss | | | | | | | (5,013) |
| Dividends ($.80 per share) | - | - | - | (9,378) | - | - | (9,378) |
| Issuance of common stock | 25,932 | 130 | 150 | - | - | - | 280 |
| Purchase and retirement of common stock | (63,500) | (318) | (150) | (262) | - | - | (730) |
| Amortization of stock compensation | - | - | - | - | - | 173 | 173 |
| BALANCE, NOVEMBER 24, 2001 | 11,727,192 | $ 58,636 | $ - | $ 173,011 | $ 3,047 | $ (222) | $ 234,472 |

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, 2001, November 25, 2000, and November 27, 1999
(dollars in thousands)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Net income (loss) | $ (2,642) | $ 10,032 | $ 17,954 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 11,316 | 10,032 | 8,386 |
| Equity in undistributed income of affiliated companies | (3,784) | (10,172) | (12,587) |
| Provision for write-down of property and equipment | 4,550 | 5,800 | - |
| Provision for write-down of affiliate investment | 1,359 | - | - |
| Provision for write-down of other receivable | 1,200 | - | - |
| Provision (income) for corporate owned life insurance | 994 | (1,687) | (3,109) |
| Provision for losses on trade accounts receivable | 1,004 | 3,150 | 358 |
| Net gain from sales of investment securities | (2,218) | (2,356) | (1,795) |
| Net gain from sales of property and equipment | (5,297) | (175) | (89) |
| Compensation earned under restricted stock and stock option plans | 173 | 17 | 240 |
| Deferred income taxes | (824) | 1,708 | 4,112 |
| Changes in long-term liabilities | - | (351) | (274) |
| Changes in operating assets and liabilities: | | | |
| Trade accounts receivable | 10,178 | (14,957) | (8,617) |
| Inventories | 17,957 | (6,364) | (7,636) |
| Refundable income taxes | (2,148) | 426 | 7,012 |
| Other current assets | (739) | (1,005) | (3,661) |
| Accounts payable and accrued liabilities | (8,796) | (6,114) | 13,325 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | 22,283 | (12,016) | 13,619 |
| INVESTING ACTIVITIES | | | |
| Purchases of property and equipment | (12,332) | (18,319) | (47,696) |
| Proceeds from sales of property and equipment | 7,042 | 1,338 | 1,370 |
| Proceeds from sales of affiliate companies | - | 1,748 | - |
| Proceeds from sales of investment securities | 4,441 | 5,785 | 37,814 |
| Dividends from affiliated companies | 28,559 | 12,000 | 5,448 |
| Investments in affiliated companies | - | (4,200) | (5,700) |
| Proceeds from sale of bedding division | - | - | 6,500 |
| Other | (559) | (1,732) | (2,052) |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 27,151 | (3,380) | (4,316) |
| FINANCING ACTIVITIES | | | |
| Borrowings (repayments) under revolving credit arrangement, net | (39,000) | 27,000 | 18,000 |
| Borrowings for real estate | 1,482 | - | - |
| Issuance of common stock | 280 | 128 | 59 |
| Repurchases of common stock | (730) | (4,716) | (17,138) |
| Cash dividends | (9,378) | (9,497) | (9,983) |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | (47,346) | 12,915 | (9,062) |
| CHANGE IN CASH AND CASH EQUIVALENTS | 2,088 | (2,481) | 241 |
| CASH AND CASH EQUIVALENTS -- BEGINNING OF YEAR | 3,259 | 5,740 | 5,499 |
| CASH AND CASH EQUIVALENTS -- END OF YEAR | $ 5,347 | $ 3,259 | $ 5,740 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | | |
| Interest payments | $ 1,945 | $ 3,020 | $ 1,988 |
| Income tax payments (refunds) | $ 1,485 | $ 1,994 | $ (3,022) |

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

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

A. Summary of Significant Accounting Policies

NATURE OF OPERATIONS

The Company is a manufacturer of quality home furnishings and sells a full range of furniture products and accessories through department and furniture stores and an exclusive network of independently owned retail stores known as Bassett Furniture Direct. Retail stores are located throughout the United States. The Company has 10 manufacturing facilities throughout the United States.

PRINCIPLES OF CONSOLIDATION AND FISCAL YEAR

The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated (the "Company") and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. The Company's fiscal year ends on the Saturday nearest November 30.

USE OF ESTIMATES

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

RECLASSIFICATIONS

For comparative purposes, certain amounts in 2000 and 1999 financial statements have been reclassified to conform with the 2001 presentation.

CASH EQUIVALENTS

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

ACCOUNTS RECEIVABLE, NOTES RECEIVABLE AND CONCENTRATION OF CREDIT RISK

Substantially all of the Company's trade accounts receivable are due from retailers located within the United States. The Company performs on-going evaluations of its customers' credit worthiness and generally requires an appropriate level of collateral, as needed. Of the total accounts receivable, 24% and 26% are concentrated with two major customers at November 24, 2001 and November 25, 2000, respectively. One of the major customers is an affiliate of the Company (see Note G). The Company maintains allowances for doubtful accounts and notes which include reserves for certain risk accounts and also reserves for sales returns and allowances and customer chargebacks. Allowances for doubtful accounts were $2,500 and $6,650 at November 24, 2001 and November 25, 2000, respectively.

INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined for wholesale domestic furniture inventories using the last-in first-out (LIFO) method. Domestic furniture inventories comprise 87% of total inventories in 2001 and 80% of total inventories in 2000. The costs for imported inventories, which account for approximately 13% of inventories in 2001, and 20% of inventories in 2000, are determined using the first-in, first-out (FIFO) method.

PROPERTY AND EQUIPMENT

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

INVESTMENT SECURITIES AND FINANCIAL INSTRUMENTS

The Company classifies its investment securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and 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. Periodically, the Company enters into financial instruments in order to reduce its exposure to fluctuations in the market value of its investment portfolio. All financial instruments 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 AFFILIATED COMPANIES

The equity method of accounting is used for the Company's investments in affiliated companies in which the Company exercises significant influence but does not maintain control. For equity investments that have been reduced to $0 through equity method losses, additional equity losses incurred have reduced notes receivable to the investee.

INVESTMENT IN CORPORATE OWNED LIFE INSURANCE (COLI)

The Company is the beneficiary of life insurance policies with a face value of $1,918,269, which are maintained to fund various employee and director benefit plans. Policy loans outstanding of $23,821 and $41,647 at November 24, 2001 and November 25, 2000, respectively, are recorded as a reduction in the policies' cash surrender value. Net cash surrender value is included in other assets in the accompanying consolidated balance sheets was $12,035 and $12,118 at November 24, 2001 and November 25, 2000, respectively. Net life insurance income (expense), which includes premiums and interest on policy loans, changes in cash surrender values, and death benefits, is included in other income in the accompanying consolidated statements of income (see Note O).

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

REVENUE RECOGNITION

Revenue is recognized when furniture is shipped to the customer. Sales to one customer were 15%, 16% and 16% of the Company's total net sales in 2001, 2000 and 1999, respectively. Additionally, sales to LRG Furniture, LLC, an affiliate of the Company, which was formed in 2000, were 10% of total net sales in 2001 and 7% of net sales for 2000.

INCOME TAXES

Deferred income taxes are provided based on the differences in timing of expense and income recognition between income tax and financial reporting in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." Income taxes are provided on undistributed earnings from investments in affiliated companies.

EARNINGS PER SHARE

Basic earnings (loss) per share is determined by dividing net income (loss) available to common shareholders 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.

STOCK-BASED COMPENSATION

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

ADVERTISING

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising costs totaled $3,827, $6,429 and $9,200 and are included in selling, general and administrative expenses in 2001, 2000 and 1999, respectively.

ACCOUNTING CHANGE FOR START-UP COSTS

In the first quarter of fiscal year 2000, the Company recognized a cumulative effect of an accounting change, relating to SOP 98-5, "Reporting on the Cost of Start-up Activities," which amounted to $364 (net of income taxes of $171) or $.03 per diluted share. Accordingly, the Company wrote-off the unamortized balance of the previously capitalized store opening related start-up costs.

SEGMENT INFORMATION

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" in 1999. This statement establishes standards for the reporting of information about operating segments in annual and interim financial statements and requires restatement of prior year information. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker(s) in deciding how to allocate resources and in assessing performance.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's 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. The Company's 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. The carrying amounts of long-term debt approximate fair value due to the variable rate nature of debt.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2000, the Financial Accounting Standards Board (FASB) issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." This statement amends the accounting and reporting standards of Statement No. 133 for certain derivative instruments and certain hedging activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company has adopted the provisions of this statement in fiscal year 2001 and has determined that the impact of adopting the statement is immaterial.

(dollars in thousands except share data)

In April 2001, the Company adopted SFAS No. 140, "Accounting for Transfers and Servicing Financial Assets and Extinguishment of Liabilities". This statement replaces SFAS No. 125, but carries over most of the provisions of SFAS No. 125 without reconsideration. The impact of adopting this pronouncement was not material to the Company's financial statement.

In June 2001, the FASB issued SFAS No. 141, "Business Combinations". This statement requires that all business combinations initiated after June 30, 2001 be accounted for by the purchase method, eliminating the availability of the pooling of interests method. In addition SFAS No. 141 requires recognition of intangible assets apart from goodwill if they meet certain criteria. Any acquisition activity performed by the Company subsequent to the effective date of this Statement will be accounted for under the purchase method. Management does not expect the impact of adopting SFAS No. 141 to be material to the Company's financial statement.

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets". This statement supercedes APB Opinion No. 17. SFAS No. 142 establishes new standards for measuring the carrying value of goodwill related to acquired companies. Instead of amortizing goodwill over a fixed period of time, the Company will instead measure the fair value of acquiring businesses annually to determine if goodwill has been impaired. The Company plans to adopt this statement in fiscal 2002. Goodwill amortization recorded in fiscal 2001 that may no longer be recorded after implementation was $628. Management is currently assessing other implementation issues and has not yet determined whether, or the extent to which, they will affect the financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-lived Assets". This statement supercedes SFAS No. 121. In addition, this statement addresses the accounting for the segment of a business accounted for as a discontinued operation under APB Opinion 30. This statement would impact the Company's reporting if the Company chose to discontinue an operation, and becomes effective for the Company in fiscal 2003. Management does not expect the impact of adopting SFAS No. 144 to be material to the Company's financial statements.

In September 2000, the Emerging Issues Task Force issued EITF 00-10, Accounting for Shipping and Handling Fees and Costs. EITF 00-10 requires that shipping and handling fees billed to customers be classified as revenue and shipping and handling costs to be either classified as cost of sales or disclosed in the notes to the consolidated financial statements. The Company does not bill for shipping and handling fees. Shipping and handling costs are included in selling, general and administrative expenses and totaled $6,107, $6,229 and $7,208 in 2001, 2000 and 1999, respectively.

B. SALE OF BEDDING DIVISION

During 1999 the Company sold substantially all of the assets of its Bedding Division to Premier Bedding Group LLC ("PBG"). The sale was effective April 30, 1999. The net assets sold, which totaled $8,400 were exchanged for $6,500 in cash and a $1,900 convertible note receivable. During fiscal year 2000, PBG sold the Bassett license to another third party and as part of the agreement, the Company agreed to allow this third party to manufacture and market mattresses utilizing the Company's Bassett brand name. Additionally, the $1,900 note receivable was reduced to $800 and the related loss is recorded in other income in the 2000 consolidated statement of income. The reductions in net operating assets were excluded from the changes in operating assets and liabilities on the accompanying statement of cash flows for the year ended November 27, 1999. Net sales and operating income (loss) for the bedding division were $12,000 and $(100), respectively for 1999. Notes receivable from PBG were $800 at November 24, 2001 and November 25, 2000, and are included in notes receivable in the accompanying consolidated balance sheets.

C. INVENTORIES
Inventories consist of the following:

| | November 24, 2001 | November 25, 2000 |
|---|---|---|
| Finished goods | $ 29,289 | $ 50,563 |
| Work in process | 4,084 | 8,708 |
| Raw materials and supplies | 16,046 | 18,368 |
| Retail merchandise | 441 | - |
| Total inventories on first-in, first-out cost method | 49,860 | 77,639 |
| LIFO adjustment | (17,616) | (27,438) |
| | $ 32,244 | $ 50,201 |

During 2001, the Company liquidated certain LIFO inventories, which decreased cost of sales by approximately $7,900 and partially offset losses associated with liquidating certain finished goods inventories. The Company also liquidated certain LIFO inventories in 2000, which decreased cost of sales by approximately $330.

(dollars in thousands except share data)

D. PROPERTY AND EQUIPMENT

| | November 24, 2001 | November 25, 2000 |
|---|---|---|
| Land | $ 2,391 | $ 3,166 |
| Buildings | 50,725 | 55,742 |
| Machinery and equipment | 143,861 | 148,033 |
| Retail real estate | 28,655 | 23,102 |
| | 225,632 | 230,043 |
| Less Accumulated depreciation | (135,225) | (136,071) |
| | $ 90,407 | $ 93,972 |

Depreciation expense was $10,602, $9,916 and $7,725 in 2001, 2000 and 1999, respectively. Retail real estate is under lease to licensee operators of the Company's Bassett Furniture Direct stores (see Note P). Retail real estate is comprised of land and buildings and had accumulated depreciation of $1,170 and $681 at November 24, 2001 and November 25, 2000, respectively.

E. INVESTMENT SECURITIES
Investment securities are all equity securities and are as follows:

| | 2001 | 2000 |
|---|---|---|
| Cost | $ 4,355 | $ 6,578 |
| Unrealized holding gains | 4,761 | 8,465 |
| Fair value | $ 9,116 | $ 15,043 |

During 1999, the Company entered into an equity collar arrangement in order to reduce its' exposure to fluctuations in its' investment portfolio.

In fiscal 2000, the Company terminated this particular financial instrument, at a cost of $2,100, and entered into another financial instrument, which more directly correlated to the Company's investment portfolio. The fair market value of this instrument at November 25, 2000 was $604 and is included in accrued liabilities in the accompanying consolidated balance sheet. The Company terminated the equity collar instrument in the first quarter of 2001. The related gains and losses have been reflected in other income in the accompanying consolidated statements of income.

F. INVESTMENTS IN AFFILIATED COMPANIES
The Company has equity interests in the following entities, which are accounted for using the equity method:

| Affiliate | % Ownership | Description of business |
|---|---|---|
| The Bassett Industries Alternative Asset Fund, LP | 99.8% | Investment Partnership |
| International Home Furnishings Center, Inc. (IHFC) | 41.3% | Home Furnishings Showrooms |
| Zenith Freight Lines, LLC | 49.0% | Transportation |
| The Accessory Group, LP | 90.0% | Home Furnishings Accessories |
| LRG Furniture, LLC (LRG) | 51.0% | Furniture Retailer |

The Alternative Asset Fund invests in a variety of other private partnerships, which employ a combination of investment strategies including merger arbitrages, convertible arbitrages and other market neutral investments. As the Company is a limited partner, it does not have operational control and thus the investment has been accounted for using the equity method of accounting for investments. The recorded investment in the Alternative Asset Fund was $58,652 and $57,091 at November 24, 2001 and November 25, 2000, respectively. The complete financial statements of the Alternative Asset Fund may be seen in an attachment to the Company annual 10-K filing.

The International Home Furnishings Center (IHFC) owns and leases showroom floor space in High Point, North Carolina. During 2001, IHFC refinanced its' real estate which allowed for an unusually large dividend to be paid to owners. The Company's share of this dividend was $25,059, a portion of which is essentially an advance on future earnings of IHFC. The dividend had no impact on the Company's earnings, as the investment is accounted for under the equity method. As such, the Company's investment reflects a credit balance of $15,593 and is reflected in the liabilities section in the accompanying consolidated balance sheets as deferred revenue from affiliate. At November 25, 2000, the balance of this investment was

(dollars in thousands except share data)

$5,923 and was included in investments in affiliated companies in the accompanying consolidated balance sheets. The recorded investment in IHFC exceeded the Company's interest in the underlying net assets of IHFC by $8,100 at November 24, 2001. This difference is being amortized, and the related investment balance reduced utilizing the straight-line method over 35 years. The Company leases 85,000 square feet of showroom space from IHFC, 2.5% of the total space available for lease, at competitive market rates. The complete financial statements of IHFC may be seen in an attachment to the Company's annual 10-K filing.

The Company owns 49% of Zenith Freight Lines, LLC, which hauls freight for many of the Company's customers. The Company's investment balance was $3,984 at November 24, 2001 and $4,028 at November 25, 2000. The Company had no significant transactions with this Company.

The Company owns 90% of the Accessory Group, LP, which provides accessory-buying services principally to the Company's Bassett Furniture Direct licensee stores. Since the Company did not exercise operational control, the investment has been accounted for using the equity method of accounting for investments. During 2001, the Company recorded $810 in losses from this investment, charged off the remaining investment and adjusted a receivable from the Accessory Group to its net realizable value. The recorded investment in the Accessory Group was $0 and $1,493 at November 24, 2001 and November 25, 2000, respectively. Receivables due from the Accessory Group were $1,896 and $3,414 at November 24, 2001 and November 25, 2000. Subsequent to November 24, 2001, the Accessory Group was reorganized and Bassett effectively took operational control of the Accessory Group. As such, the Company will consolidate the results of operations beginning in fiscal 2002.

The Company's investment in LRG is discussed in more detail in Note G. Summarized combined financial information for all of the affiliated companies, excluding LRG, is as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Total assets | $162,650 | $128,785 | $136,434 |
| Total liabilities | 159,957 | 75,257 | 87,503 |
| Revenues | 59,726 | 62,073 | 56,628 |
| Income from operations | 33,499 | 34,849 | 31,345 |
| Net income | 13,270 | 23,007 | 18,455 |
| Dividends received | 28,559 | 12,000 | 5,448 |

## G. AFFILIATE INVESTMENT - LRG FURNITURE, LLC

Effective November 28, 1999, the Company combined its eight retail stores with five stores owned and managed by a licensee and formed LRG Furniture, LLC (LRG). The Company retains a 51% ownership of the joint venture and accounts for the investment using the equity method since the Company does not maintain control of the joint venture. To capitalize the joint venture, the Company contributed cash of $4,200 and net assets of $1,500. The effect of the merger has been included in the changes in operating assets and liabilities in the consolidated statement of cash flows. LRG operated thirteen stores in Texas, Nevada, North Carolina, Virginia and Kentucky at November 24, 2001.

LRG incurred start-up related losses in fiscal 2000. As a result of continuing losses in 2001, LRG sold three poor performing stores, closed one store and dramatically reduced headcount at its corporate headquarters. Losses were reduced during 2001. The recorded investment in LRG was $0 and $637 at November 24, 2001 and November 25, 2000, respectively.

The Company had outstanding trade accounts receivable due from LRG of $9,072 and $9,129 as of November 24, 2001 and November 25, 2000, respectively. In addition the Company had notes receivable from LRG of $7,350 and $6,000 at the end of 2001 and 2000, respectively. These notes and other notes receivable are included in notes receivable in the accompanying consolidated balance sheets and have maturities of between three and nine years and bear interest at various rates at or above market. Sales to LRG were $31,259 and $24,622 for fiscal 2001 and 2000, respectively. These sales are at prices equal to normal selling prices to unrelated entities. In addition to accounts and notes receivable, the Company has leases and loan guarantees with LRG. A more detailed description of this information can be found in Note P-Leases and Loan Guarantees.

Subsequent to November 24, 2001, the Company entered into an agreement in principle with LRG to restructure the balance sheet and streamline the operations of LRG Furniture, LLC. As a result, Bassett recorded a loss of $1,359 in 2001 associated with this restructuring. The note balance at November 24, 2001 reflects this transaction. Also, as part of the agreement, the Company agreed to purchase five stores in North Carolina and Virginia for net book value. LRG will focus its efforts on the seven remaining high volume stores in Texas and Nevada. As a result of the balance sheet restructuring, store sales and closures and other cost reductions, the Company expects LRG losses to be further reduced during 2002. Bassett is committed to providing financial support to LRG, as needed, over the next two years. The complete financial statements of LRG may be seen in an attachment to the Company's annual 10-K filing.

(dollars in thousands except share data)

Summarized financial information for LRG is as follows:

| | 2001 | 2000 |
|---|---|---|
| Total assets | $ 16,709 | $ 20,786 |
| Total liabilities | 30,364 | 27,693 |
| Revenues | 62,578 | 63,059 |
| Net loss | (6,748) | (9,584) |

## H. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| | November 24, 2001 | November 25, 2000 |
|---|---|---|
| Compensation and related benefits | $ 10,048 | $ 11,114 |
| Severance and employee benefits | 582 | 1,343 |
| Legal and environmental | 3,073 | 3,633 |
| Dividends payable | 2,343 | 2,355 |
| Financial instrument liability | - | 604 |
| Other | 2,204 | 2,534 |
| | $ 18,250 | $ 21,583 |

## I. 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:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Statutory federal income tax rate | (35.0)% | 35.0 % | 35.0 % |
| Dividends received exclusion | (3.1) | (0.8) | (0.6) |
| Tax exempt interest | - | - | (0.8) |
| Undistributed affiliate income | (28.8) | (9.9) | (5.4) |
| Corporate owned life insurance | 30.6 | 3.2 | (0.5) |
| State income tax, net of federal benefit | 8.1 | 3.2 | 3.6 |
| Other | (0.1) | 0.3 | 0.2 |
| Effective income tax rate | (28.3)% | 31.0 % | 31.5 % |

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

| Current: | 2001 | 2000 | 1999 |
|---|---|---|---|
| Federal | $ - | $ 2,636 | $ 3,928 |
| State | (218) | 327 | 224 |
| Deferred: | | | |
| Federal | (739) | 1,533 | 3,906 |
| State | (85) | 175 | 206 |
| Total | $(1,042) | $ 4,671 | $ 8,264 |

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

| | November 24, 2001 | November 25, 2000 |
|---|---|---|
| Deferred income tax assets: | | |
| Trade accounts receivable | $ 1,287 | $ 3,328 |
| Inventories | 632 | 836 |
| Property and equipment writedowns | 4,517 | 3,089 |
| Retirement benefits | 5,027 | 5,074 |
| Net operating loss carryforwards | 4,158 | 212 |
| Distribution from affiliates in excess of income | 3,291 | 2,216 |
| Contribution carryforward (expires 2002) | 385 | 909 |
| Alternative minimum tax credit carryforward (no expiration) | 3,458 | 3,744 |
| Loss on financial instrument | - | 695 |
| Other accrued liabilities | 1,816 | 3,205 |
| Total gross deferred income tax assets | 24,571 | 23,308 |
| Deferred income tax liabilities: | | |
| Property and equipment | 10,345 | 7,555 |
| Undistributed affiliate income | 1,889 | 4,274 |
| Prepaid expenses and other | 254 | 220 |
| Unrealized holding gains | 1,714 | 3,047 |
| Total gross deferred income tax liabilities | 14,202 | 15,096 |
| Net deferred income tax assets | $ 10,369 | $ 8,212 |

The Company has recorded a deferred income tax asset of $4,158 as of November 24, 2001, for the benefit of approximately $9,100 in federal and state income tax loss carryforwards, which expire in varying amounts between 2014 and 2021. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred income tax assets will be realized. The amount of the deferred income tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(dollars in thousands except share data)

## J. LONG-TERM LIABILITIES AND RETIREMENT PLANS

The Company has a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers all employees with over six months of service who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched by the Company at the rate of 115% of the first 2% through 5% of the employee's contribution, based on seniority. The Plan incorporates provisions of Section 401(k) of the Internal Revenue Code. Employer matching contributions to the Plan for 2001, 2000 and 1999 were approximately $1,445, $1,853 and $2,209, respectively.

The Company has a supplemental retirement Income Plan that covers certain senior executives and provides additional retirement and death benefits. Also, the Company has a Deferred Compensation Plan for certain senior executives that provides for voluntary deferral of compensation otherwise payable. The unfunded future liability of the Company under these Plans is included as employee benefits in long-term liabilities. The expenses for these plans for 2001, 2000, and 1999 were $1,168, $1,184 and $1,161, respectively.

## K. LONG-TERM DEBT

In October 2000, the Company entered into a three-year $70,000 revolving credit facility with a new lender and three other participants. The facility is secured by certain receivables and inventories of the Company with borrowing rates ranging from LIBOR plus .625% to LIBOR plus 1.375%, based on various debt to earnings ratios. The LIBOR rate was 2% at November 24, 2001. The Company amended the facility in 2001 to address restrictive covenants and to reduce the total facility to $60,000. Borrowings under the facility, which matures October 2003, totaled $6,000 and $45,000 at November 24, 2001 and November 25, 2000, respectively. After coverage for letters of credit, the Company had $37,903 available for borrowing under the facility at November 24, 2001. The average interest rate was 6.0% for the year ended November 24, 2001.

The new facility contains, among other provisions, certain defined financial requirements regarding leverage and fixed charge ratios and certain restrictions involving future indebtedness and contingent liabilities. The Company was in compliance with all provisions of the facility as of November 24, 2001.

The Company also had a mortgage liability of $1,482 outstanding at November 24, 2001. The interest rate on this mortgage was 8.75%. Principal and interest payments are due monthly over the next 12 years.

## L. CAPITAL STOCK AND STOCK COMPENSATION

The Company has a Long Term Incentive Stock Option Plan that was adopted in 1993 (the 1993 Plan). Under the 1993 Plan, the Company has reserved for issuance 450,000 shares of common stock of which 2,279 were available for grant at November 30, 1997. Options outstanding under the 1993 Plan expire at various dates through 2007. The Company adopted a second Employee Stock Plan in 1998 (the 1998 Plan). Under the 1998 Plan, the Company has reserved for issuance 950,000 shares of common stock. The terms of the 1998 Plan also allow for the issuance of the 2,279 shares, which remained as of December 1, 1997 from the 1993 Plan. In addition, the terms of the 1998 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 by the Stockholders at the 1999 Annual Shareholders Meeting. Options granted under the 1998 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. Shares available for grant under the 1998 Plan were 470,199 at November 24, 2001.

The Company has a Stock Plan for Non-Employee Directors which was adopted in 1993 and amended in 2000. Under this stock option plan, the Company has reserved for issuance 125,000 shares of common stock, including an additional 50,000 shares of common stock that were authorized for issuance by the Stockholders at the 2000 Annual Shareholders Meeting. Shares available for grant under the plan were 26,413 at November 24, 2001. Under the terms of this plan, each non-employee director will automatically be granted an option to purchase 1,000 shares of common stock on April 1 of each year. These options are exercisable for 10 years commencing six months after the date of grant. Option activity under these plans is as follows:

| | Number of shares | Weighted average price per share |
|---|---|---|
| Outstanding at November 28, 1998 | 1,391,415 | $ 28.51 |
| Granted in 1999 | 320,406 | $ 22.58 |
| Exercised in 1999 | - | - |
| Forfeited in 1999 | (341,032) | $ 27.19 |
| Outstanding at November 27, 1999 | 1,370,789 | $ 27.46 |
| Granted in 2000 | 526,672 | $ 14.87 |

| | | |
|---|---|---|
| Exercised in 2000 | - | $ - |
| Forfeited in 2000 | (173,210) | $ 26.89 |
| Outstanding at November 25, 2000 | 1,724,251 | $ 23.67 |
| Granted in 2001 | 55,500 | $ 12.84 |
| Exercised in 2001 | - | - |
| Forfeited in 2001 | (115,259) | $ 28.59 |
| Outstanding at November 24, 2001 | 1,664,492 | $ 23.11 |
| Exercisable at November 24, 2001 | 1,167,471 | $ 25.99 |
| Exercisable at November 25, 2000 | 504,858 | $ 24.62 |
| Exercisable at November 27, 1999 | 508,877 | $ 24.48 |

(dollars in thousands except share data)

The following table summarizes information about stock options outstanding at November 24, 2001:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of exercise prices | Number outstanding at Nov. 2 2001 | Weighted average remaining contractual life (years) | Weighted average exercisable price | Number exercisable Nov 24, 2001 | Weighted average exercisable price |
| $11.34 - 16.00 | 530,438 | 8.3 | $ 14.68 | 161,917 | $ 14.60 |
| 16.01 - 27.74 | 581,824 | 5.9 | 22.53 | 453,324 | 22.96 |
| 27.75 - 37.40 | 552,230 | 5.5 | 31.81 | 552,230 | 31.81 |
| $11.34 - 37.40 | 1,664,492 | 6.5 | $ 23.11 | 1,167,471 | $ 25.99 |

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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net income | | | |
| As reported | $(2,642) | $10,032 | $17,954 |
| Pro forma | $(3,350) | $ 9,082 | $16,879 |
| Basic earnings per share: | | | |
| As reported | $ (0.23) | $ 0.85 | $ 1.44 |
| Pro forma | $ (0.29) | $ 0.77 | $ 1.35 |
| Diluted earnings per share | | | |
| As reported | $ (0.23) | $ 0.85 | $ 1.44 |
| Pro forma | $ (0.29) | $ 0.77 | $ 1.35 |

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

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Expected lives | 5 years | 5 years | 5 years |
| Risk-free interest rate | 4.4% | 6.8% | 4.5% |
| Expected volatility | 39.0% | 36.0% | 34.5% |
| Dividend yield | 6.2% | 5.8% | 3.3% |

The weighted average fair values of options granted during 2001, 2000 and 1999 were $2.89, $3.71 and $5.64, respectively.

During 2000 and 1998, the Company issued 4,724 and 16,836 shares respectively, of restricted common stock under the 1998 Long Term Incentive Plan as compensation for certain key salaried employees. These shares carry dividend and voting rights. Sale of these shares is restricted prior to the date of vesting. Shares issued under this plan were recorded at their fair market value on the date of the grant with a corresponding charge to stockholders' equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to these grants was $173 in 2001, $17 in 2000 and $240 in 1999.

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

The Company 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 the Company's stock at 85% of market value. Under the plan the Company sold 18,837 and 1,552 shares to employees in 2001 and 2000, respectively. Under SFAS No. 123, no compensation expense is recognized for shares purchased under the ESPP.

M. OTHER INCOME, NET

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Corporate owned life insurance, net of interest expense | $ (994) | $ 1,687 | $ 3,109 |
| Net gain from sales of investment securities | 2,218 | 2,356 | 1,795 |
| Dividends | 217 | 674 | 835 |
| Captive insurance dividend | 117 | 4,500 | - |
| Rental, net | (253) | 1,053 | - |
| Net gain (loss) on financial instrument | 448 | 1,641 | (3,423) |
| Other, net | 262 | 688 | (147) |
| | $ 2,015 | $ 12,599 | $ 2,169 |

Interest expense on corporate owned life insurance policy loans was $1,506 in 2001, $1,476 in 2000, and $1,769 in 1999.

N. RESTRUCTURING, IMPAIRED ASSET AND OTHER UNUSUAL CHARGES

During fiscal year 2000, a decision and subsequent announcement was made to consolidate wood manufacturing operations at two of the Company's facilities in Bassett, Virginia. This and other reorganization actions resulted in the elimination of approximately 300 positions, including the severance of approximately 80 salaried employees.

(dollars in thousands except share data)

In addition to the restructuring charges recognized in 2000, the Company recorded unusual and nonrecurring charges of $600 for inventory losses and $3,150 for bad debt expense. Inventory charges are related to the restructuring. The bad debt charges were to increase reserves related to expected losses on the Company's accounts receivable due to the pending bankruptcies of two national retailers.

Of the total restructuring, impaired asset and other unusual charges, $600 is included in cost of sales, $3,150 is included in selling, general and administrative expenses and $6,680 is included in restructuring and impaired asset charges in the accompanying 2000 consolidated statement of income.

Restructuring activities continued in 2001. During the first quarter, production was moved from one facility to another and a wood manufacturing facility was identified for closure and was subsequently closed in the second quarter. Additionally, 60 corporate office positions were eliminated in the first and second quarters of 2001. Ongoing efforts to match production with demand, offer more competitively priced products and operate more efficient manufacturing facilities resulted in the announcement and subsequent closure of two additional facilities in Bassett, Virginia during the third quarter of 2001. Production has been moved to other manufacturing facilities in Virginia or has been outsourced. Approximately 800 positions were eliminated as a result of this restructuring activity. In addition to the restructuring charges recognized in 2001, the Company recorded unusual and non-recurring charges of $1,051 for inventory losses related to discontinued product. This amount is included in 2001 cost of sales. The following summarizes the fiscal 2000 and 2001 restructuring and impaired asset charges:

| | 2001 | 2000 |
|---|---|---|
| Non-cash writedown of property and equipment to net realizable value | $ 4,550 | $ 5,800 |
| Severance and related employee benefit costs | 2,402 | 880 |
| | $ 6,952 | $ 6,680 |

The property and equipment write-downs were entirely related to closing three facilities in Bassett, Virginia and were determined based on estimated liquidation value of the associated machinery, equipment and buildings. Certain production and some employees have been transferred to other production facilities within the Company. Of the $880 in severance and employee benefit costs expensed during fiscal 2000, $388 was paid during 2000 and the remaining $492 was paid out in fiscal 2001. $2,402 of severance and employee benefit costs were expensed in 2001 related to fiscal 2001 restructuring. $1,820 was expended during fiscal 2001 and the remaining $582 will be paid in fiscal 2002.

O. CONTINGENCIES

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately $8,000 as the result of COLI interest deductions through 1998. The Internal Revenue Service, on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. The IRS has received favorable rulings on the non-deductibility of COLI loan interest. Management understands that these rulings and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome should not be material to the Company's future results of operations. The Company is also involved in various other 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 management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

P. LEASES AND LOAN GUARANTEES

The Company leases land and buildings that were originally used in the operation of its Company-owned retail stores. Most of these properties were subleased to LRG Furniture, LLC, an affiliate, effective November 28, 1999. The subleases contain generally the same terms and rental rates as the original leases and thus offset rental expense on a dollar for dollar basis. Pursuant to the agreement in principle as discussed in Note G, LRG will transfer these subleases to the Company. Additionally, the Company leases showroom space from IHFC, which is priced at the market rate. Lease terms range from three 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, 2001:

| | |
|---|---|
| 2002 | $ 2,737 |
| 2003 | 2,745 |
| 2004 | 2,614 |
| 2005 | 2,390 |
| 2006 | 1,816 |
| Thereafter | 13,164 |
| | $ 25,466 |

(dollars in thousands except share data)

In addition to subleasing the properties referred to above, the Company owns retail real estate, which it in turn leases to LRG Furniture, LLC or to licensee operators of the Company's Bassett Furniture Direct stores. The following schedule shows minimum future rental income related to pass-through rental expense on a subleased property as well as rental income on real estate owned by Bassett.

| | |
|---|---|
| 2002 | $ 488 |
| 2003 | 425 |
| 2004 | 425 |
| 2005 | 425 |
| 2006 | 425 |
| Thereafter | 248 |
| | $ 2,436 |

Rents due under three leases with licensees call for rent calculated as a percentage of sales. As such, there is no minimum future rental income associated with these leases.

Rental expense, net of rental income, was $253 in 2001. Rental income, net of rental expense, related to these leases was $1,053 in 2000. Rental expense was $1,330 in 1999.

As part of the Company's expansion strategy for its retail stores, Bassett has guaranteed certain lease obligations and construction loan obligations of licensee operators of the Bassett Furniture Direct program. Lease guarantees range from five to ten years. The Company was contingently liable under licensee lease obligation guarantees in the amount of $25,708 and $23,233 at November 24, 2001 and November 25, 2000, respectively. Additionally, the Company was contingently liable under licensee construction loan guarantees in the amount of $0 and $10,369 at November 24, 2001 and November 25, 2000.

The Company has also guaranteed loans from a bank to certain of its BFD dealers to finance initial inventory packages for those stores. The total contingent liability with respect to these loan guarantees as of November 24, 2001 and November 25, 2000, was $8,990 and $9,195, respectively.

Q. EARNINGS PER SHARE

The following table reconciles basic and diluted earnings per share:

| | Shares | Net Income | Earnings Per Share |
|---|---|---|---|
| 2001: | | | |
| Basic EPS | 11,701,842 | $ (2,642) | $ (0.23) |
| Add effect of dilutive securities: | | | |
| Options and restricted stock | 9,644 | - | - |
| Diluted EPS | 11,711,486 | $ (2,642) | $ (0.23) |
| 2000: | | | |
| Basic EPS | 11,812,962 | $ 10,032 | $ 0.85 |
| Add effect of dilutive securities: | | | |
| Options and restricted stock | 9,070 | - | - |
| Diluted EPS | 11,822,032 | $ 10,032 | $ 0.85 |
| 1999: | | | |
| Basic EPS | 12,499,481 | $ 17,954 | $ 1.44 |
| Add effect of dilutive securities: | | | |
| Options and restricted stock | 6,992 | - | - |
| Diluted EPS | 12,506,473 | $ 17,954 | $ 1.44 |

Options to purchase 1,654,848 shares of common stock in 2001, 1,715,181 shares in 2000, and 1,363,797 shares in 1999, were outstanding at the end of each fiscal year that could potentially dilute basic EPS in the future.

R. SEGMENT INFORMATION

The Company's primary business is wholesale home furnishings. The wholesale home furnishings business is involved principally in the design, manufacture, sale and distribution of furniture products to a network of independently-owned stores and stores owned by an affiliate of the Company. Through 1999 the wholesale business consists primarily of two operating segments, wood and upholstery. Beginning in 2000, the Company began to evaluate imports as a separate line of business. Prior to fiscal 2000, imports were included with results from the wood segment.

(dollars in thousands except share data)

The wood segment is engaged in the manufacture and sale of wood furniture to independent and affiliated retailers. The upholstery segment is involved in the manufacture and sale of upholstered frames and cut upholstery items having a variety of frame and fabric options. The import segment sources product principally from Asia and sells these products to independent and affiliated retailers.

The Company's "other" business segment consists of the Bedding Division, a contemporary furniture business and corporate operations, including certain selling, general and administrative expenses, are all included to reconcile segment information to the consolidated financial statements. The Bedding Division activity is included for five months in 1999. The Import Division for 1999 has been reclassified to conform with the current presentation.

A retail segment was included in the "other" business segment in 1999 (see Note G). Restructuring, impaired fixed assets and other unusual charges are included for 2001, 2000 and 1999 as discussed in Note N to the consolidated financial statements and are included below in the "other" segment.

2001

| | Wood | Upholstery | Import | Other | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 173,106 | $ 90,117 | $ 32,136 | $ 10,317 | $ 305,676 |
| Operating income (loss) | 10,194 | 9,209 | 6,941 | (31,256) | (4,912) |
| Identifiable assets | 67,166 | 15,633 | 6,566 | 212,038 | 301,403 |
| Depreciation and amortization | 3,937 | 994 | - | 6,385 | 11,316 |
| Capital expenditures | 2,112 | 334 | - | 9,886 | 12,332 |

2000

| | Wood | Upholstery | Import | Other | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 226,013 | $ 97,773 | $ 30,985 | $ 12,673 | $ 367,444 |
| Operating income (loss) | 26,143 | 8,024 | 7,504 | (44,867) | (3,196) |
| Identifiable assets | 102,046 | 17,997 | 9,976 | 216,661 | 346,680 |
| Depreciation and amortization | 4,796 | 961 | - | 4,275 | 10,032 |
| Capital expenditures | 5,772 | 2,111 | - | 10,436 | 18,319 |

1999

| | Wood | Upholstery | Import | Other | Consolidated |
|---|---|---|---|---|---|
| Net sales | $ 259,825 | $ 103,520 | $ 20,372 | $ 10,695 | $ 394,412 |
| Operating income (loss) | 44,363 | 9,398 | 5,179 | (46,466) | 12,474 |
| Identifiable assets | 81,067 | 14,195 | 3,573 | 243,994 | 342,829 |
| Depreciation and amortization | 3,846 | 753 | - | 3,787 | 8,386 |
| Capital expenditures | 16,075 | 2,825 | - | 28,796 | 47,696 |

Operating income by business segment is defined as sales less direct operating costs and expenses. Identifiable assets are those assets used exclusively in the operations of each business segment. Identifiable assets for the wood, upholstery and import segments consist of inventories and property, plant and equipment.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated (a Virginia corporation) and subsidiaries as of November 24, 2001 and November 25, 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended November 24, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bassett Furniture Industries, Incorporated and subsidiaries as of November 24, 2001 and November 25, 2000, and the results of their operations and their cash flows for each of the three years in the period ended November 24, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Greensboro, North Carolina,
January 15, 2002

OTHER BUSINESS DATA
Bassett Furniture Industries, Incorporated and Subsidiaries
(dollars in thousands except per share data)

## SELECTED FINANCIAL DATA

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Net sales | $ 305,676 | $ 367,444 | $ 394,412 | $ 397,557 | $ 446,893 |
| Cost of sales | $ 254,456 (1) | $ 302,281 (1) | $ 309,316 | $ 323,904 | $ 396,875 |
| Operating profit (loss) | $ (4,912)(1) | $ (3,196)(1) | $ 12,474 | $ 9,651 | $ (55,322)(2) |
| Other income, net | $ 1,228 | $ 18,263 | $ 13,744 | $ 11,445 | $ 13,367 (2) |
| Income (loss) before income taxes | $ (3,684)(1) | $ 15,067 (1) | $ 26,218 | $ 21,096 | $ (41,955) |
| Income taxes (benefit) | $ (1,042)(1) | $ 4,671 (1) | $ 8,264 | $ 5,379 | $ (22,346)(2) |
| Net income (loss) | $ (2,642)(1) | $ 10,032 (1) | $ 17,954 | $ 15,717 | $ (19,609)(2) |
| Diluted earnings (loss) per share | $ (0.23)(1) | $ 0.85 (1) | $ 1.44 | $ 1.20 | $ (1.50)(2) |
| Cash dividends declared | $ 9,378 | $ 9,497 | $ 9,983 | $ 10,393 | $ 13,041 (2) |
| Cash dividends per share | $ 0.80 | $ 0.80 | $ 0.80 | $ 0.80 | $ 1.00 |
| Total assets | $ 301,403 | $ 346,680 | $ 342,829 | $ 321,514 | $ 320,325 |
| Current ratio | 2.96 to 1 | 3.19 to 1 | 2.39 to 1 | 3.21 to 1 | 4.12 to 1 |
| Book value per share | $ 20.04 | $ 21.09 | $ 20.46 | $ 20.40 | $ 20.01 |
| Weighted average number of shares | 11,701,842 | 11,812,962 | 12,499,481 | 12,984,639 | 13,045,789 |

## QUARTERLY RESULTS OF OPERATIONS

| | 2001 | | | |
|---|---|---|---|---|
| | FIRST | SECOND | THIRD | FOURTH |
| Net sales | $ 82,553 | $ 73,765 | $ 71,290 | $ 78,068 |
| Gross profit | 14,559 | 11,093 | 10,157 | 15,411 (1) |
| Net income (loss) | 2,252 | (538) | (2,834) | (1,522)(1) |
| Basic earnings (loss) per share | 0.19 | (0.05) | (0.24) | (0.13)(1) |
| Diluted earnings (loss) per share | 0.19 | (0.05) | (0.24) | (0.13)(1) |

| | 2000 | | | |
|---|---|---|---|---|
| | FIRST | SECOND | THIRD | FOURTH |
| Net sales | $ 94,981 | $ 92,366 | $ 91,155 | $ 88,942 |
| Gross profit | 18,573 | 17,898 | 15,868 | 12,824 (1) |
| Net income (loss) | 4,354 | 4,515 | 4,305 | (3,142)(1) |
| Basic earnings (loss) per share | 0.36 | 0.38 | 0.37 | (0.26)(1) |
| Diluted earnings (loss) per share | 0.36 | 0.38 | 0.37 | (0.26)(1) |

(1) See Note N to the Consolidated Financial Statements for a discussion of restructuring, impaired fixed assets and unusual charges.

(2) For 1997 the Company restructured certain operations and recorded restructuring and impaired asset charges of $20,646. Additionally, the Company incurred unusual and non-recurring charges of including moving costs, plant consolidation inefficiencies and inventory write-downs totaling $31,654. Of these costs, $28,325 are included in cost of goods sold and $3,329 are included in selling, general and administrative expenses. Finally, the Company incurred other unusual and non-recurring charges during 1997 of $12,500. Of these charges, $1,000 is included in cost of goods sold and $11,500 is included in selling, general and administrative expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Bassett Furniture Industries, Incorporated and Subsidiaries
(dollar amounts in thousands)

RESULTS OF OPERATIONS:

Bassett reported sales for 2001 of $305,676, a decrease of $61,768 or 17% from fiscal 2000 sales. The decline reflects the loss of two major customers to bankruptcy in the first quarter of 2001 and an extremely weak retail furniture climate in 2001. The Company continued with its' plan for vertical integration during 2001 by transitioning from sales to traditional customers to sales to its' dedicated Bassett Furniture Direct (BFD) licensee store network. Though sales to the independently owned BFD channel increased in 2001, they did not increase to the extent expected due to the weakening economy and the timing of new store openings. The 7% sales decline from fiscal 1999 to fiscal 2000 reflected both a softer overall business climate and the elimination and disposition of divisions and products that did not adequately contribute to earnings. In April of 1999, the Company sold its Bedding Division, which had revenues of $12,000 in 1999 (prior to the sale). Sales of $4,911 from the Company's retail segment are included in 1999 sales. The Company's retail segment was combined with that of a licensee to form LRG Furniture, LLC in December of 1999. Also, during 2000, the Company implemented a new enterprise-wide software system, which included sales order processing, logistics, upholstery manufacturing and some wood manufacturing. The utilization of the system has greatly enhanced the Company's shipping performance and overall customer service in 2001.

Although overall sales have declined, sales to the Bassett Furniture Direct (BFD) and @t Home with Bassett (@t Home) channels increased by 5% in 2001 and 33% in 2000. The 2001 increase of 5% was impacted by the timing of store openings, as many stores opened in the last quarter. Sales to national accounts, major furniture stores and smaller furniture stores declined in both years. The increase in sales in the BFD and @t Home channels was driven by the opening of additional BFD stores and signing additional @t Home retailers. The Company saw openings of fifteen new independently owned BFD stores and closures of four stores in 2001, for a net gain of eleven stores. A net of seven new BFD stores opened in 2000. The Company ended 2001 with 68 BFD stores, compared to 57 stores at the end of 2000. The Company plans to open approximately 15 new BFD stores in each of the next five years. The Company opened a net of 10 @t Home galleries in 2001. The Company had 179 @t Homes at the end of fiscal 2001 compared to 169 @t Homes at the end of 2000. In an effort to address declining sales to smaller furniture stores, the Company implemented a new in-stock, rapid delivery program in 2001 for its @t Home and small furniture retail customers. The innovative program, known as Five Star, features prepaid freight and 14 day delivery and provides the Company with a competitive advantage with these customers. The Company completed its move from its Thomasville, North Carolina showroom to a newly completed space at the International Home Furnishings Center in High Point. As expected, the Company experienced a significant increase in customer traffic, which enabled salesmen to re-establish contacts with old customers and introduce Bassett to many potential new customers who had never shopped the line. The Company has seen a substantial increase in new accounts opened for dealers in this category.

Despite a lower sales increase than expected in the BFD channel and the closing of four stores, the Company made substantial progress in more clearly defining its retail strategy in 2001 and continues to be committed to the financial success of its BFD licensee stores. In that regard, during 2001, the Company strengthened its' retail organization, implemented a rigorous financial and operational screening process for new licensees and began a program to address issues related to profitability within its existing licensee network. In an effort to ship goods faster and more efficiently to its customers, the Company moved into a new distribution center in Martinsville, Virginia in early 2001.

Gross margin; selling, general and administrative (S,G&A) expenses; and operating income (loss) as a percentage of net sales were as follows for the years ended November 24, 2001, November 25, 2000 and November 27, 1999:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Gross margin | 16.7% | 17.7% | 21.6% |
| S,G&A expenses | 17.8% | 16.8% | 18.4% |
| Operating income (loss) | -1.6% | -0.9% | 3.2% |

The decrease in the gross margin from 2000 to 2001 was due to sharply reduced production levels and related overhead absorption impact, costs incurred to transition production from one plant to another and lower margins resulting from liquidating certain discontinued finished goods inventories. This was partially offset by a reduction in cost of sales that resulted from liquidating LIFO inventories in 2001. In fiscal 2000, margins were negatively impacted by restructuring activities, lumber price fluctuations and reduced production levels. Gross margins from continuing operations were 17.1% and 17.9% in 2001 and 2000, respectively.

Bassett has aggressively strived to eliminate excessive costs and to more efficiently structure manufacturing capacities to match current business levels. In that regard, the Company made the decision in late 2000 to consolidate production in the Wood Division. Restructuring charges of $6,680, of which $5,800 related to the write-down of property and equipment and $880 related to severance and employee benefit costs were incurred. Restructuring continued in 2001 as the Company reduced manufacturing capacities to meet demand and stay competitive with product sourced overseas. The table plant was closed and production of occasional tables was moved to another facility or outsourced. The chair plant and a rough-end facility were permanently closed and production either transferred to other facilities or sourced to foreign manufacturers. Approximately 800 salaried and hourly positions were eliminated in fiscal 2001. All restructuring activities in 2001 resulted in restructuring charges of $6,952, of which $4,550 was related to the non-cash write-down of property and equipment to net realizable value and $2,402 was associated with severance and employee benefits. Also associated with the restructuring activities was a $1,051 write-down of discontinued inventories to net realizable value. This charge is reflected in cost of sales. The Company has not planned for significant restructuring activities in 2002. The Company is committed to its gross margin improvement initiatives. These initiatives may include investments in equipment and technology, engineering efforts to streamline production processes and efforts to supplement current product offerings with more imported goods. This also includes sourcing wood components from overseas and assembling and finishing these products domestically. The Company continually evaluates its pricing practices, capacity utilization, and its labor and overhead cost structure in an effort to improve its overall gross margin.

(dollar amounts in thousands)

S,G&A expenses decreased by $7,377 from 2000 levels in 2001. The reduction is a result of strategically planned headcount reductions associated with the restructuring efforts as well as a result of reducing and controlling spending in all areas of the business. Additionally, the Company's bad debt expense was negatively impacted by $3,150 in 2000 due to the bankruptcies of two major customers. S,G&A as a percentage of sales climbed from 16.8% in 2000 to 17.8% in 2001. The Company was unable to realize the full benefit of all the expense reduction activities in 2001. The headcount reduction and expense elimination efforts completed in 2001 should afford the Company $2,000 to $3,000 of expense savings in 2002. S,G&A from 1999 included both retail store expenses and a retail corporate support structure. These expenses were eliminated at the end of 1999 when the Company's corporate store program was turned over to LRG Furniture, LLC. As a result, S,G&A expenses as a percentage of sales dropped from 18.4% in 1999 to 16.8% in 2000. Spending for information systems and technology was significant in both 1999 and 2000 as Bassett implemented a Company-wide enterprise system. Management anticipates that such expenditures will continue but at reduced levels.

Gains on sales of property and equipment relate to the sale of the Thomasville, North Carolina showroom, a warehouse in Los Angeles, California and two former manufacturing facilities in the Hickory, North Carolina area. Management expects additional property sales in 2002 that will generate gains but not at the level seen in 2001.

Non-operating income decreased from $18,263 in 2000 to $1,228 in 2001. Non-operating income was $13,744 in 1999. Non-operating income includes three major components; income from affiliated companies, interest expense and other income. Other income is further detailed in Note M to the Consolidated Financial Statements. The decrease in other income from 2000 to 2001 was due primarily to a return to more normalized earnings on the Company's investment portfolio. Income from the Company's investment in the Alternative Asset Fund, LP was unusually high in 2000. In addition, the Company's share of income from its investment in the International Home Furnishings Center was negatively impacted by that entity's refinancing activities in 2001. Losses were larger than anticipated from the Company's investment in the Accessory Group, LP and the Company took an additional charge to write its investment in the Accessory Group down to net realizable value in 2001. Also part of the variance in other income from 2000 to 2001 was activity in the Company's COLI plan. The Company recorded income of $1,595 and $3,109 in 2000 and 1999, respectively, but recorded a net expense of $924 in 2001 associated with this plan. COLI income is realized as proceeds from policy claims exceed interest expense on policy loans and changes in the cash surrender value of the policies. The loss incurred in 2001 is largely the result of a decline in cash surrender value. Included in the 2000 results was an unusually large cash dividend of $4,500 from a captive insurance program. The Company received no such dividend in 2001. Losses from the Company's investment in LRG Furniture, LLC decreased from $5,062 in 2000 to $3,855 in 2001. In addition to the Company's share of the operating loss from LRG, the Company took an additional one-time charge of $1,359 to restructure LRG Furniture, LLC's balance sheet. Non-operating income will continue to be an integral component of the Company's future earnings.

The effective income tax provision (benefit) rate was (28.3%) in 2001 compared to 31.0% in 2000 and 31.5% in 1999. The income tax provision (benefit) rates were lower than statutory federal income tax rates primarily due to exclusions for tax exempt and undistributed affiliate income and the Company's COLI plan.

For the year ended November 24, 2001, net loss was $2,642 or $(0.23) per diluted share. These results compare to net income of $10,032 or $.85 per diluted share for 2000 and net income of $17,954 or $1.44 per diluted share for fiscal 1999.

SEGMENT INFORMATION:

The following is a discussion of operating results for each of Bassett's business segments. A full description of each operating segment along with financial data for each segment can be found in Note R to the Notes to the Consolidated Financial Statements.

WOOD DIVISION

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net Sales | $ 173,106 | $ 226,013 | $239,453 |
| Contribution to Profit and Overhead | 10,194 | 26,143 | 39,184 |

Wood Division net sales decreased by 23% in 2001 due to the loss of two major customers in early 2001, the continued soft retail furniture environment and continuing transition to imported products. This compares to a decrease of 6% from 1999 to 2000. During 2001, sales of domestically manufactured product decreased, while sales of imported goods increased. Sales and production levels were at near breakeven levels after allocating corporate overhead in fiscal 2001. In order to improve sales and margins in this segment, the Company is introducing new products, opening more BFD stores, and refocusing on its furniture store channel through implementation of its' Five Star program. Production levels have been substantially reduced to meet current demand and to reduce expense levels. The Division closed three plants over the last two years and at the end of 2001, had six plants in operation; three in Virginia, one in North Carolina and two in Georgia. Each plant produces a different range of product, categorized as "good", "better" and "best".

Contribution to profit and overhead is defined by the Company as gross profit less direct divisional operating expenses but excluding any allocation of corporate overhead expenses, interest expense, or income tax. For the Wood Division, contribution to profit and overhead decreased from 16.4% as a percentage of net sales in 1999 and 11.6% in 2000 to 5.9% in 2001. This decrease was a result of decreased sales coupled with the sale of discontinued inventories at lower margins, somewhat offset by LIFO inventory liquidations. Production levels dropped below sales levels in the Wood Division, which significantly reduced inventory levels. As a result, a decision was made in 2000 and 2001 to consolidate or shift production to other facilities in Bassett, Virginia. The Company significantly restructured the Wood Division to better match production capabilities with reduced demand. These efforts have substantially reduced the Wood Division's break even level and better position the manufacturing capacity of the division with current business demands in addition to providing for a lower cost structure. The restructuring efforts completed in 2001 should afford the Company $8,000 to $10,000 in annualized cost savings and as a result management expects that the profitability of this division will improve in 2002.

(dollar amounts in thousands)

UPHOLSTERY DIVISION

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net Sales | $90,117 | $ 97,773 | $103,520 |
| Contribution to Profit and Overhead | 9,209 | 8,024 | 9,398 |

Net sales for the Upholstery Division have declined in each of the past two years, as the Company continues its overall repositioning of this product segment. Early in fiscal 2001, two major national accounts were lost to bankruptcy, which affected overall Upholstery Division sales. In 1999, management decided to exit certain distribution channels, which it concluded were incompatible with the Bassett brand image and its current primary channels of distribution. The Company has decided to focus this segment on its BFD stores, its @t Home galleries, and several of its major customers. Also, during 2000, the Company hired a new merchandising team in the Upholstery Division to reverse the declining sales trend and enhance the product line.

Contribution to profit and overhead has increased, despite declining sales. For the Upholstery Division, contribution to profit and overhead increased to 10.2% of sales in 2001 after decreasing from 9.1% in 1999 to 8.2% in 2000. Repositioning the segment away from lower-margin accounts and products and into higher quality, more stylish goods combined with operational initiatives have propelled the profit improvement. However, these changes were offset, in fiscal 2000, by unfavorable absorption and labor inefficiencies resulting from the decreased sales. The operational initiatives include the entry into cellular manufacturing and investments in new cutting and sewing equipment. At the beginning of 2001, due largely to the bankruptcy of a national retailer, the upholstery division consolidated certain manufacturing operations as part of it continuing gross margin improvement plan. Management anticipates continued earnings improvement in 2002.

IMPORT DIVISION

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net Sales | $ 32,136 | $ 30,985 | $ 20,372 |
| Contribution to Profit and Overhead | 6,941 | 7,504 | 5,179 |

Beginning in 2001, the results of the Import division are reported separately in the segment information. For prior reporting, the results of the Import division were included in the Wood division. Information related to the Import division for 2000 and 1999 has been reclassified to conform with the current presentation.

Net sales for the Import division increased by 3.7% in 2001 and by 52% in 2000. The Company expects the sales of this segment to increase as cribs, occasional tables and some beds are sourced to overseas manufacturers. This should have a positive impact on the Company's overall gross margin. The products of the Import division will continue to supplement the product offerings of the other divisions, as well as include complete suites of bedroom and dining room furniture. Import division contribution to profit and overhead decreased from 24.2% of net sales in fiscal 2000 to 21.6% in 2001. The decrease is primarily the result of allocating overhead costs to this division. The expected sales growth of this segment requires the Company to focus more attention on forecasting and purchasing practices, inventory management, logistics and quality.

LRG FURNITURE JOINT VENTURE

At the beginning of fiscal year 2000, the Company formed LRG Furniture, LLC, which is a joint venture between the Company and its licensee partner in Houston, Texas (BDP Texas, LLC). The Company was formed to capitalize on the retail expertise of BDP Texas and the economies of scale that a combined Company offered. The Company's eight BFD stores in 1999 were combined with the five BDP Texas stores in Texas to form LRG. Bassett retains a 51% ownership of the joint venture and accounts for the investment using the equity method since the Company does not maintain control of the joint venture.

LRG experienced significant difficulties in the initial integration and start-up activities of operating southeastern stores with stores in Texas and Nevada. The stores were initially managed centrally from Houston, Texas. This method of management proved to be costly and ineffective. Additionally, LRG's revenues were temporarily impacted by the implementation of the Company's enterprise software system. LRG adopted a decentralized (regional) method of management midway through fiscal 2000 to attack cost issues on a store by store basis. Substantial costs were subsequently eliminated from the LRG corporate overhead. Regional managers have begun to see improved top-line sales growth. Store expenses, including start-up costs, were subsequently reduced or eliminated. Bassett's shipments to LRG are also improved due to the complete implementation of the enterprise system. During 2001, LRG sold three stores located in small to mid-size markets to local operators and sold the Hickory, North Carolina store back to Bassett. A significant portion of LRG's losses were attributable to these stores. These stores are in single store markets where a local licensee would be better positioned to operate a cost effective store operation. Cost cutting efforts continued in 2001, both at the corporate overhead level and at the store level. All of these efforts combined to reduce LRG's net loss in fiscal 2001.

Discussions were held with the principals of LRG late in 2001 concerning future cash flows and improving the operating performance and capital structure of LRG. Subsequent to November 24, 2001, the Company entered into an agreement to purchase the five remaining southeastern stores from LRG for net book value. Bassett will operate the North Carolina and Virginia stores as corporate stores. Upon the completion of the transaction, the operating results of these stores will be consolidated into the Company's financial statements, affecting net sales, gross profit and selling, general and administrative expense. This move allows LRG to focus on the larger markets in Texas and Nevada and allows Bassett to re-introduce a corporate store program that is essential to its' retail strategy. This leaves seven stores in Texas and Nevada as LRG's core business. Additionally, as part of the agreement, the Company agreed to restructure a portion of notes receivable due to the Company from LRG. As a result, Bassett took a charge of $1,359 related to the debt restructuring. Management believes that LRG will substantially reduce losses in 2002 and will return to profitability in subsequent years due to overhead cost reductions, the sale of unprofitable stores in single store markets and the re-focusing of efforts on core markets in Texas and Nevada. The Company is committed to the success of LRG and will provide financial support to LRG, as needed, over the next two years. Included in the Company's 1999 results were net sales for the retail segment of $11,319 and operating losses of $2,570.

LIQUIDITY AND CAPITAL RESOURCES:

Cash provided by operating activities was $22,283 in 2001 compared to cash used by operating activities of $12,016 in 2000 and cash provided by operating activities of $16,728 in 1999. The increase in 2001 operating cash flow was attributable to the Company's significant reductions in receivables and inventories. Conversely, the $12,016 in cash used in operating activities was primarily the result of a build up of receivables and inventories. 1999 cash flow from operations was attributable to higher net income levels.

The decline in rates of sale versus what was planned for 2000 coupled with increases in imported products caused the increase in wholesale inventories in fiscal 2000. The Company's strategic decision in 2001 to focus on inventory reduction and receivables management was primarily responsible for the turn-around in cash flow from operations. The Company adopted plans to reduce both accounts receivable and inventory levels in 2001. The Company implemented new terms for its BFD licensees, adopted more aggressive collection policies, reduced production schedules and embarked on inventory promotion and liquidation programs in 2001. Also in 2000, there was a reduction in accounts payable and accrued liabilities bringing these accounts to levels more consistent with historical levels, and well below the unusually high balances of these accounts in 1999. The significant increase in accounts payable and accrued liabilities in 1999 was largely timing related and included several unusual and nonrecurring items, some of which related to the Company's retail operations.

The Company invested $47,700 in property and equipment in 1999 for BFD store real estate, a new enterprise-wide information system, new manufacturing equipment, and a new dining table top manufacturing facility. Given the significant spending levels in 1999, the Company reduced its capital spending in 2000 and 2001. Spending in 2000 and 2001 was primarily for new machinery and equipment, and information technology. Additionally, in 2001 the Company invested in two retail furniture locations which it is leasing to licensees and completed renovations to its' new showroom in High Point, North Carolina. The Company expects capital spending to approximate $9,000 in fiscal 2002 and to be funded out of operating cash flow.

Sales of the Company's former showroom in Thomasville, North Carolina, a warehouse in Los Angeles, California and two manufacturing facilities in North Carolina generated $7,042 in cash proceeds.

The Company received a dividend from its' IHFC investment of $25,058. This unusually large dividend resulted from IHFC's refinancing of its' building and is essentially an advance on future earnings. As such, the Company's investment reflects a credit balance and is shown in the liabilities section of the Company's balance sheet as "Deferred Revenue from Affiliate". Based on current and expected future earnings of IHFC, management believes that the market value of the investment in IHFC is substantially greater than its current book value. The financial statements for IHFC are attached to the Company's 10-K filing.

Proceeds from sales of securities in Bassett's investment portfolio were $4,441. In 2000, the Company liquidated a portion of its investment portfolio and generated $5,785 in cash proceeds. The Company also received a cash dividend from an affiliated company of $12,000 in 2000. This follows the decision made by management in 1998 to reinvest a large portion ($50,000) of its investment portfolio into an investment partnership which has enabled the Company to generate improved investment returns. The Company invested $4,200 in the LRG joint venture in 2000. The Company plans to continue to liquidate the remainder of its marketable equity securities portfolio on a scheduled basis over the next three years.

During 2000, the Company replaced borrowings under its $50,000 credit facility by entering into a three-year $70,000 revolving credit facility with a new lender and three other participants. At the end of fiscal 2000, the Company had borrowed $45,000 against its credit line. Subsequent to the end of fiscal 2000, the Company received a $25,058 cash dividend from IHFC, the net proceeds of which were used primarily to reduce borrowings outstanding under this credit facility. The Company amended the facility in 2001 to address restrictive covenants and to reduce the total facility to $60,000. At November 24, 2001, the Company had reduced borrowings under this facility to $6,000. The Company does not expect to substantially increase its level of borrowings in fiscal 2002.

The Company purchased and retired 332,000 shares of its Common Stock during 2000. These purchases were part of the Company's stock repurchase program, approved in 1998, which allows the Company to repurchase its shares for an aggregate purchase price not to exceed $40,000. The average cost of the shares purchased in 2000 was $14.20, resulting in a total expenditure of $4,716. Repurchases of stock were substantially reduced in 2001 as the Company repurchased 63,500 shares for a total of $730 (average price of $11.50 per share). In 1999, the Company purchased and retired 793,000 shares for $17,138. The Company plans to continue its share repurchase program in fiscal 2002. The Company paid dividends of $9,378, $9,497 and $9,983 in fiscal 2001, 2000 and 1999, respectively. The current ratio for the past two years was 2.96 to 1 and 3.19 to 1, respectively. Working capital was $65,342 at November 24, 2001, and $91,568 at November 25, 2000.

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

CONTINGENCIES:

The Company is involved in various claims and litigation as well as environmental matters, which arise in the normal course of business. The details of these matters are described in Note O in the Notes to Consolidated Financial Statements. Although the final outcome of these legal and environmental matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations. Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately $8,000 as the result of COLI interest deductions through 1998. The Internal Revenue Service (IRS), on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. The IRS has received favorable rulings on the non-deductibility of COLI loan interest. Management understands that these rulings and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome should not be material to the Company's financial position or future results of operations.

KEY ACCOUNTING POLICIES:

Our significant accounting policies are described in Note A to the consolidated financial statements. The preparation of the financial statements requires the Company to make estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company evaluates its estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions.

The Company maintains allowances for doubtful accounts and notes receivable for estimated losses resulting from the inability of its customers or note holders to make required payments. If the financial condition of the Company's customers or note holders were to deteriorate, resulting in an impairment in their ability to make payments, additional allowances may be required. The Company writes down its inventory for estimated obsolescence to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. The Company has recorded valuation allowances for impairment of property and equipment. Management's judgements regarding the existence of impairment indicators are based on market conditions and the operational performance of its manufacturing facilities. The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments. The Company has accrued its estimate of the probable costs related to certain income tax, legal and environmental matters. These estimates have been developed in consultation with the Company's counsel and other advisors and are based on management's current understanding of the underlying facts and circumstances. Because of uncertainties related to the ultimate outcome 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.

MARKET RISK:

The Company is exposed to market risk for changes in market prices of its various types of investments. The Company's investments include equity securities and an investment partnership included in its investments in affiliated companies. The Company does not use these securities for trading purposes and is not party to any leveraged derivatives.

The Company's marketable equity securities portfolio, which totaled $9,116 at November 24, 2001, is diversified among over twenty different medium to large capitalization interests. The Company entered into an equity collar in 1999 to reduce its exposure to fluctuations in the market value of these securities. In 2000, management decided to liquidate this financial instrument and enter into a new financial instrument which more clearly correlates to its equity portfolio. The Company exited this equity collar in early 2001. Although there are no maturity dates for the Company's equity investments, management has plans to liquidate its current marketable equity portfolio on a scheduled basis over the next three years. See Note E to the Consolidated Financial statements for more information on these investment securities

The Company's investment in a limited partnership, which totaled $58,652 at November 24, 2001 and $57,091 at November 25, 2000, invests 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, market currency rates, and liquidity.

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. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Important 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 that are less favorable than expected
- overall consumer demand for home furnishings
- new BFD openings
- BFD closings
- the profitability of BFD licensees
- not fully realizing cost reductions through restructurings
- cost and availability of raw materials and labor
- information and technology advances
- success of marketing and advertising campaigns
- future tax legislation, or regulatory or judicial positions related to COLI

INVESTOR INFORMATION

CORPORATE INFORMATION:

The Company's annual report and proxy statement together contain much of the information presented in the Form 10-K report filed with the Securities and Exchange Commission. Individuals who wish to receive the Form 10-K or other corporate literature should contact Grover S. Elliott, Vice President of Investor Relations at 276-629-6000.

INVESTOR INQUIRIES:

Those seeking further information about the corporation should contact Grover S. Elliott, Vice President of Investor Relations at 276-629-6000.

TRANSFER AGENT/STOCKHOLDER INQUIRIES:

Stockholders with inquiries relating to stockholder records, stock transfers, change of ownership, change of address or dividend payments should write to:

First Union National Bank
Shareholder Services/Customer Service
1525 W. WT Harris Blvd.; 3C3
Charlotte, NC 28288-1153
800-829-8432

ANNUAL MEETING:

The Bassett Annual Meeting of Shareholders will be held Tuesday, March 26, 2002, at 11:00 a.m. EST at the Company's headquarters in Bassett, Virginia.

MARKET AND DIVIDEND INFORMATION:

Bassett's common stock trades on the NASDAQ national market system under the symbol "BSET." The Company had approximately 1,570 registered stockholders at November 24, 2001. The range of per share amounts for the closing high and low market prices and dividends declared for the last two fiscal years are listed below:

| | Market Prices of Common Stock | | | | Dividends Declared | |
|---|---|---|---|---|---|---|
| Quarter | 2001 | | 2000 | | 2001 | 2000 |
| | High | Low | High | Low | | |
| First | 15.00 | 9.81 | $16.50 | $13.25 | .20 | .20 |
| Second | 14.90 | 11.50 | 17.19 | 12.25 | .20 | .20 |
| Third | 15.50 | 12.58 | 14.19 | 11.44 | .20 | .20 |
| Fourth | 15.47 | 12.60 | 15.75 | 11.44 | .20 | .20 |

FORWARD-LOOKING STATEMENTS:

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

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

WEB SITE:

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

# EXHIBIT 21 - LIST OF SUBSIDIARIES

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

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

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

(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)

EXHIBIT 23A

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated December 21, 2001 and January 15, 2002 on the financial statements of LRG Furniture, LLC and the financial statements and schedule of Bassett Furniture Industries, Inc. and Subsidiaries, respectively, included in and incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 33-52405, 33-52407, 333-60327, and 333-43188.

/s/ ARTHUR ANDERSEN LLP

Greensboro, North Carolina,
February 21, 2002

EXHIBIT 23B

CONSENT OF INDEPENDENT AUDITORS

Board of Directors
Bassett Furniture Industries, Incorporated
Bassett, Virginia

We consent to incorporation by reference in the Registration Statements (Nos. 33-52405, 33-52407, 333-60327 and 333-43188) on Form S-8 of Bassett Furniture Industries, Incorporated and subsidiaries of our report dated November 30, 2001, relating to the balance sheets of International Home Furnishings Center, Inc. as of October 31, 2001 and 2000, and the related statements of income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended October 31, 2001, which report is incorporated by reference in the November 24, 2001 annual report on Form 10-K of Bassett Furniture Industries, Incorporated and subsidiaries.

/s/ DIXON ODOM PLLC

High Point, North Carolina
February 18, 2002