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

FORM 10-Q

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

For the quarterly period ended May 27, 2017

OR

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

For the transition period from ______________________________ to ________________________

Commission File No. 0-209

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

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

3525 Fairystone Park Highway
Bassett, Virginia 24055
(Address of principal executive offices)
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes X No____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	____	Accelerated filer	X
Non-accelerated filer	____	(Do not check if a smaller reporting company)	
		Smaller reporting company	____
		Emerging growth company	____

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ____

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

At June 16, 2017, 10,724,586 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
FOR THE PERIODS ENDED MAY 27, 2017 AND MAY 28, 2016 – UNAUDITED
(In thousands except per share data)

	Quarter Ended		Six Months Ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Sales revenue:				
Furniture and accessories	$ 100,294	$ 92,990	$ 193,992	$ 185,392
Logistics	13,831	13,677	26,025	28,148
Total sales revenue	114,125	106,667	220,017	213,540
Cost of furniture and accessories sold	44,981	42,419	86,879	84,405
Selling, general and administrative expenses excluding new store pre-opening costs	61,075	58,088	119,599	117,045
New store pre-opening costs	469	307	1,275	446
Income from operations	7,600	5,853	12,264	11,644
Gain on sale of investment	3,267	-	3,267	-
Impairment of investment in real estate	(1,084)	-	(1,084)	-
Other loss, net	(678)	(600)	(1,411)	(1,257)
Income before income taxes	9,105	5,253	13,036	10,387
Income tax expense	3,263	1,868	4,333	3,768
Net income	$ 5,842	$ 3,385	$ 8,703	$ 6,619
Retained earnings-beginning of period	131,178	123,176	129,388	120,904
Cash dividends	(1,073)	(998)	(2,144)	(1,960)
Retained earnings-end of period	$ 135,947	$ 125,563	$ 135,947	$ 125,563
Basic earnings per share	$ 0.55	$ 0.31	$ 0.82	$ 0.61
Diluted earnings per share	$ 0.54	$ 0.31	$ 0.81	$ 0.61
Dividends per share	$ 0.10	$ 0.09	$ 0.20	$ 0.18

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

PART I – FINANCIAL INFORMATION – CONTINUED
ITEM 1. FINANCIAL STATEMENTS
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED MAY 27, 2017 AND MAY 28, 2016 – UNAUDITED
(In thousands)

	Quarter Ended		Six Months Ended	
	May 27, 2017	**May 28, 2016**	**May 27, 2017**	**May 28, 2016**
Net income	$ 5,842	$ 3,385	$ 8,703	$ 6,619
Other comprehensive income:				
Recognize prior service cost associated with Long Term Cash Awards (LTCA)	(932)	-	(932)	-
Amortization associated with LTCA	24	-	24	-
Income taxes related to LTCA	350	-	350	-
Amortization associated with supplemental executive retirement defined benefit plan (SERP)	94	92	187	183
Income taxes related to SERP	(36)	(36)	(71)	(70)
Other comprehensive income, net of tax	(500)	56	(442)	113
Total comprehensive income	$ 5,342	$ 3,441	$ 8,261	$ 6,732

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

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
MAY 27, 2017 AND NOVEMBER 26, 2016
(In thousands)

	(Unaudited) May 27, 2017	November 26, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 29,798	$ 35,144
Short-term investments	23,125	23,125
Accounts receivable, net	19,486	18,358
Inventories	58,093	53,215
Other current assets	8,599	10,727
Total current assets	139,101	140,569
Property and equipment, net	106,900	104,655
Deferred income taxes	8,112	8,071
Goodwill and other intangible assets	17,512	17,360
Other	5,471	7,612
Total long-term assets	31,095	33,043
Total assets	$ 277,096	$ 278,267
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 20,858	$ 21,281
Accrued compensation and benefits	12,889	13,602
Customer deposits	22,649	25,181
Dividends payable	-	3,218
Current portion of long-term debt	3,346	3,290
Other accrued liabilities	11,847	10,441
Total current liabilities	71,589	77,013
Long-term liabilities		
Post employment benefit obligations	13,714	12,760
Notes payable	631	3,821
Other long-term liabilities	4,177	3,968
Total long-term liabilities	18,522	20,549
Stockholders' equity		
Common stock	53,623	53,615
Retained earnings	135,947	129,388
Additional paid-in capital	410	255
Accumulated other comprehensive loss	(2,995)	(2,553)
Total stockholders' equity	186,985	180,705
Total liabilities and stockholders' equity	$ 277,096	$ 278,267

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

PART I – FINANCIAL INFORMATION – CONTINUED
ITEM 1. FINANCIAL STATEMENTS
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED MAY 27, 2017 AND MAY 28, 2016 – UNAUDITED
(In thousands)

	Six Months Ended	
	May 27, 2017	**May 28, 2016**
Operating activities:		
Net income	$ 8,703	$ 6,619
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,706	5,611
Provision for asset impairment charge	1,084	-
Gain on sale of investment	(3,267)	-
Tenant improvement allowance received from lessors	715	590
Deferred income taxes	318	1,198
Excess tax benefits from stock-based compensation	327	41
Other, net	960	697
Changes in operating assets and liabilities:		
Accounts receivable	(904)	2,436
Inventories	(4,535)	5,062
Other current assets	2,128	(1,451)
Customer deposits	(2,532)	(3,867)
Accounts payable and accrued liabilities	(211)	(5,926)
Net cash provided by operating activities	9,492	11,010
Investing activities:		
Purchases of property and equipment	(9,172)	(14,116)
Proceeds from sales of property and equipment	63	577
Proceeds from sale of investment	3,592	-
Acquisition of retail licensee store	(655)	-
Other	223	-
Net cash used in investing activities	(5,949)	(13,539)
Financing activities:		
Cash dividends	(5,363)	(4,145)
Proceeds from the exercise of stock options	221	114
Other issuance of common stock	-	176
Repurchases of common stock	(82)	(1,930)
Taxes paid related to net share settlement of equity awards	(474)	-
Repayments of notes payable	(3,191)	(4,920)
Proceeds from equipment loans	-	6,692
Net cash used in financing activities	(8,889)	(4,013)
Change in cash and cash equivalents	(5,346)	(6,542)
Cash and cash equivalents - beginning of period	35,144	36,268
Cash and cash equivalents - end of period	$ 29,798	$ 29,726

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

(Dollars in thousands except share and per share data)

1. Basis of Presentation

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

References to "ASC" included hereinafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board ("FASB") as the source of authoritative GAAP.

The condensed consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated ("Bassett", "we", "our", or the "Company") and our wholly-owned subsidiaries of which we have a controlling interest. In accordance with ASC Topic 810, we have evaluated our licensees and certain other entities to determine whether they are variable interest entities ("VIEs") of which we are the primary beneficiary and thus would require consolidation in our financial statements. To date we have concluded that none of our licensees nor any other of our counterparties represent VIEs.

Revenue from the sale of furniture and accessories is reported in the accompanying condensed consolidated statements of income net of estimates for returns and allowances.

Revenues from logistical services are generated by our wholly-owned subsidiary, Zenith Freight Lines, LLC ("Zenith") which we acquired in fiscal 2015. Sales of logistical services from Zenith to our wholesale and retail segments have been eliminated in consolidation, and Zenith's operating costs and expenses are included in selling, general and administrative expenses in our condensed consolidated statements of income.

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the three and six months ended May 27, 2017 are not necessarily indicative of results for the full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 26, 2016.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rates of 35.8% and 33.2% for the three and six months ended May 27, 2017, respectively, and 35.6% and 36.3% for the three and six months ended May 28, 2016, respectively, differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation and the Section 199: Domestic Production Activities Deduction. During the six months ended May 27, 2017 and May 28, 2016, our income tax provision includes excess tax benefits on stock-based compensation in the amount of $327 and $41, respectively.

3. Business Combination – Licensee Store Acquisition

During the six months ended May 27, 2017, we acquired the operations of the Bassett Home Furnishings ("BHF") store located in Columbus, Ohio for a purchase price of $655. The store had been owned and operated by a licensee that had determined that continued ownership of a BHF store was no longer consistent with its future business objectives. We believe that Columbus, Ohio represents a viable market for a BHF store.

The purchase price was allocated as follows:

Inventory	$	343
Goodwill		312
Purchase price	$	655

The inputs into our valuation of the acquired assets reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 inputs as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 4.

The pro forma impact of the acquisition and the results of operations for the Columbus store since acquisition are not material to our consolidated results of operations for the six months ended May 27, 2017.

4. Financial Instruments and Fair Value Measurements

Financial Instruments

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

Investments

Our short-term investments of $23,125 at both May 27, 2017 and November 26, 2016 consisted of certificates of deposit (CDs) with original terms of twelve months, bearing interest at rates ranging from 0.35% to 1.10%. At May 27, 2017, the weighted average remaining time to maturity of the CDs was approximately one month and the weighted average yield of the CDs was approximately 0.65%. Each CD is placed with a Federally insured financial institution and all deposits are within Federal deposit insurance limits. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at May 27, 2017 and November 26, 2016 approximates their fair value.

Fair Value Measurement

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our notes payable for disclosure purposes (see Note 8) involves Level 3 inputs. Our primary non-recurring fair value estimates typically involve business acquisitions (Note 3) which involve a combination of Level 2 and Level 3 inputs.

(Dollars in thousands except share and per share data)

5. Accounts Receivable

Accounts receivable consists of the following:

	May 27, 2017	November 26, 2016
Gross accounts receivable	$ 20,217	$ 19,157
Allowance for doubtful accounts	(731)	(799)
Accounts receivable, net	$ 19,486	$ 18,358

Activity in the allowance for doubtful accounts for the six months ended May 27, 2017 was as follows:

Balance at November 26, 2016	$ 799
Reductions to allowance	(68)
Balance at May 27, 2017	$ 731

We believe that the carrying value of our net accounts receivable approximates fair value. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 4.

6. Inventories

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

Inventories were comprised of the following:

	May 27, 2017	November 26, 2016
Wholesale finished goods	$ 27,076	$ 24,392
Work in process	386	369
Raw materials and supplies	12,630	11,343
Retail merchandise	27,070	26,265
Total inventories on first-in, first-out method	67,162	62,369
LIFO adjustment	(7,938)	(7,804)
Reserve for excess and obsolete inventory	(1,131)	(1,350)
	$ 58,093	$ 53,215

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

(Dollars in thousands except share and per share data)

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

	Wholesale Segment	Retail Segment	Total
Balance at November 26, 2016	$ 1,061	$ 289	$ 1,350
Additions charged to expense	473	228	701
Write-offs	(674)	(246)	(920)
Balance at May 27, 2017	$ 860	$ 271	$ 1,131

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2017 and do not anticipate that our methodology is likely to change in the future.

7. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

	May 27, 2017		
	Gross Carrying Amount	**Accumulated Amortization**	**Intangible Assets, Net**
Intangibles subject to amortization			
Customer relationships	$ 3,038	$ (472)	$ 2,566
Technology - customized applications	834	(278)	556
Total intangible assets subject to amortization	3,872	(750)	3,122
Intangibles not subject to amortization:			
Trade names	2,490	-	2,490
Goodwill	11,900	-	11,900
Total goodwill and other intangible assets	$ 18,262	$ (750)	$ 17,512

	November 26, 2016		
	Gross Carrying Amount	**Accumulated Amortization**	**Intangible Assets, Net**
Intangibles subject to amortization			
Customer relationships	$ 3,038	$ (371)	$ 2,667
Technology - customized applications	834	(219)	615
Total intangible assets subject to amortization	3,872	(590)	3,282
Intangibles not subject to amortization:			
Trade names	2,490	-	2,490
Goodwill	11,588	-	11,588
Total goodwill and other intangible assets	$ 17,950	$ (590)	$ 17,360

(Dollars in thousands except share and per share data)

Changes in the carrying amounts of goodwill by reportable segment during the six months ended May 27, 2017 were as follows:

	Wholesale	Retail	Logistics	Total
Balance as of November 26, 2016	$ 4,839	$ 1,820	$ 4,929	$ 11,588
Goodwill arising from store acquisition (Note 3)	206	106	-	312
Balance as of May 27, 2017	$ 5,045	$ 1,926	$ 4,929	$ 11,900

There were no accumulated impairment losses on goodwill as of May 27, 2017 or November 26, 2016.

Amortization expense associated with intangible assets during the three and six months ended May 27 and May 28, 2016 was as follows:

	Quarter Ended		**Six Months Ended**	
	May 27, 2017	**May 28, 2016**	**May 27, 2017**	**May 28, 2016**
Intangible asset amortization expense	$ 80	$ 80	$ 161	$ 161

8. Notes Payable and Bank Credit Facility

Our notes payable consist of the following:

	May 27, 2017		
	Principal Balance	**Unamortized Discount**	**Net Carrying Amount**
Zenith acquisition note payable	$ 3,000	$ (52)	$ 2,948
Real estate notes payable	1,029	-	1,029
Total Debt	4,029	(52)	3,977
Less current portion	(3,398)	52	(3,346)
Total long-term debt	$ 631	$ -	$ 631

	November 26, 2016		
	Principal Balance	**Unamortized Discount**	**Net Carrying Amount**
Zenith acquisition note payable	$ 6,000	$ (108)	$ 5,892
Real estate notes payable	1,219	-	1,219
Total Debt	7,219	(108)	7,111
Less current portion	(3,385)	95	(3,290)
Total long-term debt	$ 3,834	$ (13)	$ 3,821

(Dollars in thousands except share and per share data)

The future maturities of our notes payable are as follows:

Remainder of fiscal 2017	$	196
Fiscal 2018		3,412
Fiscal 2019		421
Fiscal 2020		-
Fiscal 2021		-
Fiscal 2022		-
Thereafter		-
	$	4,029

Zenith Acquisition Note Payable

As part of the consideration given for our acquisition of Zenith on February 2, 2015, we issued an unsecured note payable to the former owner in the amount of $9,000, payable in three annual installments of $3,000 due on each anniversary of the note. Interest is payable annually at the one year LIBOR rate. The note was recorded at its fair value in connection with the acquisition resulting in a debt discount that is amortized to the principal amount through the recognition of non-cash interest expense over the term of the note. Interest expense resulting from the amortization of the discount was $19 and $57 for the three and six months ended May 27, 2017, respectively, and $46 and $112 for the three and six months ended May 28, 2016, respectively. The current portion of the note due within one year, including unamortized discount, was $2,948 and $2,904 at May 27, 2017 and November 26, 2016, respectively.

Real Estate Notes Payable

Certain of our retail real estate properties have been financed through commercial mortgages with outstanding principal totaling $1,029 and $1,219 at May 27, 2017 and November 26, 2016, respectively. The mortgages bear interest at fixed rates of 6.73%. They are collateralized by the respective properties with net book values totaling approximately $5,791 and $5,858 at May 27, 2017 and November 26, 2016, respectively. The current portion of these mortgages due within one year was $398 and $385 as of May 27, 2017 and November 26, 2016, respectively.

Fair Value

We believe that the carrying amount of our notes payable approximates fair value at both May 27, 2017 and November 26, 2016. In estimating the fair value, we utilize current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 3.

Bank Credit Facility

Our credit facility with our bank provides for a line of credit of up to $15,000. This credit facility, which matures in December of 2018, is unsecured and contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future.

At May 27, 2017, we had $1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of $13,028. In addition, we have outstanding standby letters of credit with another bank totaling $511.

9. Post Employment Benefit Obligations

Management Savings Plan

On May 1, 2017, our Board of Directors, upon the recommendation of the Organization, Compensation and Nominating Committee (the “Committee”), adopted the Bassett Furniture Industries, Incorporated Management Savings Plan (the “Plan”).The Plan is an unfunded, nonqualified deferred compensation plan maintained for the benefit of certain highly compensated or management level employees.

The Plan is an account-based plan under which (i) participants may defer voluntarily the payment of current compensation to future years (“participant deferrals”) and (ii) the Company may make annual awards to participants payable in future years (“Company contributions”). The Plan permits each participant to defer up to 75% of base salary and up to 100% of any incentive compensation or other bonus, which amounts would be credited to a deferral account established for the participant. Such deferrals will be fully vested at the time of the deferral. Participant deferrals will be indexed to one or more deemed investment alternatives chosen by the participant from a range of alternatives made available under the Plan. Each participant’s account will be adjusted to reflect gains and losses based on the performance of the selected investment alternatives. A participant may receive distributions from the Plan: (1) upon separation from service, in either a lump sum or annual installment payments over up to a 15 year period, as elected by the participant, (2) upon death or disability, in a lump sum, or (3) on a date or dates specified by the participant (“scheduled distributions”) with such scheduled payments made in either a lump sum or substantially equal annual installments over a period of up to five years, as elected by the participant. Participant contributions will commence during the third quarter of fiscal 2017. Company contributions will vest in full (1) on the third anniversary of the date such amounts are credited to the participant’s account, (2) the date that the participant reaches age 63 or (3) upon death or disability. Company contributions are subject to the same rules described above regarding the crediting of gains or losses from deemed investments and the timing of distributions. The Company plans to make a contribution to the Plan effective February 1, 2018. Expense associated with the planned Company contribution was $28 for the three and six months ended May 27, 2017.

On May 2, 2017, we made Long Term Cash Awards (“LTC Awards”) totaling $2,000 under the Plan to certain management employees in the amount of $400 each. The LTC Awards vest in full on the first anniversary of the date of the award if the participant has reached age 63 by that time, or, if later, on the date the participant reaches age 63, provided in either instance that the participant is still employed by the Company at that time. If not previously vested, the awards will also vest immediately upon the death or disability of the participant prior to the participant’s separation from service. The awards will be payable in 10 equal annual installments following the participant’s death, disability or separation from service. We are accounting for the LTC Awards as a defined benefit pension plan. Accordingly, during the second quarter of fiscal 2017 we recorded an initial projected benefit obligation of $932 representing prior service cost. Our projected benefit obligation for the LTC Awards at May 27, 2017 is $950, which is included in post employment benefit obligations in our condensed consolidated balance sheet. At May 27, 2017, accumulated other comprehensive loss includes unamortized prior service cost of $558 with respect to the LTC Awards, net of the related deferred income tax benefit of $350.

Supplemental Retirement Income Plan

We have an unfunded Supplemental Retirement Income Plan (the “Supplemental Plan”) that covers one current and certain former executives. The liability for the Supplemental Plan was $11,879 and $11,863 as of May 27, 2017 and November 26, 2016, respectively.

(Dollars in thousands except share and per share data)

Aggregate Pension Liability and Aggregate Net Periodic Pension Costs

The combined pension liability for the Supplemental Plan and LTC Awards is recorded as follows in the condensed consolidated balance sheets:

	May 27, 2017	November 26, 2016
Accrued compensation and benefits	$ 776	$ 776
Post employment benefit obligations	12,053	11,087
Total pension liability	$ 12,829	$ 11,863

Components of net periodic pension costs are as follows:

	Quarter Ended		Six Months Ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Service cost	$ 49	$ 36	$ 87	$ 73
Interest cost	114	106	222	211
Amortization of prior service costs	24	-	24	-
Amortization of transition obligation	11	11	21	21
Amortization of loss	83	81	166	162
Net periodic pension cost	$ 281	$ 234	$ 520	$ 467

The components of net periodic pension cost other than the service cost component are included in other loss, net in our condensed consolidated statements of income.

Deferred Compensation Plan

We have an unfunded Deferred Compensation Plan that covers one current executive and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. Our liability under this plan was $1,929 and $1,969 as of May 27, 2017 and November 26, 2016, respectively.

Our combined liability for all deferred compensation arrangements, including Company contributions under the Management Savings Plan, is recorded as follows in the condensed consolidated balance sheets:

	May 27, 2017	November 26, 2016
Accrued compensation and benefits	$ 296	$ 296
Post employment benefit obligations	1,661	1,673
Total deferred compensation liability	$ 1,957	$ 1,969

We recognized expense under our deferred compensation arrangements during the three and six months ended May 27, 2017 and May 28, 2016 as follows:

	Quarter Ended		Six Months Ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Deferred compensation expense	$ 82	$ 57	$ 136	$ 114

(Dollars in thousands except share and per share data)

10. Other Gains and Losses

Gain on Sale of Investment

In 1985, we acquired a minority interest in a privately-held, start-up provider of property and casualty insurance for $325. We have accounted for this investment on the cost method and included it in other long-term assets in our condensed consolidated balance sheet. In April of 2017 we sold our interest for $3,592 in cash, resulting in a gain of $3,267 recognized for the three and six months ended May 27, 2017.

Impairment of Investment in Real Estate

We own a building in Chesterfield County, Virginia that was formerly leased to a licensee for the operation of a BHF store. The building is subject to a ground lease that expires in 2020, but which has additional renewal options. Since 2012, we have leased the building to another party who is, as of recently, paying less than the full amount of the lease obligation, resulting in rental income insufficient to cover our ground lease obligation. Efforts to sell our interest in the building have been unsuccessful so far. We have also concluded that absent a significant cash investment in the building the likelihood of locating another tenant for the building at a rent that would provide positive cash flow in excess of the ground lease expense is remote. In addition, we obtained an appraisal during the quarter ended May 27, 2017 which indicated that the value of the building had significantly decreased and was now minimal. Given these circumstances, we concluded in the current quarter that we are unlikely to renew the ground lease in 2020 and would therefore likely vacate the property at that time. Consequently, we recorded a non-cash impairment charge of $1,084 for the three and six months ended May 27, 2017 to write off the value of the building. The carrying value of the building at November 26, 2016 of $1,108 was included in other long-term assets in our condensed consolidated balance sheet.

11. Commitments and Contingencies

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

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. Our real estate lease terms range from one to 15 years and generally have renewal options of between five and 15 years. Some store leases contain contingent rental provisions based upon sales volume. Our transportation equipment leases have terms ranging from two to seven years with fixed monthly rental payments plus variable charges based upon mileage. The following schedule shows future minimum lease payments under non-cancellable operating leases with terms in excess of one year as of May 27, 2017:

	Retail Stores	Distribution Centers	Transportation Equipment	Total
Remainder of fiscal 2017	$ 10,663	$ 2,377	$ 1,685	$ 14,725
Fiscal 2018	21,148	3,379	2,325	26,852
Fiscal 2019	19,600	2,375	1,958	23,933
Fiscal 2020	18,280	1,601	1,781	21,662
Fiscal 2021	15,986	1,349	1,169	18,504
Fiscal 2022	13,343	1,743	963	16,049
Thereafter	37,558	1,320	254	39,132
Total future minimum lease payments	$ 136,578	$ 14,144	$ 10,135	$ 160,857

(Dollars in thousands except share and per share data)

We also have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of $1,379 and $1,868 at May 27, 2017 and November 26, 2016, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at May 27, 2017 and November 26, 2016 was not material.

12. Earnings Per Share

The following reconciles basic and diluted earnings per share:

	Net Income	Weighted Average Shares	Net Income Per Share
For the quarter ended May 27, 2017:			
Basic earnings per share	$ 5,842	10,648,033	$ 0.55
Add effect of dilutive securities:			
Options and restricted shares	-	74,293	(0.01)
Diluted earnings per share	$ 5,842	10,722,326	$ 0.54
For the quarter ended May 28, 2016:			
Basic earnings per share	$ 3,385	10,767,082	$ 0.31
Add effect of dilutive securities:			
Options and restricted shares	-	145,609	-
Diluted earnings per share	$ 3,385	10,912,691	$ 0.31
For the six months ended May 27, 2017:			
Basic earnings per share	$ 8,703	10,630,836	$ 0.82
Add effect of dilutive securities:			
Options and restricted shares	-	88,009	(0.01)
Diluted earnings per share	$ 8,703	10,718,845	$ 0.81
For the six months ended May 28, 2016:			
Basic earnings per share	$ 6,619	10,773,656	$ 0.61
Add effect of dilutive securities:			
Options and restricted shares	-	142,584	-
Diluted earnings per share	$ 6,619	10,916,240	$ 0.61

(Dollars in thousands except share and per share data)

For the three and six months ended May 27, 2017 and May 28, 2016, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

Anti-dilutive shares:

	Quarter Ended		Six Months Ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Unvested shares	-	5,814	6,538	7,814

13. Segment Information

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

- **Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our condensed consolidated statements of income.

- **Retail – Company-owned stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities and capital expenditures directly related to these stores.

- **Logistical services.** Our logistical services operating segment reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistical services revenue in our condensed consolidated statement of income. Zenith’s total operating costs, including those associated with providing logistical services to the Company as well as to third-party customers, are included in selling, general and administrative expenses and were $23,828 and $46,388 for the three and six months ended May 27, 2017, and $23,149 and $47,084 for the three and six months ended May 28, 2016, respectively.

Inter-company net sales elimination represents the elimination of wholesale sales to our Company-owned stores and the elimination of Zenith logistics revenue from our wholesale and retail segments. Inter-company income elimination includes the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is delivered to the retail consumer. The inter-company income elimination also includes rent paid by our retail stores occupying Company-owned real estate, and the elimination of shipping and handling charges from Zenith for services provided to our wholesale and retail operations.

(Dollars in thousands except share and per share data)

The following table presents our segment information:

	Quarter Ended		Six Months Ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Sales Revenue				
Wholesale	$ 62,293	$ 59,906	$ 124,268	$ 119,482
Retail - Company-owned stores	67,144	61,943	128,737	123,538
Logistical services	24,626	23,810	46,960	48,489
Inter-company eliminations:				
Furniture and accessories	(29,143)	(28,859)	(59,013)	(57,628)
Logistical services	(10,795)	(10,133)	(20,935)	(20,341)
Consolidated	$ 114,125	$ 106,667	$ 220,017	$ 213,540
Income from Operations				
Wholesale	$ 4,783	$ 4,334	$ 10,676	$ 8,732
Retail - Company-owned stores	1,367	381	24	697
Logistical services	798	661	572	1,405
Inter-company elimination	652	477	992	810
Consolidated	$ 7,600	$ 5,853	$ 12,264	$ 11,644
Depreciation and Amortization				
Wholesale	$ 664	$ 459	$ 1,308	$ 915
Retail - Company-owned stores	1,496	1,529	2,968	3,060
Logistical services	1,195	806	2,430	1,636
Consolidated	$ 3,355	$ 2,794	$ 6,706	$ 5,611
Capital Expenditures				
Wholesale	$ 2,218	$ 1,454	$ 3,845	$ 2,991
Retail - Company-owned stores	1,211	959	4,914	2,980
Logistical services	133	3,135	413	8,145
Consolidated	$ 3,562	$ 5,548	$ 9,172	$ 14,116

Identifiable Assets	As of May 27, 2017	As of November 26, 2016
Wholesale	$ 135,098	$ 139,477
Retail - Company-owned stores	91,238	88,855
Logistical services	50,760	49,935
Consolidated	$ 277,096	$ 278,267

14. Recent Accounting Pronouncements

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

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

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

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

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

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 provides a screen to determine when an integrated set of assets and activities (collectively referred to as a “set”) does not constitute a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in ASU 2017-01 (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The amendments in ASU 2017-01 shall apply prospectively and will become effective for as at the beginning of our 2019 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in ASU 2017-04 will become effective for us as of the beginning of our 2021 fiscal year. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under existing GAAP, an entity is required to present all components of net periodic pension cost and net periodic postretirement benefit cost aggregated as a net amount in the income statement, and this net amount may be capitalized as part of an asset where appropriate. The amendments in ASU 2017-07 require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period, and requires the other components of net periodic pension cost and net periodic postretirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable. The amendments in ASU 2017-07 shall be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic pension cost and net periodic postretirement benefit in assets. Early adoption is permitted, and we have elected to adopt the amendments in ASU 2017-07 effective as of the beginning of our 2017 fiscal year. The adoption of this guidance did not have a material impact upon our financial condition or results of operations.

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. ASU 2017-09 was issued to provide clarity and reduce both (1) diversity in practice and (2) cost and complexity when applying the guidance in Topic 718, *Compensation—Stock Compensation*, to a change to the terms or conditions of a share-based payment award. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Essentially, an entity will not have to account for the effects of a modification if: (1) The fair value of the modified award is the same immediately before and after the modification; (2) the vesting conditions of the modified award are the same immediately before and after the modification; and (3) the classification of the modified award as either an equity instrument or liability instrument is the same immediately before and after the modification. The amendments in ASU 2017-09 will become effective for us as of the beginning of our 2019 fiscal year. Early adoption is permitted, including adoption in any interim period. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

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

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 115-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 91 BHF stores at May 27, 2017, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 25 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

The BHF stores feature custom order furniture ready for delivery in less than 30 days, free in-home design visits ("home makeovers"), and coordinated decorating accessories. Our philosophy is based on building strong long-term relationships with each customer. Sales people are referred to as "Design Consultants" and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. Until a rigorous training and design certification program is completed, Design Consultants are not authorized to perform in-home design services for our customers.

We have factories in Newton, North Carolina and Grand Prairie, Texas that manufacture upholstered furniture, a factory in Martinsville, Virginia that primarily assembles and finishes our custom casual dining offerings and a factory in Bassett, Virginia that assembles and finishes our "Bench Made" line of furniture. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its process, with custom pieces often manufactured within two weeks of taking the order in our stores. Our logistics team then promptly ships the product to one of our home delivery hubs or to a location specified by our licensees in a timeframe to meet the 30 day promise. In addition to the furniture that we manufacture domestically, we source most of our formal bedroom and dining room furniture and certain upholstery offerings from several foreign plants, primarily in Vietnam and China. Over 70% of the products we currently sell are manufactured or assembled and finished in the United States.

We also own Zenith Freight Lines, LLC ("Zenith") which provides logistical services to both the wholesale and retail operations at Bassett along with other furniture manufacturers and retailers. Zenith delivers best-of-class shipping and logistical support services that are uniquely tailored to the needs of Bassett and the furniture industry, as well as the ability to provide the expedited delivery service which is increasingly demanded by our industry. Zenith operates seven regional freight hubs and 12 home delivery centers in 13 states. Approximately 55% of Zenith's revenue is generated from services provided to non-Bassett customers.

At May 27, 2017, our BHF store network included 62 Company-owned stores and 29 licensee-owned stores. During the first half of fiscal 2017, we opened new stores in Garden City, New York; Culver City, California and King of Prussia, Pennsylvania, and completed the repositioning of our store in Scottsdale, Arizona. In addition, we acquired a store in Columbus, Ohio from a former licensee. We also closed an underperforming store in Danbury, Connecticut and a licensee closed a store in Toronto, Canada.

(Dollars in thousands except share and per share data)

We continue to execute our strategy of growing the Company through opening new stores, repositioning stores to improved locations within a market and closing underperforming stores. The following table shows planned store activity where leases have been executed:

Location	Type	Size Sq. Ft.	Planned Opening
New Stores:			
Kansas City, KS	Licensed	13,000	Q3 2017
Pittsburgh, PA	Corporate	12,600	Q4 2017
Chandler, AZ	Corporate	8,800	Q4 2017
Wichita, KS	Corporate	10,000	Q4 2017/Q1 2018
El Paso, TX	Corporate	8,400	Q1 2018
Oklahoma City, OK	Corporate	9,700	Q1 2018
Frisco, TX	Corporate	15,000	Q4 2018
Repositioning:			
Las Vegas to Summerlin, NV	Corporate	15,500	Q4 2017/Q1 2018

In addition, lease negotiations are underway for both Company-owned and Licensee-owned new store locations that would result in additional openings during 2018. With a track record of six consecutive years of positive same store sales growth and our focus on store productivity, we believe that we can take our concept to new markets and consistently grow overall store count in the years to come. We also plan to close three other stores by the end of the first quarter of 2018 after the lease term expires. We are in active negotiations to obtain improved real estate in one of those markets.

As with any retail operation, prior to opening a new store we incur such expenses as rent, training costs and other payroll related costs. These costs generally range between $200 to $400 per store depending on the overall rent costs for the location and the period between the time when we take physical possession of the store space and the time of the store opening. Generally, rent payments during a buildout period between delivery of possession and opening of a new store are deferred and therefore straight line rent expense recognized during that time does not require cash. Inherent in our retail business model, we also incur losses in the two to three months of operation following a new store opening. Like other furniture retailers, we do not recognize a sale until the furniture is delivered to our customer. Because our retail business model does not involve maintaining a stock of retail inventory that would result in quick delivery and because of the custom nature of many of our furniture offerings, delivery to our customers usually occurs about 30 days after an order is placed. We generally require a deposit at the time of order and collect the remaining balance when the furniture is delivered, at which time the sale is recognized. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from $400 to $600 per store. While our retail expansion is initially costly, we believe our site selection and new store presentation will generally result in locations that operate at or above a retail break-even level within a reasonable period of time following store opening. Factors affecting the length of time required to achieve this goal on a store-by-store basis may include the level of brand recognition, the degree of local competition and the depth of penetration in a particular market. Even as new stores ramp up to break-even, we do realize additional wholesale sales volume that leverages the fixed costs in our wholesale business. Because of the increased store openings in 2017, we expect to incur approximately $2,000 of additional new store pre-opening costs and post-opening losses in 2017 as compared to 2016.

(Dollars in thousands except share and per share data)

Results of Operations – Periods ended May 27, 2017 compared with periods ended May 28, 2016:

Net sales of furniture and accessories, logistics revenue, cost of furniture and accessories sold, selling, general and administrative (SG&A) expense, other charges and income from operations were as follows for the three and six months ended May 27, 2017 and May 28, 2016:

	Quarter Ended				Six Months Ended			
	May 27, 2017		May 28, 2016		May 27, 2017		May 28, 2016	
Sales revenue:								
Furniture and accessories	$ 100,294	87.9%	$ 92,990	87.2%	$ 193,992	88.2%	$ 185,392	86.8%
Logistics revenue	13,831	12.1%	13,677	12.8%	26,025	11.8%	28,148	13.2%
Total sales revenue	114,125	100.0%	106,667	100.0%	220,017	100.0%	213,540	100.0%
Cost of furniture and accessories sold	44,981	39.4%	42,419	39.8%	86,879	39.5%	84,405	39.5%
SG&A expenses	61,075	53.5%	58,088	54.5%	119,599	54.4%	117,045	54.8%
New store pre-opening costs	469	0.4%	307	0.3%	1,275	0.5%	446	0.2%
Income from operations	$ 7,600	6.7%	$ 5,853	5.5%	$ 12,264	5.7%	$ 11,644	5.5%

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for the three and six months ended May 27, 2017 as compared with the prior year periods.

(Dollars in thousands except share and per share data)

Segment Information

We have strategically aligned our business into three reportable segments as described below:

Wholesale. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores. We eliminate the sales between our wholesale and retail segments as well as the imbedded profit in the retail inventory for the consolidated presentation in our financial statements. Also included in our wholesale segment are our short-term investments and our holdings of retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our condensed consolidated statements of income.

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

Logistical services. Our logistical services operating segment reflects the operations of Zenith. In addition to providing shipping, delivery and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistical services revenue in our condensed consolidated statement of income. Zenith's operating costs are included in selling, general and administrative expenses.

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

	Quarter Ended May 27, 2017				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	$ 62,293	$ 67,144	$ -	$ (29,143) (1)	$ 100,294
Logistics	-	-	24,626	(10,795) (2)	13,831
Total sales revenue	62,293	67,144	24,626	(39,938)	114,125
Cost of furniture and accessories sold	41,222	33,072	-	(29,313) (3)	44,981
SG&A expense	16,288	32,236	23,828	(11,277) (4)	61,075
New store pre-opening costs	-	469	-	-	469
Income from operations	$ 4,783	$ 1,367	$ 798	$ 652	$ 7,600

	Quarter Ended May 28, 2016				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	$ 59,906	$ 61,943	$ -	$ (28,859) (1)	$ 92,990
Logistics	-	-	23,810	(10,133) (2)	13,677
Total sales revenue	59,906	61,943	23,810	(38,992)	106,667
Cost of furniture and accessories sold	39,636	31,641	-	(28,858) (3)	42,419
SG&A expense	15,936	29,614	23,149	(10,611) (4)	58,088
New store pre-opening costs	-	307	-	-	307
Income from operations	$ 4,334	$ 381	$ 661	$ 477	$ 5,853

(Dollars in thousands except share and per share data)

	Six Months Ended May 27, 2017				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	$ 124,268	$ 128,737	$ -	$ (59,013) (1)	$ 193,992
Logistics	-	-	46,960	(20,935) (2)	26,025
Total sales revenue	124,268	128,737	46,960	(79,948)	220,017
Cost of furniture and accessories sold	81,392	64,531	-	(59,044) (3)	86,879
SG&A expense	32,200	62,907	46,388	(21,896) (4)	119,599
New store pre-opening costs	-	1,275	-	-	1,275
Income from operations	$ 10,676	$ 24	$ 572	$ 992	$ 12,264

	Six Months Ended May 28, 2016				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	$ 119,482	$ 123,538	$ -	$ (57,628) (1)	$ 185,392
Logistics	-	-	48,489	(20,341) (2)	28,148
Total sales revenue	119,482	123,538	48,489	(77,969)	213,540
Cost of furniture and accessories sold	78,934	62,956	-	(57,485) (3)	84,405
SG&A expense	31,816	59,439	47,084	(21,294) (4)	117,045
New store pre-opening costs	-	446	-	-	446
Income from operations	$ 8,732	$ 697	$ 1,405	$ 810	$ 11,644

(1) Represents the elimination of sales from our wholesale segment to our Company-owned BHF stores.
(2) Represents the elimination of logistical services billed to our wholesale and retail segments.
(3) Represents the elimination of purchases by our Company-owned BHF stores from our wholesale segment, as well as the change for the period in the elimination of intercompany profit in ending retail inventory.
(4) Represents the elimination of rent paid by our retail stores occupying Company-owned real estate, and the elimination of logisitcal services charged by Zenith to Bassett's retail and wholesale segments as follows:

	Quarter Ended		Six Months Ended	
	May 27, 2017	May 28, 2016	May 27, 2017	May 28, 2016
Intercompany logistical services	$ (10,795)	$ (10,133)	$ (20,935)	$ (20,341)
Intercompany rents	(482)	(478)	(961)	(953)
Total SG&A expense elimination	$ (11,277)	$ (10,611)	$ (21,896)	$ (21,294)

(Dollars in thousands except share and per share data)

Wholesale segment

Results for the wholesale segment for the three and six months ended May 27, 2017 and May 28, 2016 are as follows:

	Quarter Ended				Six Months Ended			
	May 27, 2017		May 28, 2016		May 27, 2017		May 28, 2016	
Net sales	$ 62,293	100.0%	$ 59,906	100.0%	$ 124,268	100.0%	$ 119,482	100.0%
Gross profit	21,071	33.8%	20,270	33.8%	42,876	34.5%	40,548	33.9%
SG&A expenses	16,288	26.1%	15,936	26.6%	32,200	25.9%	31,816	26.6%
Income from operations	$ 4,783	7.7%	$ 4,334	7.2%	$ 10,676	8.6%	$ 8,732	7.3%

Quarterly Analysis of Results - Wholesale

Net sales for the wholesale segment were $62,293 for the second quarter of 2017 as compared to $59,906 for the second quarter of 2016, an increase of $2,387 or 4.0%. This sales increase was driven by a 3.5% increase in shipments to the BHF store network along with a 6.3% increase in shipments to the open market (outside the BHF store network) as compared to the prior year period. Gross margins for the wholesale segment were 33.8% for the second quarter of 2017, unchanged from the prior year period as margin increases in the Upholstery operations were offset by margin decreases in the Wood operations. SG&A as a percentage of sales decreased to 26.1% as compared to 26.6% for the second quarter of 2016. This decrease in SG&A as a percentage of sales was primarily due to greater leverage of fixed costs from higher sales volumes. Operating income was $4,783 or 7.7% of sales as compared to $4,334 or 7.2% of sales in the prior year quarter.

Year-to-date Analysis of Results – Wholesale

Net sales for the wholesale segment were $124,268 for the first half of 2017 as compared to $119,482 for the first half of 2016, an increase of $4,786 or 4.0%. This sales increase was driven by a 5.1% increase in shipments to the BHF store network along with a 1.5% increase in shipments to the open market (outside the BHF store network) as compared to the prior year period. Gross margins for the wholesale segment were 34.5% for the first half of 2017 as compared to 33.9% for the first half of 2016. This increase was due primarily to improved margins in the domestic upholstery operations from favorable pricing strategies and higher margins in the imported wood product as we had lower levels of discounted sales along with higher margins on those sales as compared to the prior year period. SG&A as a percentage of sales decreased to 25.9% as compared to 26.6% for the first half of 2016. This decrease in SG&A as a percentage of sales was primarily due to greater leverage of fixed costs from higher sales volumes. Operating income was $10,676 or 8.6% of sales as compared to $8,732 or 7.3% of sales in the prior year period.

Wholesale shipments by type:	Quarter Ended				Six Months Ended			
	May 27, 2017		May 28, 2016		May 27, 2017		May 28, 2016	
Wood	$ 20,521	32.9%	$ 22,210	37.1%	$ 42,666	34.3%	$ 44,442	37.2%
Upholstery	40,861	65.6%	36,806	61.4%	79,903	64.3%	73,568	61.6%
Other	911	1.5%	890	1.5%	1,699	1.4%	1,472	1.2%
Total	$ 62,293	100.0%	$ 59,906	100.0%	$ 124,268	100.0%	$ 119,482	100.0%

Wholesale Backlog

The dollar value of wholesale backlog, representing orders received but not yet shipped to dealers and Company stores, was $16,095 at May 27, 2017 as compared with $10,094 at May 28, 2016.

(Dollars in thousands except share and per share data)

Retail – Company-owned stores segment

Results for the retail segment for the three and six months ended May 27, 2017 and May 28, 2016 are as follows:

	Quarter Ended				Six Months Ended			
	May 27, 2017		May 28, 2016		May 27, 2017		May 28, 2016	
Net sales	$ 67,144	100.0%	$ 61,943	100.0%	$ 128,737	100.0%	$ 123,538	100.0%
Gross profit	34,072	50.7%	30,302	48.9%	64,206	49.9%	60,582	49.0%
SG&A expenses	32,236	48.0%	29,614	47.8%	62,907	48.9%	59,439	48.1%
New store pre-opening costs	469	0.7%	307	0.5%	1,275	1.0%	446	0.4%
Income from operations	$ 1,367	2.0%	$ 381	0.6%	$ 24	0.0%	$ 697	0.6%

Results for comparable stores† (56 stores for the quarter) are as follows:

	Quarter Ended				Six Months Ended			
	May 27, 2017		May 28, 2016		May 27, 2017		May 28, 2016	
Net sales	$ 63,229	100.0%	$ 59,502	100.0%	$ 122,057	100.0%	$ 117,747	100.0%
Gross profit	32,015	50.6%	29,470	49.5%	60,963	49.9%	58,522	49.7%
SG&A expenses	29,334	46.4%	28,216	47.4%	58,514	47.9%	56,221	47.7%
Income from operations	$ 2,681	4.2%	$ 1,254	2.1%	$ 2,449	2.0%	$ 2,301	2.0%

† "Comparable" stores include those locations that have been open and operated by the Company for all of each respective comparable period.

Results for all other stores are as follows:

	Quarter Ended				Six Months Ended			
	May 27, 2017		May 28, 2016		May 27, 2017		May 28, 2016	
Net sales	$ 3,915	100.0%	$ 2,441	100.0%	$ 6,680	100.0%	$ 5,791	100.0%
Gross profit	2,057	52.5%	832	34.1%	3,243	48.5%	2,060	35.6%
SG&A expenses	2,902	74.1%	1,398	57.3%	4,393	65.8%	3,218	55.6%
New store pre-opening costs	469	12.0%	307	12.6%	1,275	19.1%	446	7.7%
Loss from operations	$ (1,314)	-33.6%	$ (873)	-35.8%	$ (2,425)	-36.3%	$ (1,604)	-27.7%

Quarterly Analysis of Results - Retail

Net sales for the 62 Company-owned BHF stores were $67,144 for the second quarter of 2017 as compared to $61,943 for the second quarter of 2016. Comparable store sales increased $3,727 or 6.3% along with a $1,474 increase in non-comparable store sales.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 4.2% for the second quarter of 2017 as compared to the second quarter of 2016.

The consolidated retail operating income for the second quarter of 2017 was $1,367 as compared to $381 for the second quarter of 2016. The 56 comparable stores generated operating income of $2,681 for the quarter, or 4.2% of sales, as compared to operating income of $1,254, or 2.1% of sales, for the prior year quarter. Gross margins for comparable stores were 50.6% for the second quarter of 2017 compared to 49.5% for the second quarter of 2016. This increase is primarily due to a shift in the product introduction cycle as a significant product rollout occurred in the first quarter of 2017 as compared to the second quarter of 2016. Clearance activity is higher in the quarter when a product introduction occurs. SG&A expenses for comparable stores increased $1,118 to $29,334 or 46.4% of sales as compared to 47.4% of sales for the second quarter of 2016. This decrease in SG&A as a percentage of sales was primarily due to greater leverage of fixed costs due to higher sales volumes.

Losses from the non-comparable stores in the second quarter of fiscal 2017 were $1,314 compared with $873 for the second quarter of fiscal 2016, an increase of $441. The loss during the second quarter of 2017 included $469 of pre-opening costs recognized in the quarter primarily associated with the King of Prussia, Pennsylvania and Culver City, California stores which opened during the second quarter of 2017. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between $200 to $400 per store based on the overall rent costs for the location and the period between the time when the Company takes possession of the physical store space and the time of the store opening.

We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to $400 to $600 per store. During the second quarter of 2017 we incurred $730 of post-opening losses associated with the two new stores which opened during the quarter along with the Garden City, New York store which opened near the end of February 2017. There were no post-opening losses during the second quarter of 2016.

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

Year-to-date Analysis of Results – Retail

Net sales for the 62 Company-owned BHF stores were $128,737 for the first half of 2017 as compared to $123,538 for the first half of 2016. Comparable store sales increased $4,310 or 3.7% along with an $889 increase in non-comparable store sales.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 4.0% for the first half of 2017 as compared to the first half of 2016.

The consolidated retail operating income for the first half of 2017 was $24 as compared to operating income of $697 for the first half of 2016. The 56 comparable stores generated operating income of $2,449 for the first half of 2017, or 2.0% of sales, as compared to operating income of $2,301, or 2.0% of sales, for the prior year period. Gross margins for comparable stores were 49.9% for the first half of 2017 compared to 49.7% for the first half of 2016. SG&A expenses for comparable stores increased $2,293 to $58,514 or 47.9% of sales as compared to 47.7% of sales for the first half of 2016.

Losses from the non-comparable stores in the first half of fiscal 2017 were $2,425 compared with $1,604 for the first half of fiscal 2016, an increase of $821. The loss during the first half of 2017 included $1,275 of pre-opening costs recognized in the period associated with the Garden City, New York store which opened in February 2017, a new store in Culver City, California which opened in March 2017 and a third new store in King of Prussia, Pennsylvania which opened in April 2017. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between $200 to $400 per store based on the overall rent costs for the location and the period between the time when the Company takes possession of the physical store space and the time of the store opening.

We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to $400 to $600 per store. During the first half of 2017 we incurred $730 of post-opening losses associated with the three new stores which opened during the period. There were no post-opening losses during the first half of 2016.

(Dollars in thousands except share and per share data)

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

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers, was $30,065, or an average of $485 per open store at May 27, 2017 as compared with a retail backlog of $26,471, or an average of $456 per open store at May 28, 2016.

Logistical services segment

Results for our logistical services segment for the three and six months ended May 27, 2017 and May 28, 2016 are as follows:

	Quarter Ended				Six Months Ended			
	May 27, 2017		May 28, 2016		May 27, 2017		May 28, 2016	
Logistical services revenue	$ 24,626	100.0%	$ 23,810	100.0%	$ 46,960	100.0%	$ 48,489	100.0%
Operating expenses	23,828	96.8%	23,149	97.2%	46,388	98.8%	47,084	97.1%
Income from operations	$ 798	3.2%	$ 661	2.8%	$ 572	1.2%	$ 1,405	2.9%

Quarterly Analysis of Operations – Logistical Services

Logistical services revenue was $24,626 for the second quarter of 2017 compared with $23,810 for the second quarter of 2016, an increase of $816 or 3.4%. Increases in home delivery revenues were partially offset by decreases in freight and warehousing revenues. Revenues from both Bassett and non-Bassett customers were higher quarter over quarter. Operating expenses for the second quarter of 2017 were $23,828 compared with $23,149 for the second quarter of 2016, an increase of $679 or 2.9%. Higher fuel costs, increased fixed costs associated with the expansion and modernization of the transportation fleet over the course of 2016 and higher other fleet costs were partially offset by lower purchased third-party freight and decreased personnel costs. Operating costs for the quarters ended May 27, 2017 and May 28, 2016 include non-cash depreciation and amortization charges of $1,195 and $806, respectively. Zenith generated operating income for the second quarter of fiscal 2017 of $798 or 3.2% of revenue as compared to $661 or 2.8% of revenue for the prior year quarter.

Year-to-date Analysis of Operations – Logistical Services

Logistical services revenue was $46,960 for the first half of 2017 compared with $48,489 for the first half of 2016, a decrease of $1,529 or 3.2%. Decreases in freight and warehouse revenues were partially offset by increases in home delivery revenues. In addition, revenue declines attributable to Bassett and to one significant non-Bassett customer were partially offset by increases in revenue from other customers. Operating expenses for the first half of 2017 were $46,388 compared with $47,084 for the first half of 2016, a decrease of $696 or 1.5% as a decline in purchased third-party freight was partially offset by higher fuel costs and increased fixed costs associated with the expansion and modernization of the transportation equipment fleet over the course of fiscal 2016. Operating costs for the six months ended May 27, 2017 and May 28, 2016 include non-cash depreciation and amortization charges of $2,430 and $1,636, respectively. Zenith generated operating income for the first half of fiscal 2017 of $572 or 1.2% of revenue as compared to $1,405 or 2.9% of revenue for the prior year period.

Other items affecting Net Income

Gain on Sale of Investment

In 1985, we acquired a minority interest in a privately-held, start-up provider of property and casualty insurance for $325. In April of 2017 we sold our interest for $3,592 in cash, resulting in a gain of $3,267 recognized for the three and six months ended May 27, 2017.

Impairment of Investment in Real Estate

We own a building in Chesterfield County, Virginia that was formerly leased to a licensee for the operation of a BHF store. The building is subject to a ground lease that expires in 2020, but which has additional renewal options. Since 2012, we have leased the building to another party who is, as of recently, paying less than the full amount of the lease obligation, resulting in rental income insufficient to cover our ground lease obligation. Efforts to sell our interest in the building have been unsuccessful so far. We have also concluded that absent a significant cash investment in the building the likelihood of locating another tenant for the building at a rent that would provide positive cash flow in excess of the ground lease expense is remote. In addition, we obtained an appraisal during the quarter ended May 27, 2017 which indicated that the value of the building had significantly decreased and was now minimal. Given these circumstances, we concluded in the current quarter that we are unlikely to renew the ground lease in 2020 and would therefore likely vacate the property at that time. Consequently, we recorded a non-cash impairment charge of $1,084 for the three and six months ended May 27, 2017 to write off the value of the building. The carrying value of the building at November 26, 2016 of $1,108 was included in other long-term assets in our condensed consolidated balance sheet.

Other loss, net

Other loss, net, for the quarter ended May 27, 2017 was $678 as compared to $600 for the quarter ended May 28, 2016, an increase of $78. This increase is primarily attributable to a $76 gain included in the second quarter of 2016 arising from the partial liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired in fiscal 2012.

Other loss, net, for the six months ended May 27, 2017 was $1,411 as compared to $1,257 for the six months ended May 28, 2016, an increase of $154. This increase is primarily attributable to a $137 gain included in the first half of 2016 arising from the partial liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired in fiscal 2012.

Income taxes

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rates of 35.8% and 33.2% for the three and six months ended May 27, 2017, respectively, and 35.6% and 36.3% for the three and six months May 28, 2016, respectively, differ from the federal statutory rate primarily due to the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation and the Section 199: Domestic Production Activities Deduction. During the six months ended May 27, 2017 and May 28, 2016, our income tax provision includes excess tax benefits on stock-based compensation in the amount of $327 and $41, respectively.

Liquidity and Capital Resources

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

Cash Flows

Cash provided by operations for the first half of 2017 was $9,492 compared to cash provided by operations of $11,010 for the first half of 2016, representing a decrease of $1,518 in cash flows from operations. This decrease is primarily due to changes in working capital from increases in inventory and decreases in customer deposits.

Our overall cash position decreased by $5,346 during the first half of 2017. Offsetting cash provided by operations, we used $5,949 of cash in investing activities, primarily consisting of capital expenditures which included retail store relocations, retail store remodels, in-process spending on new stores, and expanding and upgrading our manufacturing capabilities. These expenditures were partially offset by $3,592 of proceeds from the sale of an investment. Net cash used in financing activities was $8,889, including dividend payments of $5,363 and the annual $3,000 installment payment on our Zenith acquisition note payable. With cash and cash equivalents and short-term investments totaling $52,923 on hand at May 27, 2017, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Debt and Other Obligations

Our credit facility with our bank provides for a line of credit of up to $15,000. This credit facility, which matures in December of 2018, is unsecured and contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future. At May 27, 2017, we had $1,972 outstanding under standby letters of credit against our line, leaving availability under our credit line of $13,028. In addition, we have outstanding standby letters of credit with another bank totaling $511.

At May 27, 2017 we have outstanding principal totaling $4,029, excluding discounts, under notes payable of which $3,398 matures within one year of the balance sheet date. See Note 8 to our condensed consolidated financial statements for additional details regarding these notes, including collateral and future maturities. We expect to satisfy these obligations as they mature using cash flow from operations or our available cash on hand.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. We had obligations of $160,857 at May 27, 2017 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terms under these lease guarantees range from approximately one to five years. We were contingently liable under licensee lease obligation guarantees in the amount of $1,379 at May 27, 2017. See Note 11 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.

Investment in Retail Real Estate

We have a substantial investment in real estate acquired for use as retail locations. To the extent such real estate is occupied by Company-owned retail stores, it is included in property and equipment, net, in the accompanying condensed consolidated balance sheets and is considered part of our retail segment. The net book value of such retail real estate occupied by Company-owned stores was $26,087 at May 27, 2017. All other retail real estate that we own, consisting of locations formerly leased to our licensees and now leased to others, is included in other assets in the accompanying condensed consolidated balance sheets. The net book value of such real estate, which is considered part of our wholesale segment, was $1,809 at May 27, 2017.

(Dollars in thousands except share and per share data)

The following table summarizes our total investment in retail real estate owned at May 27, 2017:

	Number of Locations	Aggregate Square Footage	Net Book Value
Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1)	11	276,887	$ 26,087
Investment real estate leased to others, included in other assets	2	41,021	1,809
Total Company investment in retail real estate	13	317,908	$ 27,896

(1) Includes two properties encumbered under mortgages totalling $1,029 at May 27, 2017.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, included in our Annual Report on Form 10-K for the fiscal year ended November 26, 2016.

Off-Balance Sheet Arrangements

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of both Company-owned and licensee stores as well as land and buildings used in our logistical services segment. We also lease transportation equipment used in our logistical services segment. We have guaranteed certain lease obligations of licensee operators of the stores, as part of our retail expansion strategy. See Note 11 to our condensed consolidated financial statements for further discussion of operating leases and lease guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

Contingencies

We are involved in various legal and environmental matters, which arise in the normal course of business. Although the final outcome of these matters cannot be determined, based on the facts presently known, it is our opinion that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations. See Note 11 to our condensed consolidated financial statements for further information regarding certain contingencies as of May 27, 2017.

Item 3. Quantitative and Qualitative Disclosure about Market Risk:

We are exposed to market risk from changes in the value of foreign currencies. Substantially all of our imports purchased outside of North America are denominated in U.S. dollars. Therefore, we believe that gains or losses resulting from changes in the value of foreign currencies relating to foreign purchases not denominated in U.S. dollars would not be material to our results from operations in fiscal 2017.

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

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

We have potential exposure to market risk related to conditions in the commercial real estate market. Our retail real estate holdings of $1,809 at May 27, 2017 for stores formerly operated by licensees as well as our holdings of $26,087 at May 27, 2017 for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties during periods of weakness in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of $1,379 which we have guaranteed on behalf of licensees as of May 27, 2017, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

Item 4. Controls and Procedures:

The Company’s principal executive officer and principal accounting officer have evaluated the Company’s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon their evaluation, the principal executive officer and principal accounting officer concluded that the Company’s disclosure controls and procedures are effective at a reasonable assurance level. There has been no change in the Company’s internal control over financial reporting during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Safe-harbor, forward-looking statements:

The discussion in items 2 and 3 above contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and subsidiaries. Such forward-looking statements are identified by use of forward-looking words such as *"anticipates"*, *"believes"*, *"plans"*, *"estimates"*, *"expects"*, *"aims"* and *"intends"* or words or phrases of similar expression. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements are listed in our Annual Report on Form 10-K for fiscal 2016 and include:

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

PART II - OTHER INFORMATION
BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES
MAY 27, 2017
(Dollars in thousands except share and per share data)

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table summarizes the stock repurchase activity for the three months ended May 27, 2017 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

	Total Shares Purchased	Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
February 26 - April 1, 2017	800	$ 25.05	800	$ 11,489
April 2 - April 29, 2017	-	$ -	-	$ 11,489
April 30 - May 27, 2017	1,300	$ 27.96	1,300	$ 11,453

(1) The Company is authorized to repurchase Company stock under a plan which was originally announced in 1998. On October 9, 2014, the Board of Directors increased the remaining limit of the repurchase plan to $20,000. At May 27, 2017, $11,453 remains available for stock repurchases under the plan.

Item 3. Defaults Upon Senior Securities

None.

Item 6. Exhibits

a. Exhibits:

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

Exhibit 3b – By-laws as amended to date are incorporated herein by reference to Exhibit 3 to Form 8-K filed with the SEC on January 17, 2017.

Exhibit 4 – Registrant hereby agrees to furnish the SEC, upon request, other instruments defining the rights of holders of long-term debt of the Registrant.

*Exhibit 10a – Bassett Furniture Industries, Incorporated Management Savings Plan incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on May 5, 2017.

*Exhibit 10b – Form of Long Term Cash Award under Bassett Furniture Industries, Incorporated Management Savings Plan incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on May 5, 2017.

Exhibit 31a – Chief Executive Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31b – Chief Financial Officer's certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32a – Chief Executive Officer's certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32b – Chief Financial Officer’s certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 101 – The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended May 27, 2017 formatted in Extensible Business Reporting Language (“XBRL”): (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and retained earnings, (iii) condensed consolidated statements of cash flows, and (iv) the notes to the condensed consolidated financial statements, tagged as blocks of text.

Exhibit 101.INS XBRL Instance

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation

Exhibit 101.DEF XBRL Taxonomy Extension Definition

Exhibit 101.LAB XBRL Taxonomy Extension Labels

Exhibit 101.PRE XBRL Taxonomy Extension Presentation

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

SIGNATURES

Pursuant to the requirements 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

/s/ ROBERT H. SPILMAN, JR.
Robert H. Spilman, Jr., Chairman and Chief Executive Officer
June 29, 2017

/s/ J. MICHAEL DANIEL
J. Michael Daniel, Senior Vice President and Chief Financial Officer
June 29, 2017

Exhibit 31a

CERTIFICATIONS

I, Robert H. Spilman, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bassett Furniture Industries, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 29, 2017

/s/ ROBERT H. SPILMAN, JR.
Robert H. Spilman, Jr.
Chairman and Chief Executive Officer

Exhibit 31b

CERTIFICATIONS

I, J. Michael Daniel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bassett Furniture Industries, Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

June 29, 2017

/s/ J. MICHAEL DANIEL

J. Michael Daniel
Senior Vice President and Chief Financial Officer

Exhibit 32a

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Bassett Furniture Industries, Incorporated (the “Company”) on Form 10-Q for the period ending May 27, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Robert H. Spilman, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 29, 2017

/s/ ROBERT H. SPILMAN, JR
Robert H. Spilman, Jr.
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Bassett Furniture Industries, Incorporated and will be retained by Bassett Furniture Industries, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32b

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-Q for the period ending May 27, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Michael Daniel, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

June 29, 2017

/s/ J. MICHAEL DANIEL
J. Michael Daniel
Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Bassett Furniture Industries, Incorporated and will be retained by Bassett Furniture Industries, Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.