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

FORM 10-K

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

For the fiscal year ended November 29, 2003

Commission File No. 0-209

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for at least the past 90 days. ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒ Yes ☐ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). ☒ Yes ☐ No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of May 31, 2003 was $159,529,439.

The number of shares of the Registrant's common stock outstanding on January 28, 2004 was 11,642,964.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 29, 2003 (the "Annual Report") are incorporated by reference into Parts I and II of this Form 10-K.

(2) Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2004 Annual Meeting of Stockholders to be held February 24, 2004, filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

General Development of Business

Bassett Furniture Industries Inc., (together with its consolidated subsidiaries, "Bassett" or the "Company") based in Bassett, Va., is a leading manufacturer, marketer, sourcer and retailer of branded home furnishings. Bassett's products, designed to provide quality, style and value, are sold through Bassett Furniture Direct™ stores, @t Home with Bassett® galleries, and other furniture and department stores. Bassett was founded in 1902 and incorporated under the laws of Virginia in 1930.

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

There have been two significant business developments that have materially affected the Company's operations over the last five years. First, the Company has created and re-channeled sales through a vertically integrated retail sales network. This strategy both builds on the Company's strengths (brand name, balance sheet, product offerings) and better positions the Company to capitalize on the changing furniture retail environment. Licensee stores, primarily independently owned, known as Bassett Furniture Direct (BFD), accounted for 53% of the Company's sales in 2003. Bassett's full range of furniture products and accessories are sold through an exclusive network of 101 BFD stores, of which 82 are independently owned, 13 are controlled and consolidated by the Company ("Bassett-owned retail stores") and six are operated by joint ventures ("partnership licensees"), as well as over 1,000 furniture and department stores located throughout the United States. Second, the Company has restructured production capacities and reduced costs to better align manufacturing capabilities with the Company's new selling strategies. As a result of these restructurings, the Company has reduced its number of facilities from 13 to 7 and reduced headcount from 4,700 to 2,400.

The Bassett Furniture Direct store program, which began in 1997, entailed not only the creation of a new prototype store, but also includes an internal, cultural transformation aimed at re-focusing company practices and strategies to the ultimate end user, the consumer. The strategy also focused on re-styling the Bassett lines and suites with accessories. Bassett Furniture Direct acts as both a furniture design center and a moderate price point leader – two characteristics that combined with custom product and quick delivery offer the Company a unique selling proposition in the furniture industry.

Other significant business developments that impacted the retail store program and manufacturing operations are summarized below.

In the fourth quarter of 2003, the Company acquired an additional 29% ownership in LRG Furniture, LLC, ("LRG") (an affiliate of the Company) bringing the Company's total ownership in LRG to 80%. As part of this transaction, the Company acquired two stores in Las Vegas, Nevada, from LRG for net book value of $1,200.

The Company closed the wood manufacturing plant in Dublin, Georgia, in the first quarter of 2003. The Company recorded a charge of $3,200 in the first quarter of 2003 representing a $1,500 write-down of property and equipment and $1,700 of severance and related employee benefit costs for 320 employees associated with the closure.

The Company closed its California upholstery plant during the fourth quarter of 2002 and consolidated production into two remaining upholstery manufacturing facilities in North Carolina. The Company incurred restructuring charges of $1,251, which relate entirely to severance and employee benefit costs for approximately 200 employees. In the fourth quarter of 2003, the Company sold this facility, yet deferred the gain from this sale until payment is received in 2004.

Effective March 4, 2002, the Company purchased five stores in North Carolina and Virginia from LRG an affiliate of the Company, for net book value (which approximated $0). Included in this transaction were inventories of $3,439, payables of $4,213 and notes payable to bank of $1,189.

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

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

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

During 1999, the Company sold substantially all of the assets of its Bedding Division to Premier Bedding Group LLC ("PBG"). The net assets sold, which totaled $8,400, were exchanged for $6,500 in cash and a $1,900 convertible note receivable.

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

Operating Segments

The Company's primary business is in wholesale home furnishings. The wholesale home furnishings business is involved principally in the manufacture, sale and distribution of furniture products to a network of independently owned stores and stores owned by the Company and by affiliates of the Company. The wholesale business consists primarily of three operating segments: wood, upholstery and import. Stores operated and controlled by the Company are included in the retail segment.

Refer to Note R of the Consolidated Financial Statements included in the Annual Report for more information about segment information for 2001, 2002 and 2003 and refer to the Management's Discussion and Analysis section of the Annual Report for additional discussion on this topic.

Description of Business

Bassett is a manufacturer, retailer and importer of quality home furnishings. Bassett's full range of furniture products and accessories are sold through an exclusive retail store network composed of 82 independently owned, thirteen owned and controlled by the Company ("Bassett-owned retail stores") and six operated by joint ventures ("partnership licensees") retail stores known as Bassett Furniture Direct ("BFD") and over 1,000 furniture and department stores located throughout the United States. The Company has eight domestic manufacturing facilities.

The wood segment is engaged in the manufacture and sale of wood furniture, including bedroom and dining suites and accent pieces, to independent and affiliated retailers. The wood segment accounted for 47%, 51%, and 57% of wholesale sales during 2003, 2002 and 2001, respectively. The Company currently has five wood manufacturing facilities. The upholstery segment is involved in the manufacture and sale of upholstered frames and cut upholstery items having a variety of frame and fabric options, including sofas, chairs, and love seats. The Company currently has two upholstery manufacturing facilities. The upholstery segment accounted for 34%, 33%, and 29% of wholesale sales during 2003, 2002 and 2001, respectively. The import segment sources product, principally from Asia, and sells this product to independent and affiliated retailers. The import segment accounted for 16%, 13%, and 11% of wholesale sales during 2003, 2002 and 2001, respectively. The retail segment operates 13 Bassett Furniture Direct stores in North Carolina, Nevada and Texas. The retail segment accounted for 16% and 5% of total net sales in 2003 and 2002.

The Company uses lumber, fabric, leather and other materials in the production of wood and upholstered furniture. These components originate from a variety of domestic and international suppliers and are widely available. Prices for these components in aggregate have been relatively stable over the last several years. The Company currently assembles and finishes these imported components in several of its plants in the United States.

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

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

Sales to one customer (JCPenney) amounted to approximately 3%, 9%, and 15% of gross sales in 2003, 2002 and 2001, respectively. Additionally, sales to LRG were 10% and 7% of net sales in 2002 and 2001, respectively. The Company's backlog of orders believed to be firm was $19,000 at November 29, 2003, and $18,014 at November 30, 2002. It is expected that the November 29, 2003, backlog will be filled within the 2004 fiscal year.

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

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

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

The Company employed approximately 2,400 people as of November 29, 2003, none of whom were subject to collective bargaining arrangements. The Company has not experienced any recent work stoppages. The Company considers its relationship with its employees to be good.

The Company has several investments in affiliated companies, including a minority interest in International Home Furnishings Center, Inc. (IHFC) which is a lessor of permanent exhibition space to furniture and accessory manufacturers. The IHFC financial statements are included on pages F-1 to F-16. The Company owns a majority interest in LRG, which is a retailer of home furnishings. The Company consolidated LRG in 2003. See Notes G and H to the consolidated financial statements for discussion of affiliates.

The Alternative Asset Fund commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (General Partner) of the Alternative Asset Fund. The Company and General Partner are currently the only two partners. The objective of the Alternative Asset Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi- strategy and other market — neutral strategies. The General Partner has discretion to make all investment and trading decisions, including the selection of investment managers. The General Partner selects portfolio managers on the basis of various criteria, including, among other things, the manager's investment performance during various time periods and market cycles, the fund's infrastructure, and the manager's reputation, experience, training and investment philosophy. In addition, the General Partner requires that each portfolio manager have a substantial personal investment in the investment program. The Company's investment in the Alternative Asset Fund, which totaled $45,251 at November 29, 2003, includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk. See Note F to the consolidated financial statements for further discussion.

Foreign and Domestic Operations and Export Sales

The Company has no foreign operations, and its export sales were approximately $2.9 million, $2.9 million, and $3.2 million, in 2003, 2002, and 2001 respectively.

Available Information

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

ITEM 2. PROPERTIES

The Company owns the following manufacturing facilities, by segment:

Wood Segment:

J. D. Bassett Manufacturing Company *
Bassett, VA

Bassett Superior Lines
Bassett, VA

Bassett Chair Company *
Bassett, VA

Bassett Table Company *
Bassett, VA

Bassett Furniture Industries
Macon, GA

Bassett Furniture Industries
Martinsville, VA

Bassett Furniture Industries*
Dublin, GA

Bassett Furniture Industries
Mt. Airy, NC

Bassett Fiberboard
Bassett, VA

Upholstery Segment:

Bassett Upholstery Division
Newton, NC

Bassett Upholstery Division
Hiddenite, NC

Other:
Weiman Upholstery
Christiansburg, VA

Properties designated by a single asterisk "*" have ceased manufacturing operations and are currently either held for sale or are idle facilities in connection with restructuring efforts.

The Company owns the real estate used by certain Bassett Furniture Direct retail stores, ranging from 15,000 to 25,000 square feet each, in the following cities:

Greenville, SC
Concord, NC
Greensboro, NC
Fredericksburg, VA
Knoxville, TN
Gulfport, MS
Chesterfield, VA
Louisville, KY
Houston, TX

In addition, the Company owns leasehold improvements in Hickory, NC, Arlington, TX, Portland, OR, Redmond, WA, Atlanta, GA, Albuquerque, NM, and Virginia Beach, VA All of the properties noted above are operated as Bassett Furniture Direct stores.

The Company owns its general corporate office building, one warehouse, and an outlet store all located in Bassett, Virginia. The Company also owns leasehold improvements in its High Point, NC showroom.

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

The following facilities were disposed of during 2003:

Bassett Upholstery
Los Angeles, CA

The following facilities were sold or disposed of during 2001:

Showroom
Thomasville, NC

Bassett Upholstery
Conover, NC

Bassett Upholstery
Claremont, NC

Warehouse
Los Angeles, CA

ITEM 3. LEGAL PROCEEDINGS

During 2003, the Company reached a final settlement with the IRS regarding the non-deductibility of interest expense on loans associated with the Company's corporate owned life insurance plan ("COLI" plan). The Company had previously recorded reserves to cover the negotiated settlement amount and, as such, there were no further tax related charges associated with the COLI.

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

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

None.

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ITEM 4b. EXECUTIVE OFFICERS OF THE REGISTRANT

John E. Bassett III, 45, has been with the Company since 1981 and served as Vice President of Wood Manufacturing from 1997 to 2001 and as Vice President Global Sourcing since 2001.

Jay R. Hervey, Esq., 44, has served as the General Counsel, Vice President and Secretary for the Company since 1997.

Dennis Hoy, 45, has been with the Company since 1996, as Casegoods and Merchandise Manager and as Vice President of Merchandising until 1999. He served as Vice President and General Manager, Upholstery until 2001, Vice President Corporate Retail from 2001 to 2002, and now serves as Vice President of Wood Merchandising.

Matthew S. Johnson, 42, has been with the Company for 17 years, most recently as Vice President of Wood Merchandising from 1998 to 2000. Since 2000, he has been serving as Vice President of Merchandising and Design.

Mark S. Jordan, 50, was Director of Product Development and Plant Manager for Ethan Allen from 1974 to 1999. In 1999 he joined the Company as Plant Manager. In 2001, he was promoted to Vice President of Upholstery Manufacturing and in 2002 he was promoted to Vice President and General Manager of Upholstery.

Charles T. King, 41, was with McMillan, Pate and King, CPAs from 1989 to 1998 and joined the Company in 1998 as Retail Controller. In 2001, he was promoted to Vice President and Controller. In 2003, he was promoted to Vice President of Retail Finance.

Barry C. Safrit, 41, was with CHF Industries from 1995 until 1998 as Controller and as Chief Financial Officer and joined the Company as Vice President and Chief Accounting Officer in 1998. He was promoted to Vice President and Chief Financial Officer in 2001.

Keith R. Sanders, 59, was with Ethan Allen from 1995 until 1998 as the Vice President of Manufacturing and Vice President of Upholstery and has been the Vice President of Upholstery Manufacturing for the Company from 1998 to 1999. In 1999, he was promoted to Executive Vice President, Operations.

Robert H. Spilman, Jr., 47, has been with the Company since 1984. He was the Company’s Executive Vice President of Marketing and Merchandising from 1994 until 1997 and served as President and Chief Operating Officer from 1997 to 2000. In 2000, he was promoted to Chief Executive Officer and President.

Thomas M. Brockman, 49, joined the Company in late 2003 as Vice President of the Wood Division. From 2000 to 2003 he was the Vice President of Manufacturing for the Mid East Region of Ethan Allen.

PART II

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

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

ITEM 6. SELECTED FINANCIAL DATA

The information for the five years ended November 29, 2003, contained in "Other Business Data" in the Annual Report is incorporated herein by reference thereto.

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes to consolidated financial statements of the Registrant and its subsidiaries contained in the Annual Report are incorporated herein by reference thereto. In addition, financial statements of the registrant's significant non-consolidated subsidiaries are included in this Form 10-K on pages F-1 to F-16. Quarterly results of operations are included under the caption "Other Business Data" in the Annual Report to shareholders and are incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

a. Evaluation of the Company's Disclosure Controls. As of the end of the period covered by this Annual Report on Form 10-K, the Company's principal executive officer and principal financial officer have evaluated the effectiveness of the Company's "disclosure controls and procedures" ("Disclosure Controls"). Disclosure Controls, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their controls evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, our Disclosure Controls are effective to ensure that the information required to be disclosed by the Company in its periodic reports is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding disclosure and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

b. Changes in internal control over financial reporting. There have been no significant changes in the Company's internal controls during the Company's fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

The Board of Directors has determined that Michael E. Murphy, a member of the Registrant's Audit Committee, is an audit committee financial expert (as that term is defined under Item 401(h) of Regulation S-K). The Registrant has made its code of ethics available on its website at www.bassettfurniture.com. The charters for the Audit Committee and the Organization, Compensation and Nominating Committee are also available on the Registrant's website.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of November 29, 2003 with respect to shares of Company Common stock that may be issued under existing equity compensation plans, including the 1993 Long Term Incentive Stock Option Plan, the 1997 Employee Stock Plan, the 1993 Stock Plan for Non-Employee Directors, and the 2000 Employee Stock Purchase Plan (ESPP). All equity compensation plans currently in place have been approved by the stockholders.

Plan	(a) Number of Securities to be Issued upon Exercise of Outstanding Options	(b) Weighted Average Exercise Price of Outstanding Options	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity Compensation Plans Approved by Stockholders (1)	1,390,252	$ 19.84	908,743(2)
Equity Compensation Plans Not Approved by Stockholders (3)	0	n/a	0
Total	1,390,252	$ 19.84	908,743

(1) Includes the following plans: 1993 Long Term Incentive Stock Option Plan; 1997 Employee Stock Plan; 1993 Stock Plan for Non-Employee Directors; 2000 Employee Stock Purchase Plan

(2) Includes shares available under the 1997 Plan (556,082), the 1993 Non-Employee Directors Plan (0) and the 2000 ESPP (352,663)

(3) There are no equity compensation plans in place not approved by stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information contained on page 12 of the Proxy Statement under the caption “Audit and Other Fees” is incorporated herein by reference thereto.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

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

Consolidated Balance Sheets—November 29, 2003 and November 30, 2002

Consolidated Statements of Income—Years Ended November 29, 2003, November 30, 2002, and November 24, 2001

Consolidated Statements of Stockholders' Equity—Years Ended November 29, 2003, November 30, 2002, and November 24, 2001

Consolidated Statements of Cash Flows—Years Ended November 29, 2003, November 30, 2002, and November 24, 2001

Notes to Consolidated Financial Statements

Report of Independent Public Accountants

International Home Furnishings Center, Inc. Financial Statements are included herein on pages F-1 to F-16.

(2) Financial Statement Schedule:

Report of Independent Public Accountants is included in the consent filed as Exhibit 23A to this Annual Report and is incorporated herein by reference.

Report of Previous Independent Public Accountants

Schedule II—Analysis of Valuation and Qualifying Accounts for the years ended November 29, 2003, November 30, 2002, and November 24, 2001

(3) Listing of Exhibits

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

3B. Amendment to By-laws including By-laws as amended to date.

4A. Amended and Restated Credit Agreement with a Bank Group dated July 10, 2003, is incorporated herein by reference to Form 10-Q for the fiscal quarter ended May 31, 2003.

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

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

**	10C.	Bassett Supplemental Retirement Income Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 1997.
**	10D.	Bassett 1993 Stock Plan for Non-Employee Directors as amended is incorporated herein by reference to Form 10-K for the fiscal year ended November 25, 2000.
**	10E.	Bassett 1997 Employee Stock Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (no. 333-60327) filed on July 31, 1998.
	13.	Portions of the Registrant's Annual Report to Stockholders for the year ended November 29, 2003.
	21.	List of subsidiaries of the Registrant
	23A.	Consent of Independent Auditors
	23B.	Consent of Independent Auditors
	23C.	Notice Regarding Lack of Consent of Arthur Andersen
	31A.	Certification of Robert H. Spilman, Jr., President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	31B.	Certification of Barry C. Safrit, Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	32A.	Certification of Robert H. Spilman, Jr., President and Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
	32B.	Certification of Barry C. Safrit, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

(b) Reports on Form 8-K

The following reports on Form 8-K were filed with or furnished to the SEC by the Company since the beginning of the second quarter of fiscal 2003. The Forms 8-K listed below that were furnished to the SEC shall not be deemed filed for any purpose.

1. A current report on Form 8-K, dated June 25, 2003, was filed with the SEC to report under items 5 and 7, the Company's issuance of a press release on the Company's financial results for the second quarter of 2003.
2. A current report on Form 8-K, dated July 9, 2003, was filed with the SEC to report under items 7 and 9, the Bassett Industries Alternative Asset Fund, L.P. financial statements for the years ended December 31, 2002 and 2001 with report of independent auditors.
3. A current report on Form 8-K, dated September 25, 2003, was furnished to the SEC to report, under item 12, the Company's issuance of a press release on the Company's financial results for the third quarter of 2003.
4. A current report on Form 8-K, dated January 9, 2004, was furnished to the SEC to report, under item 12, the Company's issuance of a press release on the Company's financial results for the fourth quarter and fiscal 2003.

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SIGNATURES

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

BASSETT FURNITURE INDUSTRIES, INCORPORATED (Registrant)

By: /s/ Robert H. Spilman, Jr. — Date: January 30, 2004

Robert H. Spilman, Jr.
President and Chief Executive Officer
Director

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

By: /s/ Paul Fulton — Date: January 30, 2004

Paul Fulton
Chairman of the Board of Directors

By: /s/ Peter W. Brown — Date: January 30, 2004

Peter W. Brown
Director

By: /s/ Willie D. Davis — Date: January 30, 2004

Willie D. Davis
Director

By: /s/ Alan T. Dickson — Date: January 30, 2004

Alan T. Dickson
Director

By: /s/ Howard H. Haworth — Date: January 30, 2004

Howard H. Haworth
Director

By: /s/ Michael E. Murphy — Date: January 30, 2004

Michael E. Murphy
Director

By: /s/ Dale C. Pond — Date: January 30, 2004

Dale C. Pond
Director

By: /s/ David A. Stonecipher — Date: January 30, 2004

David A. Stonecipher
Director

By: /s/ Barry C. Safrit — Date: January 30, 2004

Barry C. Safrit
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

ANNUAL REPORT ON FORM 10-K
ITEM 15(a)(1)

CERTAIN EXHIBITS

YEAR ENDED NOVEMBER 29, 2003

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

BASSETT, VIRGINIA

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INTERNATIONAL HOME FURNISHINGS
CENTER, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended October 31, 2003, 2002 and 2001

International Home Furnishings Center, Inc. and Subsidiary

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of International Home Furnishings Center, Inc. and subsidiary as of October 31, 2003 and 2002 and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended October 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Home Furnishings Center, Inc. and subsidiary at October 31, 2003 and 2002 and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

/s/ Dixon Odom PLLC

Dixon Odom PLLC
High Point, North Carolina
November 26, 2003

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
October 31, 2003 and 2002

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,253,960	$ 4,637,147
Restricted cash	20,274,235	18,956,684
Short-term investments	108,714	103,993
Receivables		
Trade	2,575,779	2,528,957
Interest	3,505	7,126
Deferred income tax benefit	3,920,000	2,959,000
Prepaid expenses	361,308	302,233
TOTAL CURRENT ASSETS	33,497,501	29,495,140
PROPERTY AND EQUIPMENT, at cost		
Land and land improvements	3,611,659	3,380,218
Buildings, exclusive of theater complex	90,480,228	88,959,454
Furniture and equipment	3,835,124	3,827,883
Construction in progress	—	179,518
	97,927,011	96,347,073
Accumulated depreciation	(51,120,231)	(48,481,947)
	46,806,780	47,865,126
OTHER ASSETS		
Theater complex, at cost less amortization	803,834	847,089
Deferred income tax benefit	809,950	600,680
Deferred financing costs, net of accumulated amortization of $1,724,614 and $1,121,845 at October 31, 2003 and 2002, respectively	1,255,621	1,858,390
Interest rate cap agreement, at fair value	80,435	149,636
	2,949,840	3,455,795
	$ 83,254,121	$ 80,816,061
LIABILITIES LESS STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable, trade	$ 926,726	$ 1,017,609
Accrued property taxes	1,923,685	1,877,578
Other accrued expenses	844,712	802,814
Rents received in advance	10,055,173	7,586,834
Income taxes payable	2,291,578	1,308,304
Current maturities of long-term debt	3,158,841	2,880,776
TOTAL CURRENT LIABILITIES	19,200,715	15,473,915
LONG-TERM DEBT	124,515,718	127,674,559
OTHER LONG-TERM LIABILITIES		
Supplemental retirement benefits	2,740,668	2,525,475
Interest rate floor agreement, at fair value	2,510,128	3,035,082
	5,250,796	5,560,557
COMMITMENTS (Notes G and L)		
STOCKHOLDERS' DEFICIT		
Common stock, $5 par value, 1,000,000 shares authorized, 481,628 shares issued in 2003 and 2002	2,408,140	2,408,140
Additional paid-in capital	154,592	154,592
Accumulated deficit	(66,744,662)	(68,604,302)
Accumulated other comprehensive loss	(1,531,178)	(1,851,400)
	(65,713,108)	(67,892,970)
	$ 83,254,121	$ 80,816,061

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended October 31, 2003, 2002 and 2001

	2003	2002	2001
OPERATING REVENUES			
Rental income	$ 36,556,063	$ 35,822,245	$ 34,682,203
Other revenues	6,962,213	6,943,477	6,973,398
TOTAL OPERATING REVENUES	43,518,276	42,765,722	41,655,601
OPERATING EXPENSES			
Compensation and benefits	4,873,642	5,293,040	4,642,208
Market and promotional	2,234,317	2,348,642	2,589,746
Maintenance and building costs	989,770	1,211,953	1,012,997
Depreciation expense	2,731,524	2,387,170	2,647,449
Rent	152,234	152,234	152,234
Property taxes and insurance	2,691,381	2,546,391	2,269,932
Utilities	1,652,902	1,739,924	1,872,132
Other operating costs	1,198,728	1,069,496	1,373,183
TOTAL OPERATING EXPENSES	16,524,498	16,748,850	16,559,881
INCOME FROM OPERATIONS	26,993,778	26,016,872	25,095,720
NONOPERATING INCOME			
Interest income	219,667	393,601	1,071,901
Dividend income	6,655	6,275	4,597
TOTAL NONOPERATING INCOME	226,322	399,876	1,076,498
NONOPERATING EXPENSES			
Interest expense	6,205,221	6,130,042	7,870,387
TOTAL NONOPERATING EXPENSES	6,205,221	6,130,042	7,870,387
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	21,014,879	20,286,706	18,301,831
PROVISION FOR INCOME TAXES	8,155,000	8,000,000	7,166,000
INCOME BEFORE EXTRAORDINARY ITEM	12,859,879	12,286,706	11,135,831
EXTRAORDINARY ITEM			
Loss on early extinguishment of debt, net of income tax benefit of $1,217,000	—	—	(1,886,426)
NET INCOME	$ 12,859,879	$ 12,286,706	$ 9,249,405
BASIC EARNINGS PER COMMON SHARE			
Income before extraordinary item	$ 26.70	$ 25.13	$ 21.11
Extraordinary item	—	—	(3.58)
Net income	$ 26.70	$ 25.13	$ 17.53
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	481,628	488,939	527,638

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years Ended October 31, 2003, 2002 and 2001

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
BALANCE (DEFICIT), OCTOBER 31, 2000	$2,638,190	$169,360	$ (8,706,451)	$ —	$ (5,898,901)
Net income	—	—	9,249,405	—	9,249,405
Dividends paid ($115.00 per common share)	—	—	(60,678,370)	—	(60,678,370)
BALANCE (DEFICIT), OCTOBER 31, 2001	2,638,190	169,360	(60,135,416)	—	(57,327,866)
Purchase and retirement of 46,010 shares of common stock	(230,050)	(14,768)	(8,755,349)	—	(9,000,167)
Dividends paid ($24.916 per common share)	—	—	(12,000,243)	—	(12,000,243)
Comprehensive income (loss):					
Net income	—	—	12,286,706	—	12,286,706
Other comprehensive loss:					
Change in fair value of interest rate floor hedging activity, net of deferred tax benefit of $1,491,866	—	—	—	(2,333,431)	(2,333,431)
Reclassification adjustment for losses recognized in net income, net of deferred tax benefit of $308,184	—	—	—	482,031	482,031
Total comprehensive income					10,435,306
BALANCE (DEFICIT), OCTOBER 31, 2002	2,408,140	154,592	(68,604,302)	(1,851,400)	(67,892,970)
Dividends paid ($22.84 per common share)	—	—	(11,000,239)	—	(11,000,239)
Comprehensive income:					
Net income	—	—	12,859,879	—	12,859,879
Other comprehensive income:					
Change in fair value of interest rate floor hedging activity, net of deferred tax benefit of $470,706	—	—	—	(736,232)	(736,232)
Reclassification adjustment for losses recognized in net income, net of deferred tax benefit of $675,438	—	—	—	1,056,454	1,056,454
Total comprehensive income					13,180,101
BALANCE (DEFICIT), OCTOBER 31, 2003	$2,408,140	$154,592	$(66,744,662)	$ (1,531,178)	$(65,713,108)

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended October 31, 2003, 2002 and 2001

	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 12,859,879	$ 12,286,706	$ 9,249,405
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,377,548	3,043,467	3,209,295
Decrease in fair value of interest rate cap agreements	69,201	729,979	265,887
Decrease in fair value of interest rate floor agreement	—	(833,000)	—
Loss on early extinguishment of debt	—	—	3,103,426
Provision for losses on accounts receivable	(6,035)	19,828	25,154
(Gain) loss on disposal of assets	2,156	(3,000)	45,352
Deferred income taxes	(1,375,002)	65,000	(2,931,000)
Change in assets and liabilities			
(Increase) decrease in trade and interest receivables	(37,166)	7,200	67,770
(Increase) decrease in prepaid expenses	(59,075)	(109,962)	524,901
Increase (decrease) in accounts payable and accrued expenses	(2,878)	100,923	39,047
Increase (decrease) in rents received in advance	2,468,339	(178,514)	6,262,396
Increase (decrease) in income taxes payable	983,274	(641,652)	1,949,956
Increase in supplemental retirement benefits	215,193	601,252	179,200
NET CASH PROVIDED BY OPERATING ACTIVITIES	18,495,434	15,088,227	21,990,789
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase and construction of property and equipment	(1,675,334)	(1,131,994)	(6,690,764)
Proceeds from sale of property and equipment	—	3,000	—
Purchase of short-term investments	(4,721)	(5,423)	(4,081)
(Increase) decrease in restricted cash	(1,317,551)	5,523,143	(22,203,853)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(2,997,606)	4,388,726	(28,898,698)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	—	—	135,000,000
Principal payments on long-term debt	(2,880,776)	(2,627,188)	(57,472,061)
Cost incurred to extinguish debt early	—	—	(2,720,580)
Purchase of interest rate cap	—	(833,000)	(312,500)
Proceeds from sale of interest rate floor	—	833,000	—
Dividends paid	(11,000,239)	(12,000,243)	(60,678,370)
Retirement of common stock	—	(9,000,167)	—
Financing costs paid	—	(60,380)	(2,919,855)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(13,881,015)	(23,687,978)	10,896,634
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,616,813	(4,211,025)	3,988,725
CASH AND CASH EQUIVALENTS, BEGINNING	4,637,147	8,848,172	4,859,447
CASH AND CASH EQUIVALENTS, ENDING	$ 6,253,960	$ 4,637,147	$ 8,848,172
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes	$ 8,546,726	$ 8,575,614	$ 6,302,511
Interest, net of amount capitalized	6,177,415	5,708,508	7,699,674
SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES			
Accounts payable incurred for acquisition of property and equipment	$ —	$ 92,096	$ 201,715
Increase (decrease) in fair value of interest rate floor agreement, net of deferred income taxes of $204,732 in 2003 and deferred income tax benefit of $1,183,682 in 2002	$ (320,222)	$ 1,851,400	$ —

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE A - DESCRIPTION OF BUSINESS

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies relative to the carrying values of property and equipment, theater complex and interest rate cap and floor agreements are indicated in the captions on the consolidated balance sheets. Other significant accounting policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of International Home Furnishings Center, Inc. and its wholly-owned subsidiary, IHFC Properties, LLC, a company organized on December 21, 2000. All material intercompany transactions have been eliminated. The Company and its subsidiary are referred to collectively herein as "the Company." Notwithstanding the consolidation of the Company and IHFC Properties, LLC in these financial statements, IHFC Properties, LLC is a separate entity, with separate assets and liabilities and has its own separate financial statements.

Rental Income

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

Cash and Cash Equivalents

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

Investment Securities

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

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (Continued)

Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date. Since the Company neither buys investment securities in anticipation of short-term fluctuations in market prices nor commits to holding debt securities to their maturities, investments in debt and marketable equity securities have been classified as available-for-sale. Available-for-sale securities are stated at fair value, and unrealized holding gains and losses, if significant, net of the related deferred tax effect, are reported as a separate component of accumulated other comprehensive income in stockholders’ equity. Premiums and discounts on investments in debt securities are amortized over their contractual lives. Interest on debt securities is recognized in income as accrued, and dividends on marketable equity securities are recognized in income when declared. Realized gains and losses are included in income and are determined on the basis of the specific securities sold.

Property, Equipment and Depreciation

Expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. Major renewals and betterments are capitalized. Depreciation is provided primarily on the straight-line method over the following estimated useful lives:

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

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

Deferred Financing Costs

Costs associated with obtaining long-term financing have been deferred and are being amortized on the interest method over the term of the related debt. Amortization expense charged to operations during the years ended October 31, 2003, 2002 and 2001 was $602,769, $613,042 and $522,725, respectively.

Reporting Comprehensive Income

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

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments

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

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

Income Taxes

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

Earnings Per Common Share

The Company follows the provisions of Statement of Financial Accounting Standards No. 128, *Earnings Per Share,* which specifies the computation, presentation and disclosure requirements for earnings per share ("EPS"). Basic EPS excludes all dilution and has been computed using the weighted average number of common shares outstanding during the year. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company has no dilutive potential common shares.

Retirement Plans

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

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INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement Plans (Continued)

In 1991, the Company adopted a nonqualified supplemental retirement benefits plan for key management employees. Benefits payable under the plan are based upon the participant's average compensation during his last five years of employment and are reduced by benefits payable under the Company's qualified retirement plan and by one-half of the participant's social security benefits. Benefits under the plan do not vest until the attainment of normal retirement age; however, a reduced benefit is payable if employment terminates prior to normal retirement age because of death or disability. The vested portion of the benefits under this plan amounted to approximately $2,225,000 and $1,406,000 at October 31, 2003 and 2002, respectively. The Company has no obligation to fund this supplemental plan.

Fair Value of Financial Instruments

The carrying amounts of the Company's significant financial instruments, none of which are held for trading purposes, approximate fair value at October 31, 2003 and 2002. Cash, cash equivalents and restricted cash approximate fair value because of the short maturities of these instruments. Long-term debt approximates fair value because of its floating interest rate terms. Derivative financial instruments are carried at fair value.

Use of Estimates

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

NOTE C - RESTRICTED CASH

The Company has restricted, interest-bearing cash accounts held by the lender under the escrow provisions of the term loan agreement described in Note E. The restricted cash balances are held for the following purposes at October 31, 2003 and 2002:

	2003	2002
Taxes and insurance	$ 1,300,074	$ 1,170,665
Required repairs	1,143,023	1,131,629
Replacements	406,905	235,806
Environmental	242,474	240,057
Debt service	1,401,842	1,332,213
Operating expenses	782,824	1,054,868
Ground rent	51,976	51,382
Cash management	14,945,117	13,740,064
	$ 20,274,235	$ 18,956,684

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE C - RESTRICTED CASH (Continued)

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

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

NOTE D - INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale securities as of October 31, 2003 and 2002:

	2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
State and local governments	$4,660,988	$ —	$ —	$4,660,988
Equity securities	108,714	—	—	108,714
	$4,769,702	$ —	$ —	$4,769,702

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
State and local governments	$2,976,644	$ —	$ —	$2,976,644
Equity securities	103,993	—	—	103,993
	$3,080,637	$ —	$ —	$3,080,637

Available-for-sale securities are classified in the following balance sheet captions as of October 31, 2003 and 2002:

	2003	2002
Cash and cash equivalents	$4,660,988	$2,976,644
Short-term investments	108,714	103,993
	$4,769,702	$3,080,637

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

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2003 and 2002:

	2003	2002
Term note payable, Bank of America, N.A. Principal payments are due monthly based on an amortization schedule provided by the lender. Interest is payable monthly at the LIBOR rate plus 2.1%. At October 31, 2003, the interest rate was 3.22%. The note matures in December 2003 and has two one-year extension periods available, which the Company intends to exercise. The loan is collateralized by land and buildings, restricted cash (Note C), rents and assignment of leases with tenants.	$127,674,559	$130,555,335
Less current maturities	3,158,841	2,880,776
	$124,515,718	$127,674,559

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

Year Ending October 31,	
2004	$ 3,158,841
2005	3,463,746
2006	121,051,972
	$127,674,559

During the year ended October 31, 2001, the Company entered into an interest rate cap agreement that had a notional amount of $133,182,523 at October 31, 2001. The notional amount decreased as principal payments were made on the Company's term debt and was to be equal to the term debt until the agreement's expiration in January 2004. Under the agreement, the Company was to receive an amount equal to the interest it incurred on its term debt in excess of 8%, if any. The $265,887 decrease in the fair value of the interest rate cap agreement was charged to earnings as financing expense during the year ended October 31, 2001. In 2002, the Company paid $26,613 to terminate this agreement. The $26,613 was charged to earnings as financing expense for the year ended October 31, 2002.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE E - LONG-TERM DEBT (Continued)

During the year ended October 31, 2002, the Company paid $833,000 to execute an interest rate cap agreement that had a notional amount of $127,674,559 at October 31, 2003 and $130,555,335 at October 31, 2002. The notional amount will decrease as principal payments are made on the Company's term debt and will be equal to the term debt until the agreement expires on December 6, 2005. Under the agreement, the Company will receive an amount equal to the LIBOR rate in excess of 8%, if any. The Company has designated this interest rate cap agreement as a cash flow hedge of interest payments once the LIBOR rate exceeds 8%. Since the LIBOR rate remained below 8% during the years ended October 31, 2003 and 2002, the cap agreement was not yet in effect; therefore, the $69,201 and $683,364 decrease in the fair value of the interest rate cap agreement was charged to earnings during the years ended October 31, 2003 and 2002, respectively, as a part of financing expense.

The Company also entered into an interest rate floor agreement during the year ended October 31, 2002. In connection with the execution of the floor agreement, the Company received $833,000. The notional amount of the floor agreement was $127,674,559 at October 31, 2003 and $130,555,335 at October 31, 2002. The notional amount will decrease as principal payments are made on the Company's term debt and will be equal to the term debt until the agreement expires on January 6, 2006. Under the agreement, the Company will pay an amount equal to the excess of 2.63% over the LIBOR rate, if any. Since the LIBOR rate decreased below the floor of 2.63% during the years ended October 31, 2003 and 2002, the initial $833,000 has been reflected in earnings as a part of financing expense, and the change in fair value of the interest rate floor agreement has been recorded in accumulated other comprehensive income, net of tax, for the years ended October 31, 2003 and 2002.

Total interest cost incurred for the years ended October 31, 2003, 2002 and 2001 was $6,209,799, $6,134,335 and $8,241,933, respectively. Of the interest cost for the years ended October 31, 2003, 2002 and 2001, $4,578, $4,293 and $371,546, respectively, was capitalized as part of the building construction costs.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE F - INCOME TAXES

The provision for income taxes consists of the following for the years ended October 31, 2003, 2002 and 2001:

	2003	2002	2001
Federal:			
Current	$ 7,830,000	$ 6,560,000	$ 7,365,000
Deferred	(1,130,000)	53,000	(2,415,000)
	6,700,000	6,613,000	4,950,000
State:			
Current	1,700,000	1,375,000	1,515,000
Deferred	(245,000)	12,000	(516,000)
	1,455,000	1,387,000	999,000
TOTAL	$ 8,155,000	$ 8,000,000	$ 5,949,000
Deferred tax (benefit) allocated directly to stockholders’ deficit	$ 204,732	$ (1,183,682)	$ —

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

	2003	2002	2001
Income taxes computed at the federal statutory rate	$ 7,355,000	$ 7,100,000	$ 5,319,000
State taxes, net of federal benefit	945,750	902,000	649,000
Nontaxable investment income	(19,900)	(24,000)	(48,000)
Other, net	(125,850)	22,000	29,000
	$ 8,155,000	$ 8,000,000	$ 5,949,000

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE F - INCOME TAXES (Continued)

The components of deferred income taxes consist of the following:

	2003	2002
Deferred income tax assets:		
Rents received in advance	$ 3,922,000	$ 2,959,000
Supplemental retirement benefits	979,000	985,000
Interest rate floor agreement	1,069,000	1,183,680
Deferred financing costs	16,500	16,000
TOTAL DEFERRED TAX ASSETS	5,986,500	5,143,680
Deferred income tax liabilities:		
Depreciation	(1,226,000)	(1,526,000)
Interest rate cap agreement	(30,550)	(58,000)
TOTAL DEFERRED TAX LIABILITIES	(1,256,550)	(1,584,000)
TOTAL NET DEFERRED TAX ASSETS	$ 4,729,950	$ 3,559,680

NOTE G - LAND LEASE COMMITMENT

During 1975, the Company completed construction of an eleven-story exhibition building. The building is constructed on land leased from the City of High Point, North Carolina under a noncancelable lease. The lease is for an initial term of fifty years with three options to renew for periods of ten years each and a final renewal option for nineteen years. Annual rental under the lease is $152,234 as of October 31, 2003 and is subject to adjustment at the end of each five-year period, such adjustment being computed as defined in the lease agreement. As part of the lease agreement, the Company constructed a theater complex for public use and office space for use by the City of High Point on the lower levels of the building. Annual rental cash payments over the initial fifty-year lease term are being reduced by $39,121 which represents amortization of the cost of the theater and office complex constructed for the City of High Point. At the termination of the lease, the building becomes the property of the City of High Point. Under the terms of the lease, the Company is responsible for all expenses applicable to the exhibition portion of the building. The City of High Point is responsible for all expenses applicable to the theater complex and office space constructed for use by the City.

NOTE H - RETIREMENT EXPENSE

Amounts expensed under the Company’s retirement plans amounted to $464,715, $790,130 and $350,669 for the years ended October 31, 2003, 2002 and 2001, respectively, including $280,923, $601,252 and $179,200 under the supplemental retirement benefits plan for the years ended October 31, 2003, 2002 and 2001, respectively.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE H - RETIREMENT EXPENSE (Continued)

During 2002, the Company accelerated the normal retirement date for one of its key employees covered under the nonqualified supplemental retirement plan resulting in a substantial increase in expense for the year.

NOTE I - RENTALS UNDER OPERATING LEASES

The Company's leasing operations consist principally of leasing exhibition space. Property on operating leases consists of substantially all of the asset "buildings, exclusive of theater complex" included on the consolidated balance sheets. Accumulated depreciation on this property amounted to $47,728,365 at October 31, 2003 and $45,154,925 at October 31, 2002. Leases are typically for five-year periods and contain provisions to escalate rentals based upon either the increase in the consumer price index or increases in ad valorem taxes, utility rates and charges, minimum wage imposed by federal and state governments, maintenance contracts for elevators and air conditioning, maintenance of common areas, social security payments, increases resulting from collective bargaining contracts, if any, and such other similar charges and rates required in operating the Company. Tenants normally renew their leases.

The following is a schedule of minimum future rentals under noncancelable operating leases as of October 31, 2003, exclusive of amounts due under escalation provisions of lease agreements:

Year Ending October 31,	
2004	$30,492,164
2005	22,089,540
2006	12,369,035
2007	7,636,615
2008	1,606,310
Total minimum future rentals	$74,193,664

Rental income includes contingent rentals under escalation provisions of leases of $1,390,371, $1,380,026 and $1,164,693 for the years ended October 31, 2003, 2002 and 2001, respectively. Rental income from related parties amounted to $628,643, $647,926 and $2,682,719 for the years ended October 31, 2003, 2002 and 2001, respectively.

NOTE J - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits and trade accounts receivable from customers predominantly in the Home Furnishings Industry. As of October 31, 2003, the Company's bank balances exceeded federally insured limits by $17,145,320. The Company's trade accounts receivable are generally collateralized by merchandise in leased exhibition spaces which is in the Company's possession.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
October 31, 2003, 2002 and 2001

NOTE K - STOCKHOLDERS' DEFICIT

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

NOTE L - CONSTRUCTION COMMITMENTS

At October 31, 2003, the Company had outstanding commitments for building improvements of approximately $1,200,000.

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP.

Report of Independent Public Accountants

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

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

/s/ ARTHUR ANDERSEN LLP

Greensboro, North Carolina,
January 15, 2002

Bassett Furniture Industries, Inc.

Schedule II

Analysis of Valuation and Qualifying Accounts
For the Years Ended November 29, 2003, November 30, 2002, and November 24, 2001
(in thousands)

	Balance Beginning Of Period	Additions Charged to Cost and Expenses	Deductions (1)	Other	Balance End Of Period
For the Year Ended November 24, 2001:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	$ 6,650	$ 481	$ (4,631)	—	$ 2,500
Restructuring reserve	$ 1,343	$ 2,402	$ (3,163)	—	$ 582
For the Year Ended November 30, 2002:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	$ 2,500	$ 753	$ (651)	—	$ 2,602
Restructuring reserve	$ 582	$ 1,251	$ (1,684)	—	$ 149
For the Year Ended November 29, 2003:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	$ 2,602	$ 1,655	$ (397)	—	$ 3,860
Restructuring reserve	$ 149	$ 3,200	$ (3,141)	—	$ 208

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

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3B	By-laws as amended
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21	List of subsidiaries of registrant
23A	Consent of Independent Auditors
23B	Consent of Independent Auditors
23C	Notice Regarding Lack of Consent of Arthur Andersen
31A	Certification of Robert H. Spilman, Jr., President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31B	Certification of Barry C. Safrit, Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32A	Certification of Robert H. Spilman, Jr., President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32B	Certification of Barry C. Safrit, Vice President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 3B

BY-LAWS
OF
BASSETT FURNITURE INDUSTRIES, INC.

ARTICLE I. OFFICES

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

ARTICLE II. SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the Chairman of the meeting may declare to the meeting that the business was not properly brought before the meeting and, if he shall so declare, such business shall not be transacted.

ARTICLE III. BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

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

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

ARTICLE IV. OFFICERS

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

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

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

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

SECTION 5. CHAIRMAN OF THE BOARD. The Chairman of the Board shall, when present, preside at all meetings of the Board of Directors.

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

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

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

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

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

ARTICLE V. CONTRACTS, LOANS, CHECKS AND DEPOSITS

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

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

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

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

ARTICLE VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

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

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

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

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

ARTICLE VII. FISCAL YEAR

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

ARTICLE VIII. DIVIDENDS

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

ARTICLE IX. SEAL

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

ARTICLE X. WAIVER OF NOTICE

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

ARTICLE XI. AMENDMENTS

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

ARTICLE XII. INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

Consolidated Balance Sheets

Bassett Furniture Industries, Incorporated and Subsidiaries
November 29, 2003, and November 30, 2002
(In thousands, except share and per share data)

	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 15,181	$ 1,371
Accounts receivable, net	39,230	44,806
Inventories	36,454	43,449
Refundable income taxes	—	2,924
Deferred income taxes	5,307	3,600
Other current assets	4,525	6,816
Total current assets	100,697	102,966
Property and equipment, net	50,681	59,365
Investments	65,151	63,248
Retail real estate, net	32,930	31,177
Notes receivable, net	15,399	18,761
Other, net	15,522	15,363
	129,002	128,549
Total assets	$ 280,380	$ 290,880
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 15,127	$ 17,738
Accrued liabilities	22,341	16,406
Total current liabilities	37,468	34,144
Long-term liabilities		
Employee benefits	9,824	10,152
Long-term debt	—	3,000
Distributions in excess of affiliate earnings	13,070	13,941
	22,894	27,093
Commitments and Contingencies		
Stockholders' equity		
Common stock, par value $5 a share, 50,000,000 shares authorized, issued and outstanding — 11,599,936 in 2003 and 11,660,587 in 2002	58,000	58,303
Retained earnings	159,487	169,789
Accumulated other comprehensive income — unrealized holding gains, net of income tax	2,531	1,551
Total stockholders' equity	220,018	229,643
Total liabilities and stockholders' equity	$ 280,380	$ 290,880

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

Consolidated Statements of Income

Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 29, 2003, November 30, 2002, and November 24, 2001
(In thousands, except share and per share data)

	2003	2002	2001
Net sales	$ 316,857	$ 323,487	$ 305,676
Cost of sales	234,861	254,993	254,456
Gross profit	81,996	68,494	51,220
Selling, general and administrative expenses	80,026	60,987	54,477
Gains on sales of property and equipment, net	—	—	(5,297)
Restructuring and impaired asset charges	3,200	1,251	6,952
Income (loss) from operations	(1,230)	6,256	(4,912)
Income from investments, net	5,503	2,342	7,497
Income (loss) from unconsolidated affiliated companies, net	6,151	4,715	(3,030)
Interest expense	(1,713)	(1,438)	(2,819)
Other expense, net	(3,844)	(2,765)	(420)
Income (loss) before income tax benefit (provision) and cumulative effect of accounting change	4,867	9,110	(3,684)
Income tax (provision) benefit	(462)	(2,369)	1,042
Income (loss) before cumulative effect of accounting change	4,405	6,741	(2,642)
Cumulative effect of accounting change, net of income tax of $3,200	(4,875)	—	—
Net income (loss)	$ (470)	$ 6,741	$ (2,642)
Net income (loss) per share			
Basic earnings (loss) per share:			
Income (loss) before cumulative effect of accounting change	$ 0.38	$ 0.58	$ (0.23)
Cumulative effect of accounting change	(0.42)	—	—
Net income (loss) per share	$ (0.04)	$ 0.58	$ (0.23)
Diluted earnings (loss) per share:			
Income (loss) before cumulative effect of accounting change	$ 0.38	$ 0.57	$ (0.23)
Cumulative effect of accounting change	(0.42)	—	—
Net income (loss) per share	$ (0.04)	$ 0.57	$ (0.23)

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

Consolidated Statements of Stockholders' Equity
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 29, 2003, November 30, 2002, and November 24, 2001
(In thousands, except share and per share data)

	Common Stock		Additional paid-in Capital	Retained earnings	Accumulated Other comprehensive income	Unamortized stock compensation	Total
	Shares	Amount					
Balance, November 25, 2000	11,764,760	$ 58,824	$ —	$ 185,293	$ 5,418	$ (395)	$ 249,140
Net Loss	—	—	—	(2,642)	—	—	(2,642)
Net change in unrealized holding gains	—	—	—	—	(2,371)	—	(2,371)
Comprehensive loss							(5,013)
Dividends ($.80 per share)	—	—	—	(9,378)	—	—	(9,378)
Issuance of common stock	25,932	130	150	—	—	—	280
Purchase and retirement of common stock	(63,500)	(318)	(150)	(262)	—	—	(730)
Amortization of stock compensation	—	—	—	—	—	173	173
Balance, November 24, 2001	11,727,192	58,636	—	173,011	3,047	(222)	234,472
Net Income	—	—	—	6,741	—	—	6,741
Net change in unrealized holding gains	—	—	—	—	(1,496)	—	(1,496)
Comprehensive Income							5,245
Dividends ($.80 per share)	—	—	—	(9,358)	—	—	(9,358)
Issuance of common stock	41,417	208	375	—	—	—	583
Purchase and retirement of common stock	(89,519)	(448)	(375)	(430)	—	—	(1,253)
Forfeitures of restricted stock	(18,503)	(93)	—	(175)	—	—	(268)
Amortization of stock compensation	—	—	—	—	—	222	222
Balance, November 30, 2002	11,660,587	58,303	—	169,789	1,551	—	229,643
Net Loss	—	—	—	(470)	—	—	(470)
Net change in unrealized holding gains	—	—	—	—	980	—	980
Comprehensive Income							510
Dividends ($.80 per share)	—	—	—	(9,261)	—	—	(9,261)
Issuance of common stock	28,627	143	176	—	—	—	319
Purchase and retirement of common stock	(89,278)	(446)	(176)	(571)	—	—	(1,193)
Balance, November 29, 2003	11,599,936	$ 58,000	$ —	$ 159,487	$ 2,531	$ —	$ 220,018

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

Consolidated Statements of Cash Flows

Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 29, 2003, November 30, 2002, and November 24, 2001
(In thousands)

	2003	2002	2001
Operating Activities			
Net income (loss)	$ (470)	$ 6,741	$ (2,642)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	10,521	10,804	11,316
Equity in undistributed income of investments	(11,234)	(6,231)	(3,784)
Provision for write-down of property and equipment	1,530	—	4,550
Cumulative effect of accounting change, net	4,875	—	—
Provision for write-down of affiliate investment	—	—	1,359
Provision for write-down of other receivable	—	—	1,200
Provision for corporate owned life insurance	—	705	994
Provision for losses on trade accounts receivable	604	237	1,004
Net gain from sales of investment securities	(289)	(707)	(2,218)
Net gain from sales of property and equipment	(60)	—	(5,297)
Compensation earned under restricted stock and stock option plans	—	222	173
Deferred income taxes	(1,154)	2,215	(824)
Changes in employee benefit liabilities	(328)	(444)	—
Changes in operating assets and liabilities, exclusive of assets and liabilities impacted by a business combination:			
Trade accounts receivable	307	5,874	10,178
Inventories	11,144	(7,695)	17,957
Refundable income taxes	2,924	1,757	(2,148)
Other current assets	3,563	3,835	(739)
Accounts payable and accrued liabilities	628	(5,437)	(8,796)
Net Cash Provided By Operating Activities	22,561	11,876	22,283
Investing Activities			
Purchases of property and equipment	(6,215)	(9,659)	(12,332)
Proceeds from sales of property and equipment	729	—	7,042
Proceeds from sales of investments	26,776	4,406	7,941
Purchases of investments	(21,776)	—	—
Dividends from an affiliate	5,154	5,623	25,059
Investments in unconsolidated affiliated companies	(90)	(2,419)	—
Other, net	589	2,164	(559)
Net Cash Provided By Investing Activities	5,167	115	27,151
Financing Activities			
Repayments under revolving credit arrangement, net	(3,000)	(3,000)	(39,000)
Repayments of notes payable	(783)	(1,189)	—
Borrowings (repayments) for real estate borrowing	—	(1,482)	1,482
Issuance of common stock, net	319	315	280
Repurchases of common stock	(1,193)	(1,253)	(730)
Cash dividends	(9,261)	(9,358)	(9,378)
Net Cash Used In Financing Activities	(13,918)	(15,967)	(47,346)
Change In Cash And Cash Equivalents	13,810	(3,976)	2,088
Cash And Cash Equivalents — beginning of year	1,371	5,347	3,259
Cash And Cash Equivalents — end of year	$ 15,181	$ 1,371	$ 5,347

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

A. Description of Business

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, “Bassett” or the “Company”) based in Bassett, Va., is a leading manufacturer and marketer of branded home furnishings. Bassett’s products, designed to provide quality, style and value, are sold through Bassett Furniture Direct® stores, At Home with Bassett® galleries, and other furniture and department stores. Bassett’s full range of furniture products and accessories are sold through an exclusive network of 101 retail stores known as Bassett Furniture Direct (“BFD”), of which 82 are independently owned, 13 are controlled and consolidated by the Company (“Bassett-owned retail stores”) and six are operated by joint ventures (“partnership licensees”), as well as over 1,000 furniture and department stores located throughout the United States. The Company has eight domestic manufacturing facilities.

B. Significant Accounting Policies

Principles of Consolidation and Fiscal Year

The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and its majority-owned subsidiaries for whom the Company has operating control. In 2003, the Company adopted FASB Revised Interpretation No. 46 “Consolidation of Variable Interest Entities”, for LRG Furniture, LLC (“LRG”). (See Accounting Change and Note H). All significant intercompany balances and transactions are eliminated in consolidation. The Company’s fiscal year ends on the Saturday nearest November 30. There were 52 weeks included in fiscal 2003, 53 weeks included in fiscal 2002 and 52 weeks included in fiscal 2001.

Cash Equivalents

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

Accounts Receivable and Notes Receivable

Substantially all of the Company’s trade accounts receivable and notes receivable are due from customers located within the United States. The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates. Allowances for doubtful accounts were $3,860 and $2,602 at November 29, 2003 and November 30, 2002, respectively. Accounts and notes receivable are generally secured by liens on merchandise sold to licensees.

Concentrations of Credit Risk and Major Customers

Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, investments, accounts and notes receivable and financial guarantees. All cash equivalents and investments are managed within established guidelines. Accounts and notes receivable subject the Company to credit risk partially due to the concentration of amounts due from one customer in 2003 and two customers in 2002. In 2003, the Company consolidated LRG, who was one of the Company’s largest two customers in 2002 and 2001 with 7% and 10% of net sales, respectively. Sales to JCPenney were 3%, 9% and 15% of the Company’s total net sales in 2003, 2002 and 2001, respectively. JCPenney accounted for 2% of total accounts receivable at November 29, 2003. JCPenney and LRG accounted for 14% of total accounts receivable at November 30, 2002.

Inventories

Inventories (finished goods, work in process and raw materials) are stated at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out (“LIFO”) method. The cost of imported inventories is determined on a first-in, first-out (“FIFO”) basis. Inventories recorded under the LIFO method represented 77% and 78% of total inventory at November 29, 2003 and November 30, 2002, respectively. The Company estimates inventory reserves for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Property and Equipment

Property and equipment is comprised of all land, buildings and machinery and equipment used in the manufacturing and warehousing of furniture and the administration of the wholesale and retail operations. This property and equipment is stated at cost. Depreciation is computed over the estimated useful lives of the respective assets utilizing straight-line and accelerated methods. Buildings and improvements are generally depreciated over a period of 10 to 39 years. Machinery and equipment are generally depreciated over a period of 5 to 10 years.

Retail Real Estate

Retail real estate is comprised of owned properties utilized by Bassett-owned and licensee operated BFD stores. These properties are located in high traffic, upscale locations that are normally occupied by large successful national retailers. This real estate is stated at cost and depreciated over useful lines ranging from 10 to 39 years, utilizing the straight line method. As of November 29, 2003 and November 30, 2002, the cost of retail real estate was comprised of $8,929 and $8,929, respectively, of land and $26,745 and $24,048, respectively, of buildings and leasehold improvements. As of November 29, 2003, and November 30, 2002, accumulated depreciation of retail real estate was $2,744 and $1,800, respectively. Depreciation expense was $944, $665 and $540 in 2003, 2002, and 2001, respectively.

Impairment of Long Lived Assets

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

Investments

The Company classifies its marketable securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and are reported as other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income and are determined using the specific identification method for ascertaining the cost of securities sold. All investments are marked-to-market and recorded at their fair value. Gains and losses on financial instruments that do not qualify as accounting hedges are recorded as other income or expense. Investments in the Bassett Industries Alternative Asset Fund L.P. ("Alternative Asset Fund") are valued on the basis of net asset value, with the resultant difference from the prior valuation included in the accompanying statements of income. The net asset value is determined by the investee fund based on its underlying financial instruments.

Unconsolidated Affiliated Companies

The equity method of accounting is used for the Company's investments in affiliated companies in which the Company exercises significant influence but does not maintain operating control. For equity investments that have been reduced to $0 through equity method losses, additional equity losses incurred have reduced notes receivable from the investee. At the beginning of 2003, the Company began consolidating LRG which previously was accounted for under the equity method.

Investment in Corporate Owned Life Insurance ("COLI")

In 2002 and 2001, the Company was the beneficiary of life insurance policies which were maintained to fund various employee and director benefit plans. Effective July 31, 2002, the Company surrendered these policies. Life insurance proceeds receivable included in other current assets was $3,784 at November 30, 2002. Prior to the surrender of these policies, net COLI income (expense), which includes premiums and interest on policy loans, changes in cash surrender values, and life insurance proceeds, was included in other expense in the accompanying consolidated statements of income.

Revenue Recognition

Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This occurs upon the shipment of goods to independent dealers or, in the case of Bassett-owned retail stores, upon delivery to the customer. Terms offered by the Company vary from 30 to 60 days. Estimates for returns and allowances and advertising arrangements have been recorded as a reduction to revenue.

Income Taxes

Deferred income taxes are provided based on the differences in timing of expense and income recognition between income tax and financial reporting in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Income taxes are provided on undistributed earnings from investments in affiliated companies. Income taxes payable includes reserves for estimated tax exposures. The Company reviews its deferred tax assets for recoverability. A valuation allowance is established when the Company believes that it is more likely than not that some portion of its deferred tax assets will not be realized. Changes in valuation allowances and estimated exposures from period to period are included in the Company's tax provision in the period of change.

Earnings per Share

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

Stock-Based Compensation

As permitted by SFAS No. 123, "Stock-Based Compensation," the Company has continued to measure compensation expense for its stock-based employee/director compensation plans using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Pro forma disclosures of net income and earnings per share are presented as if the fair value-based method prescribed by SFAS No. 123 had been applied in measuring compensation expense for the periods required by the statement. The Company measures expense for stock options granted to nor employees based on the fair value of the goods or service received. The following information is presented as if the Company adopted the new fair value method for recognition purposes under SFAS No. 123 and restated its results:

(In thousands, except share and per share data)

	2003	2002	2001
Net income (loss):			
As reported	$ (470)	$ 6,741	$ (2,642)
Less: pro forma expense, net of tax, related to stock options	(401)	(623)	(708)
Pro forma net income (loss)	$ (871)	$ 6,118	$ (3,350)
Earnings per share:			
Basic earnings per share			
As reported	$ (0.04)	$ 0.58	$ (0.23)
Pro forma	(0.08)	0.52	(0.29)
Diluted earnings per share			
As reported	(0.04)	0.57	(0.23)
Pro forma	(0.08)	0.52	(0.29)

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

	2003	2002	2001
Expected lives	5 years	5 years	5 years
Risk-free interest rate	3.0%	4.5%	4.4%
Expected volatility	40.0%	40.4%	39.0%
Dividend yield	6.0%	5.3%	6.2%

Shipping and Handling Costs

Costs incurred to deliver retail merchandise to customers are expensed and recorded in selling, general and administrative expense and totaled $1,836 for 2003, $1,205 for 2002, and $15 for 2001. Shipping and handling costs associated with sales to independent dealers are borne by the independent dealers.

Advertising

Costs incurred for producing and distributing advertising and advertising materials are expensed when incurred. Advertising costs, including LRG advertising costs of $2,643 in 2003, totaled $9,095, $5,494 and $3,827 and are included in selling, general and administrative expenses in 2003, 2002 and 2001, respectively.

Fair Value of Financial Instruments

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

Business Insurance Reserves

The Company has insurance programs in place to cover workers' compensation and health insurance claims. The insurance programs, which are funded through self-insured retention, are subject to various stop-loss limitations and re-insured through a captive insurance program. The Company accrues estimated losses using historical loss experience. Although management believes that the insurance reserves are adequate, the reserve estimates are based on historical experience, which may not be indicative of current and future losses. The Company adjusts insurance reserves, as needed, in the event that future loss experience differs from historical loss patterns.

Accounting Change

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which addresses the consolidation of certain business enterprises ("variable interest entities" or "VIEs"), to which the usual condition of consolidation, a controlling financial interest, does not apply. FIN 46 requires an entity to assess its equity investments, among other interests, to determine if they are variable interest entities. As defined in FIN 46, VIEs are contractual, ownership or other interests in an entity that change with the changes in the entity's net asset value. Variable interests in an entity may arise from guarantees, leases, borrowings and other arrangements with the VIE. An entity that will absorb a majority of the variable interest entity's expected losses or expected residual returns, as defined in FIN 46, is considered the primary beneficiary of the VIE. The primary beneficiary must include the VIE's assets, liabilities and results of operations in its consolidated financial statements.

On December 24, 2003, the FASB issued a revision of the Interpretation ("the Revised Interpretation" or "FIN 46R".) Revised Interpretation 46 modified both the proposed modifications and other decisions previously issued through certain FASB Staff Positions and supercedes the original Interpretation No. 46 to include (1) deferring the effective date for certain VIEs, (2) providing additional scope exceptions for certain VIEs, (3) clarifying the impact of troubled debt restructurings on the requirements to consider (a) whether an entity is a VIE or (b) which party is a primary beneficiary, and (c) providing additional guidance on what constitutes a variable interest. Under the Revised Interpretation, special effective date provisions apply to entities that have fully or partially applied FIN 46 prior to issuance of the revised Interpretation.

(In thousands, except share and per share data)

The Company completed the assessment for one licensee, LRG, and has concluded that LRG is a VIE for whom the Company is the primary beneficiary and accordingly adopted FIN 46R for LRG in the fourth quarter of fiscal year 2003. Adopting FIN 46R for LRG required the Company to consolidate LRG as of the beginning of 2003. Upon consolidation of LRG, the Company recognized a cumulative effect of an accounting change, amounting to $4,875 (net of income taxes of $3,200) or $.42 per diluted share.

The Company is currently analyzing its two partnership licensees and its independent licensees under the requirements of the Revised Interpretation. All of these licensees operate as Bassett Furniture Direct stores and are furniture retailers. The Company sells furniture to these licensees, and has some or all of the following with these licensees: lease guarantees, loan guarantees, notes and accounts receivable. The Company has not completed the complex analysis required by FIN 46R and therefore has not determined whether any of these licensees or any other affiliated entities will need to be consolidated based on the interpretation. See Note G for disclosure of information related to these entities. Consistent with the Company's critical accounting policies, the Company has recorded reserves for potential exposures related to these licensees. See Note P for disclosure of leases, lease guarantees and loan guarantees.

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142, which was applied to fiscal years beginning after December 15, 2001, modified the accounting and reporting of goodwill and intangible assets. The pronouncement requires entities to discontinue the amortization of goodwill, reallocate all existing goodwill among its reporting segments based on criteria set by SFAS 142 and perform initial impairment tests by applying a fair-value-based analysis on the goodwill in each reporting segment. Any impairment at the initial adoption date shall be recognized as the effect of a change in accounting principle. Subsequent to the initial adoption, goodwill must be tested for impairment annually or more frequently if circumstances indicate a possible impairment.

Under SFAS 142, entities are required to determine the useful life of other intangible assets and amortize the value over the useful life. If the useful life is determined to be indefinite, no amortization will be recorded. For intangible assets recognized prior to the adoption of SFAS No. 142, the useful life should be reassessed. Other intangible assets are required to be tested for impairment in a manner similar to goodwill. At November 29, 2003 and November 30, 2002, the Company had goodwill related to equity method investments in affiliates of approximately $18,000 and $22,000, net of accumulated amortization, respectively. The Company adopted SFAS 142 in the first fiscal quarter of 2002 and ceased the amortization of goodwill.

The audited results of operations presented below for 2003 and 2002 and adjusted results of operations for 2001 reflect the operations of the Company had the Company adopted the non-amortization provisions of SFAS 142 effective November 25, 2000:

	2003	2002	2001
Reported net income (loss)	$ (470)	$ 6,741	$ (2,642)
Add: Goodwill amortization, net of tax	—	—	234
Adjusted net income (loss)	$ (470)	$ 6,741	$ (2,408)
Basic earnings (loss) per share:			
Reported net income (loss)	$ (0.04)	$ 0.58	$ (0.23)
Add: Goodwill amortization, net of tax	—	—	0.02
Adjusted net income	$ (0.04)	$ 0.58	$ (0.21)
Diluted earnings (loss) per share:			
Reported net income (loss)	$ (0.04)	$ 0.57	$ (0.23)
Add: Goodwill amortization, net of tax	—	—	0.02
Adjusted net income	$ (0.04)	$ 0.57	$ (0.21)

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others ("FIN 45"). FIN 45 requires an entity issuing a guarantee to recognize, at the inception of the guarantee, a liability equal to the fair value of the guarantee. FIN 45 also requires detailed information about each guarantee or group of guarantees even if the likelihood of making a payment is remote. The disclosure requirements of FIN 45 became effective for the Company in the first quarter of fiscal year 2003. FIN 45's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's previous accounting for guarantees issued prior to the date of the initial application of FIN 45 will not be revised or restated to reflect the provisions of FIN 45. The Company's adoption of FIN 45 did not have a significant effect on the results of operations as the Company's accounting for guarantees prior to the adoption was not significantly changed by the provisions of the interpretation. See Note P.

In May 2003, FASB Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), was issued. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company.

(In thousands, except share and per share data)

Use of Estimates

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

Reclassifications

For comparative purposes, certain amounts in 2002 and 2001 financial statements have been reclassified to conform to the 2003 presentation.

C. Inventories

Inventories consist of the following:

	November 29, 2003	November 30, 2002
Finished goods	$ 25,488	$ 36,826
Work in process	2,922	3,424
Raw materials and supplies	16,830	18,028
Retail merchandise	8,146	3,271
Total inventories on first-in, first-out cost method	53,386	61,549
LIFO adjustment	(16,932)	(18,100)
	$ 36,454	$ 43,449

For 2003, retail merchandise increased due to the consolidation of LRG. During 2003, the Company liquidated certain LIFO inventories, which decreased cost of sales by approximately $2,600 and more than offset losses associated with liquidating certain finished goods inventories. The Company recorded a LIFO increment of $484 in fiscal 2002 associated within the general increase in the FIFO cost of inventories. The Company also liquidated certain LIFO inventories in 2001, which decreased cost of sales by approximately $7,900.

D. Sale of California Upholstery Plant

During the fourth quarter of 2002, the Company closed its California upholstery plant and consolidated production into its two remaining upholstery plants in North Carolina. The recorded net book value of the real estate was approximately $1,140. During the fourth quarter of 2003, the Company consummated a transaction to sell this facility to a third party. The transaction was consummated through a short-term note issued to the Company which matures in 2004. The Company has deferred the recognition of the gain from this transaction until payment is received due to the financing of the transaction. The Company recorded a $2,583 note receivable, net of the deferred gain, in other current assets in the accompanying 2003 consolidated balance sheet.

E. Property and Equipment

	November 29, 2003	November 30, 2002
Land	$ 1,425	$ 2,391
Buildings	43,947	49,987
Machinery and equipment	127,525	142,031
	172,897	194,409
Less		
Accumulated depreciation	(122,216)	(135,044)
	$ 50,681	$ 59,365

Depreciation expense for property and equipment was $9,205, $10,042 and $9,701 in 2003, 2002, and 2001, respectively.

During the first quarter of 2003, the Company announced that it would close its Dublin, Ga., wood manufacturing plant and consolidate production into its Bassett, Va., facility. Restructuring charges of $3,200 were accrued at the end of the quarter which primarily related to the closing of this facility. $1,530 of the $3,200 restructuring charge represents an estimate of the impaired asset write-down of the Dublin, Ga., facility. The recorded net book value of the property is approximately $1,062. The Company currently has a signed letter of intent from a potential buyer of the property, and expects the sale of the real estate to be completed in 2004.

F. Investments

The Company’s investments consist of a 99.8% interest in the Bassett Industries Alternative Asset Fund, L.P. (“Alternative Asset Fund”) and a portfolio of marketable securities.

A summary of the Company’s investments is as follows:

	November 29, 2003	November 30, 2002
Alternative Asset Fund	$ 45,251	$ 57,168
Marketable Securities	19,900	6,080
	$ 65,151	$ 63,248

The Alternative Asset Fund commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (General Partner) of the Alternative Asset Fund. The Company and General Partner are currently the only two partners. The objective of the Alternative Asset Fund is to achieve consistent positive returns, while attempting to reduce risk and volatility, by placing its capital with a variety of hedge funds and experienced portfolio managers. Such hedge funds and portfolio managers employ a variety of trading styles or strategies, including, but not limited to, convertible arbitrage, merger or risk arbitrage, distressed debt, long/short equity, multi- strategy and other market — neutral strategies. The

(In thousands, except share and per share data)

General Partner has discretion to make all investment and trading decisions, including the selection of investment managers. The General Partner selects portfolio managers on the basis of various criteria, including, among other things, the manager's investment performance during various time periods and market cycles, the fund's infrastructure, and the manager's reputation, experience, training and investment philosophy. In addition, the General Partner requires that each portfolio manager have a substantial personal investment in the investment program. The Company's investment in the Alternative Asset Fund, which totaled $45,251 at November 29, 2003, includes investments in various other private limited partnerships, which contain contractual commitments with elements of market risk.

These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest, market currency rates, and liquidity. The Company accounts for the investments by marking them to market value each month based on the net asset values provided by the General Partner. The hedge funds and portfolio managers provide the General Partner with estimated net asset values on a monthly basis that represents the amount the partnership would receive if it were to liquidate its investments in the investee funds. The partnership may redeem part of its investments as of the end of each quarter or calendar year, with no less than 45 days prior written notice.

The recorded investment in the Alternative Asset Fund was $45,251 and $57,168 at November 29, 2003 and November 30, 2002, respectively. The Company's earnings were $5,083, $1,516 and $5,062 for 2003, 2002 and 2001, respectively. Distributions to the Company from the sales of investments were $17,000, $3,000 and $3,500 for 2003, 2002 and 2001, respectively.

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

	November 29, 2003	November 30, 2002
Styx Partners. L.P.	$ 17,355	$ 10,215
Oz Domestic Partners, L.P.	645	11,865
HBK Fund, L.P.	9,568	12,703
BBT Partners, L.P.	2,538	2,455
Contrarian Capital Trade Claims, L.P.	7,974	2,504
Merced Partners, L.P.	6,813	—
Farallon Capital Offshore Investments, Inc.	—	7,679
Double Black Diamond, L.P.	—	9,736
Cash	358	11
	$ 45,251	$ 57,168

During 2003, the General Partner reallocated certain funds in accordance with the Alternative Asset Funds desired investment strategy and the Company received distributions (from investment sales) totaling $17,000.

Investments in marketable securities are held as "available for sale". During 2003, the Company invested an additional $12,000 that had previously been invested in the Alternative Asset Fund. The net change in unrealized holding gains is recorded in accumulated other comprehensive income, net of taxes of $551 for 2003, ($842) for 2002 and ($1,334) for 2001.

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

	November 29, 2003	November 30, 2002
Cost	$ 15,946	$ 3,656
Unrealized holding gains	3,954	2,424
Fair value	$ 19,900	$ 6,080

G. Unconsolidated Affiliated Companies

International Home Furnishings Center:

The International Home Furnishings Center ("IHFC") owns and leases showroom floor space in High Point, North Carolina. During 2001, IHFC refinanced its real estate based on the market value of its properties which resulted in an unusually large dividend paid to owners. The Company's share of this dividend was $25,059. The dividend had no impact on the Company's earnings, as the investment is accounted for under the equity method. The Company's investment reflects a credit balance (negative net book value due to dividends received exceeding allocated earnings) of $13,070 and $13,941 at November 29, 2003 and November 30, 2002, respectively, and is reflected in the liabilities section in the accompanying consolidated balance sheets as distributions in excess of affiliate earnings. The Company purchased an additional interest in IHFC in December 2001 for $1,519 bringing its total ownership interest to 46.9%. The Company's share of earnings and dividends from this investment were $6,025 and $5,154, respectively in 2003, $5,756 and $5,623, respectively, in 2002, and $3,542 and $25,059, respectively, in 2001. The Company leases 85,000 square feet of showroom space from IHFC, 2.5% of the total space available for lease, at competitive market rates. The complete financial statements of IHFC are included in the Company's annual Form 10-K. Based on current and expected future earnings of IHFC, management believes that the market value of this investment is positive and substantially greater than its negative book value of $13,070 at November 29, 2003.

(In thousands, except share and per share data)

Summarized combined financial information for IHFC is as follows:

	2003	2002	2001
Current assets	$ 33,498	$ 29,495	$ 39,210
Non-current assets	49,757	51,321	52,578
Current liabilities	19,201	15,474	16,049
Long-term liabilities	129,767	133,236	133,066
Revenues	43,518	42,766	41,656
Net income	12,860	12,287	9,249

Partnership licensees:

In 2003 and 2002, as part of the Company's retail expansion strategy, the Company made equity investments in two licensee operators of the Company's BFD store program. In 2002, the Company purchased a 30% ownership interest in BFD Northeast, LLC ("BFDNE") for $600. BFDNE is developing BFD retail stores in New England. As of November 29, 2003, BFDNE operates five BFD stores. Sales to BFDNE were $8,667 and $2,525 for 2003 and 2002, respectively, and the Company had notes and accounts receivables of $2,871 and $1,422 due from BFDNE at November 29, 2003 and November 30, 2002, respectively. The Company's share of income (losses) amounted to $100 and ($227) for 2003 and 2002, respectively.

In 2002, the Company purchased a 28% ownership interest in BFD Atlanta, LLC ("BFDA") for $300. BFDA is developing Bassett Furniture Direct retail stores in metropolitan Atlanta, Georgia. BFDA's first store opened in December 2002. As of November 29, 2003, BFDA had one store in operation. Sales to BFDA were $1,690 and $0 in 2003 and 2002, respectively, and the Company had notes and accounts receivables of $546 and $0 at November 29, 2003 and November 30, 2002, respectively. The Company's share of losses was $201 and $85 in 2003 and 2002, respectively.

Other affiliates:

The Company owns 49% of Zenith Freight Lines, LLC, ("Zenith") which hauls freight for many of the Company's customers. The Company's investment balance was $4,489 at November 29, 2003 and $4,084 at November 30, 2002. Bassett-owned retail stores paid Zenith approximately $1,600 for freight expense in 2003. The Company's share of earnings from the investment in Zenith was $406, $100 and $0, for 2003, 2002 and 2001, respectively.

Summarized combined financial information for Zenith, BFDNE, and BFDA, is as follows:

	2003	2002	2001
Current assets	$ 7,546	$ 4,036	$ 2,441
Non-current assets	7,565	6,975	6,708
Current liabilities	5,755	2,641	1,835
Long-term liabilities	3,282	4,881	5,231
Revenues	33,439	12,988	14,702
Net income (loss)	604	(239)	(96)

H. LRG Furniture, LLC

During the fourth quarter of 2003, the Company adopted FIN 46R for LRG as set forth in Note B. Adoption of FIN 46R required the Company to consolidate the results and financial position of LRG as of the beginning of fiscal 2003.

The following unaudited pro forma summary presents financial information for the Company for the year ended November 30, 2002. These pro forma results have been presented for comparative purposes only and do not purport to be indicative of what would have occurred had LRG been consolidated on November 25, 2001 or of future results. These pro forma results include the minority portion of LRG's net loss which was not recorded under the equity method.

	2002 (Unaudited)
Net Sales	$ 347,526
Income from operations	5,093
Net income	6,021
Basic and diluted earnings per share	$ 0.52

In the fourth quarter of 2003, the Company reached an agreement with the other members of LRG to acquire an additional 29% ownership in LRG and obtain operating control of LRG reflective of this additional ownership percentage. This transaction resulted in the Company owning 80% of LRG. This transaction primarily included conversion of certain notes receivable into the additional 29% ownership and conversion of certain trade receivables into notes receivable.

Summarized financial information for periods during which LRG was accounted for using the equity method was as follows:

	2002	2001
Current assets	$ 7,818	$ 13,292
Non-current assets	1,721	3,417
Current liabilities	10,191	15,766
Long-term liabilities	12,210	14,598
Revenues	45,736	62,578
Net loss	(1,980)	(6,748)

(In thousands, except share and per share data)

The Company's share of losses from LRG was ($1,007) in 2002 and ($3,855) in 2001. The Company's investment balance of ($2,828) at November 30, 2002 was reclassified to reduce the balance of the notes receivable from LRG at the end of 2002.

The Company had outstanding trade accounts receivable due from LRG of $4,257 as of November 30, 2002. In addition the Company had notes receivable from LRG of $10,350 at the end of 2002. These notes were included in notes receivable in the accompanying consolidated balance sheets and had maturities of between three and nine years and bear interest at various rates at or above market. Sales to LRG were $21,697 in 2002 and $31,259 in 2001. These sales were at prices equal to normal selling prices to unrelated entities. In addition to accounts and notes receivable, the Company had lease and loan guarantees with LRG in the amount of $9,222 at November 30, 2002.

I. Accrued Liabilities

Accrued liabilities consist of the following:

	November 29, 2003	November 30, 2002
Compensation and related benefits	$ 9,039	$ 8,723
Severance and employee benefits	208	197
Legal and environmental	2,233	1,352
Dividends payable	2,314	2,328
Retail customer deposits	3,233	855
Income taxes payable	1,530	—
Other	3,784	2,951
	$ 22,341	$ 16,406

J. Income Taxes

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

	2003	2002	2001
Statutory federal income tax rate	35.0%	35.0%	(35.0)%
Dividends received exclusion	(33.7)	(18.8)	(31.9)
Corporate owned life insurance	4.1	2.7	30.6
State income tax, net of federal benefit	2.4	2.8	8.1
Other	1.7	4.3	(0.1)
Effective income tax rate	9.5%	26.0%	(28.3)%

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

	2003	2002	2001
Current:			
Federal	$ 1,214	$ —	$ —
State	402	154	(218)
Deferred:			
Federal	(972)	1,986	(739)
State	(182)	229	(85)
Total	$ 462	$ 2,369	$ (1,042)

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

	November 29, 2003	November 30, 2002
Deferred income tax assets:		
Trade accounts receivable	$ 1,506	$ 1,015
Inventories	1,103	599
Property and equipment writedowns	183	564
Retirement benefits	3,831	4,703
Net operating loss carryforwards	1,648	3,328
Distribution from affiliates in excess of income	6,059	6,304
Contribution and other carryforwards	334	443
Alternative minimum tax credit carryforward (no expiration)	3,269	1,869
Other	1,847	119
Total gross deferred income tax assets	19,780	18,944
Deferred income tax liabilities:		
Property and equipment	5,824	8,993

Undistributed affiliate income	4,630	1,809
Prepaid expenses and other	245	215
Unrealized holding gains	1,542	873
Total gross deferred income tax liabilities	12,241	11,890
Net deferred income tax assets	$ 7,539	$ 7,054

(In thousands, except share and per share data)

The Company has recorded a deferred income tax asset of $1,648 as of November 29, 2003, for the benefit of approximately $6,828 in federal and state income tax loss carryforwards, which expire in varying amounts between 2014 and 2022. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards. Although realization is not assured, management believes it is more likely than not that all of the deferred income tax assets will be realized. The amount of the deferred income tax assets considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

In February 2003, the Company reached a final settlement with the IRS regarding the non-deductibility of interest expense on loans associated with the Company's corporate owned life insurance plan ("COLI" plan). The Company had previously recorded reserves to cover the negotiated settlement amount. Income taxes paid, net of refunds, during 2003, 2002 and 2001 were ($3,366), $350, and $1,485, respectively.

K. Long-Term Liabilities and Retirement Plans

The Company has a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers all employees who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched by the Company at the rate of 115% of the first 2% through 5% of the employee's contribution, based on seniority. The Plan incorporates provisions of Section 401(k) of the Internal Revenue Code. Employer matching contributions to the Plan for 2003, 2002 and 2001 were approximately $1,246, $1,462 and $1,445, respectively.

The Company has a Supplemental Retirement Income Plan that covers certain current and former senior executives and provides additional retirement and death benefits. Also, the Company has a Deferred Compensation Plan for certain senior executives that provides for voluntary deferral of compensation otherwise payable. The unfunded future liability of the Company under these Plans is included as employee benefits in long-term liabilities. The expenses for these plans (primarily interest) for 2003, 2002 and 2001 were $1,100, $986, and $1,168, respectively.

L. Long-term Debt

In October 2000, the Company entered into a three-year $70,000 revolving credit facility with a new lender and three other participants. The facility is secured by certain receivables and inventories of the Company with borrowing rates ranging from LIBOR plus .625% to LIBOR plus 1.375%, based on various debt to earnings ratios. The LIBOR rate was 1.94% at November 30, 2002. The Company amended the facility in 2001 to address restrictive covenants and to reduce the total facility to $60,000. The Company amended the facility in July 2003 by extending the agreement by two years, lowering the total facility to $50,000 and easing certain covenants. Borrowings under the facility, which matures November 30, 2005, totaled $0 and $3,000 at November 29, 2003 and November 30, 2002, respectively. After coverage for letters of credit, the Company had $33,779 available for borrowing under the facility at November 29, 2003. The average interest rate was 2.921% for the year ended November 29, 2003.

The new facility contains, among other provisions, certain defined financial requirements regarding leverage and fixed charge ratios and certain restrictions involving future indebtedness and contingent liabilities.

Interest paid during 2003, 2002 and 2001 was $794, $465, and $1,945, respectively.

LRG repaid $783 of long-term debt during 2003 and ended the year with $117 of debt which is recorded as a current liability.

M. Capital Stock and Stock Compensation

The Company had a Long Term Incentive Stock Option Plan that was adopted in 1993 (the 1993 Plan). Under the 1993 Plan, the Company had reserved for issuance 450,000 shares of common stock. Options outstanding under the 1993 Plan expire at various dates through 2007. The Company adopted a second Employee Stock Plan in 1998 (the 1998 Plan). Under the 1998 Plan, the Company has reserved for issuance 950,000 shares of common stock. In addition, the terms of the 1998 Plan allow for the re-issuance of any stock options which have been forfeited before being exercised. An additional 500,000 shares of common stock were authorized for issuance by the Stockholders at the 1999 Annual Shareholders Meeting. Options granted under the 1998 Plan may be for such terms and exercised at such times as determined by the Organization, Compensation, and Nominating Committee of the Board of Directors. Shares available for grant under the 1998 Plan were 556,082 at November 29, 2003.

The Company had a Stock Plan for Non-Employee Directors, adopted in 1993 and amended in 2000, which expired in 2003. Under this stock option plan, the Company reserved for issuance 125,000 shares of common stock, including an additional 50,000 shares of common stock that were authorized for issuance by the Stockholders at the 2000 Annual Shareholders Meeting. No shares were available for grant under the plan at November 29, 2003. These options are exercisable for 10 years commencing six months after the date of grant.

(In thousands, except share and per share data)

Option activity under these plans is as follows:

	Number of shares	Weighted average price per share
Outstanding at November 25, 2000	1,724,251	$ 23.67
Granted	55,500	12.84
Exercised	—	—
Forfeited	(115,259)	28.59
Outstanding at November 24, 2001	1,664,492	23.11
Granted	358,500	14.93
Exercised	(1,000)	(11.91)
Forfeited	(162,547)	28.50
Outstanding at November 30, 2002	1,859,445	21.07
Granted	15,000	11.44
Exercised	(4,666)	13.03
Forfeited	(479,527)	24.44
Outstanding at November 29, 2003	1,390,252	$ 19.84
Exercisable at November 29, 2003	1,148,807	$ 20.92
Exercisable at November 30, 2002	1,319,121	$ 23.66
Exercisable at November 24, 2001	1,167,471	$ 25.99

For various price ranges, weighted-average characteristics of outstanding stock options at November 29, 2003 were as follows:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercisable price	Number exercisable	Weighted average exercisable price
$11.26 – $16.00	824,288	7.0	$14.70	590,843	$14.68
16.01 – 27.74	260,692	4.5	21.95	252,692	22.24
27.75 – 37.40	305,272	4.3	31.92	305,272	31.92
	1,390,252	6.0		1,148,807	

The weighted average fair values of options granted during 2003, 2002 and 2001 were $2.74, $3.77 and $2.89, respectively.

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

The Company implemented an Employee Stock Purchase Plan (ESPP) in the fourth quarter of fiscal year 2000. This plan allows eligible employees to purchase a limited number of shares of the Company's stock at 85% of market value. Under the plan the Company sold 20,296 and 20,635 shares to employees in 2003 and 2002, respectively. Under SFAS No. 123, no compensation expense is recognized for shares purchased under the ESPP.

N. Restructuring, Impaired Asset and Other Unusual Charges

During 2001, three domestic wood manufacturing facilities in Virginia were closed. Additionally, 60 corporate office positions were eliminated in 2001. Ongoing efforts to match production with demand, offer more competitively priced products and operate more efficient manufacturing facilities resulted in these closings. Production was moved to other manufacturing facilities or was outsourced. Approximately 800 positions were eliminated as a result of this restructuring activity. In addition to the restructuring charges recognized in 2001, the Company recorded unusual and non-recurring charges of $1,051 for inventory losses related to discontinued product. This amount is included in 2001 cost of sales.

During the fourth quarter of 2002, the Company closed its California upholstery plant and consolidated production into its two remaining upholstery manufacturing facilities in North Carolina. The Company incurred restructuring charges of $1,251, which related entirely to severance and employee benefit costs for approximately 200 employees. The Company sold this property in 2003 yet deferred the related gain until proceeds from the sale are received.

During fiscal year 2003, the Company closed its wood manufacturing plant in Dublin, Georgia, in order to better match production capacity to current demand levels. This and other reorganization actions resulted in the elimination of approximately 320 positions.

The following summarizes the restructuring and impaired asset charges:

	2003	2002	2001
Non-cash writedown of property and equipment to net realizable value	$ 1,530	$ —	$ 4,550
Severance and related employee benefit costs	1,670	1,251	2,402
	$ 3,200	$ 1,251	$ 6,952

The 2003 property and equipment write-downs were entirely related to the closing of the Dublin, Ga. Facility. The 2001 property and equipment write-downs were entirely related to closing three facilities in Bassett, Virginia and were determined based on estimated liquidation value of the associated machinery, equipment and buildings. All of the severance and employee benefit costs expensed during the last three years have been paid except for $208 which was unpaid as of November 29, 2003.

(In thousands, except share and per share data)

O. Contingencies

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

P. Leases, Lease Guarantees and Loan Guarantees

The Company leases land and buildings that are used in the operation of its Bassett-owned retail stores as well as in the operation of independent and partnership licensee BFD stores. Additionally, the Company leases showroom space from IHFC, which is priced at the market rate. Lease terms range from three to 15 years and generally have renewal options of between five and 15 years. The Company's decision to exercise renewal options is primarily dependent on the level of business conducted at the location and the profitability thereof. Some store leases contain contingent rental provisions based upon sales volume. Prior to 2003, certain LRG leases were guaranteed by the Company. Upon consolidation of LRG in 2003, these guarantees became lease commitments. The following schedule shows future minimum lease payments under non-cancelable leases having remaining terms in excess of one year as of November 29, 2003:

2004	$ 6,326
2005	5,986
2006	5,478
2007	5,256
2008	5,009
Thereafter	28,972
	$57,027

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

2004	$ 1,901
2005	1,828
2006	1,669
2007	1,512
2008	1,339
Thereafter	6,732
	$14,981

Real estate expense (including lease costs, depreciation, insurance, and taxes), net of rental income, was $493 in 2003, $741 in 2002 and $253 in 2001.

As part of the Company's expansion strategy for its retail stores, Bassett has guaranteed certain lease obligations and construction loan obligations of licensee operators of the Bassett Furniture Direct program. Lease guarantees range from one to ten years, and are generally guaranteed by the individual dealer. The guarantee party is required to make periodic fee payments to the Company in exchange for the guarantee. The Company was contingently liable under licensee lease obligation guarantees in the amount of $18,511 and $27,928 at November 29, 2003 and November 30, 2002, respectively. Currently, the Company is not liable on any construction loans.

The Company has also guaranteed loans of certain of its BFD dealers to finance initial inventory packages for those stores. Loan guarantees generally have three year terms and are collaterized by the inventory and generally carry a personal guarantee of the independent dealer The total contingent liability with respect to these loan guarantees as of November 29, 2003 and November 30, 2002 was $7,894 and $8,568, respectively.

In the event of default by an independent dealer under the guaranteed lease or loan, the Company believes that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral, and pursuing payment under the personal guarantees of the independent dealer (the proceeds of which are estimated to cover the maximum amount of the Company's future payments under the guarantee obligations). The fair value of guarantees at November 29, 2003, and November 30, 2002 were $1,261 and $988, respectively, and are recorded in accrued liabilities in the accompanying balance sheets.

(In thousands, except share and per share data)

Q. Earnings Per Share

The following table reconciles basic and diluted earnings per share:

	Shares	Net Income	Earnings Per Share
2003:			
Basic EPS	11,608,853	$ (470)	$ (0.04)
Add effect of dilutive securities:			
Options	7,519	—	—
Diluted EPS	11,616,372	$ (470)	$ (0.04)
2002:			
Basic EPS	11,697,519	$ 6,741	$ 0.58
Add effect of dilutive securities:			
Options and restricted stock	57,742	—	(0.01)
Diluted EPS	11,755,261	$ 6,741	$ 0.57
2001:			
Basic EPS	11,701,842	$ (2,642)	$ (0.23)
Add effect of dilutive securities:			
Options and restricted stock	9,644	—	—
Diluted EPS	11,711,486	$ (2,642)	$ (0.23)

Options to purchase 1,390,252 shares of common stock in 2003, 1,859,445 in 2002 and 1,664,492 shares in 2001, were outstanding at the end of each fiscal year that could potentially dilute basic EPS in the future.

R. Segment Information

The Company's primary business is wholesale home furnishings. The wholesale home furnishings business is involved principally in the design, manufacture, sale and distribution of furniture products to a network of independently-owned stores, Bassett-owned retail stores, and partnership licensees.

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

The Company's "other" business segment consists of a contemporary furniture business and corporate selling, general and administrative expenses, which are included to reconcile segment information to the consolidated financial statements.

The 2003 Bassett-owned stores retail segment consists of four 100% owned retail stores in North Carolina, two 100% owned retail stores in Nevada, and seven stores operated by LRG in Texas. The 2002 retail segment consisted of the six 100% owned retail stores in Virginia and North Carolina.

Inventory profit elimination reflects the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is shipped to the retail customer.

Restructuring, impaired fixed assets and other unusual charges are included for 2003, 2002 and 2001 as discussed in Note N to the consolidated financial statements and are included below in the "other" segment.

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

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

R. Segment Information (continued)

2003

	Wood	Upholstery	Import	Other	Wholesale
Net sales	$ 135,515	$ 99,271	$ 46,113	$ 9,006	$ 289,905
Operating income (loss)	10,522	13,826	9,093	(30,672)	2,769
Identifiable assets	50,046	14,090	13,245	189,908	267,289
Depreciation and amortization	3,707	952	—	5,524	10,183
Capital expenditures	667	1,452	—	3,916	6,035

	Wholesale	Retail	Retail Elimination	Consolidated
Net sales	$ 289,905	$ 52,157	$ (25,205)	$ 316,857
Operating income (loss)	2,769	(3,999)	—	(1,230)
Identifiable assets	267,289	13,091	—	280,380
Depreciation and amortization	10,183	338	—	10,521
Capital expenditures	6,035	180	—	6,215

2002

	Wood	Upholstery	Import	Other	Wholesale
Net sales	$ 160,591	$ 105,562	$ 40,566	$ 8,523	$ 315,242
Operating income (loss)	15,713	14,373	9,129	(31,730)	7,485
Identifiable assets	63,256	14,369	13,720	195,572	286,917
Depreciation and amortization	2,997	954	—	6,763	10,714
Capital expenditures	2,331	674	—	6,654	9,659

	Wholesale	Retail	Retail Elimination	Consolidated
Net sales	$ 315,242	$ 15,816	$ (7,571)	$ 323,487
Operating income (loss)	7,485	(1,044)	(185)	6,256
Identifiable assets	286,917	3,963	—	290,880
Depreciation and amortization	10,714	90	—	10,804
Capital expenditures	9,659	—	—	9,659

2001

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

Report of Independent Public Accountants

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

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated and subsidiaries as of November 29, 2003, and November 30, 2002 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of International Home Furnishings Center, Inc. (a corporation in which the Company has a 47% interest), have been audited by other auditors whose report has been furnished to us; insofar as our opinion on the consolidated financial statements relates to the amounts included for International Home Furnishings Center, Inc., it is based solely on their report. The consolidated financial statements of Bassett Furniture Industries, Incorporated and subsidiaries as of November 24, 2001, and for the year then ended were audited by other auditors who have ceased operations and whose report dated January 15, 2002 expressed an unqualified opinion on those financial statements before the revisions described in Note B.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bassett Furniture Industries, Incorporated and subsidiaries as of November 29, 2003, and November 30, 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note B to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", in 2002 and FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities", for LRG Furniture, LLC in 2003.

As discussed above, the consolidated financial statements of Bassett Furniture Industries, Incorporated as of November 24, 2001 and for the year then ended were audited by other auditors who have ceased operations. As described in Note B, these financial statements have been revised to include the transitional disclosures of FAS 142. We applied procedures with respect to the disclosures in Note B pertaining to 2001 consolidated financial statement revisions. In our opinion, the FAS 142 disclosures for 2001 in Note B are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

/s/ Ernst & Young LLP

Greensboro, North Carolina,
January 9, 2004

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP. As discussed in the Goodwill and Intangible Assets note, the corporation has presented the transitional disclosures for 2001 required by SFAS No. 142. The Arthur Andersen LLP report does not extend to these changes to the 2001 consolidated financial statements. The adjustments to the 2001 consolidated financial statements were reported on by Ernst & Young LLP as stated in their report appearing herein.

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

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

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

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

/s/ Arthur Andersen LLP

Greensboro, North Carolina,
January 15, 2002

Other Business Data

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

Selected Financial Data

	2003	2002	2001	2000	1999
Net sales	$ 316,857 (2)	$ 323,487 (2)	$ 305,676	$ 367,444	$ 394,412
Cost of sales	$ 234,861	$ 254,993	$ 254,456	$ 302,281	$ 309,316
Operating profit (loss)	$ (1,230) (1)	$ 6,256 (1)	$ (4,912) (1)	$ (3,196) (1)	$ 12,474
Other income, net	$ 6,097	$ 2,854	$ 1,228	$ 18,263	$ 13,744
Income (loss) before income taxes	$ 4,867	$ 9,110	$ (3,684)	$ 15,067	$ 26,218
Income taxes (benefit)	$ 462	$ 2,369	$ (1,042)	$ 4,671	$ 8,264
Net income (loss)	$ (470)	$ 6,741	$ (2,642)	$ 10,032	$ 17,954
Diluted earnings (loss) per share	$ (0.04)	$ 0.57	$ (0.23)	$ 0.85	$ 1.44
Cash dividends declared	$ 9,261	$ 9,358	$ 9,378	$ 9,497	$ 9,983
Cash dividends per share	$ 0.80	$ 0.80	$ 0.80	$ 0.80	$ 0.80
Total assets	$ 280,380	$ 290,880	$ 301,403	$ 346,680	$ 342,829
Long-term debt	$ —	$ 3,000	$ 7,482	$ 45,000	$ 18,000
Current ratio	2.69 to 1	3.02 to 1	3.19 to 1	3.19 to 1	2.39 to 1
Book value per share	$ 18.97	$ 19.63	$ 20.04	$ 21.09	$ 20.46
Weighted average number of shares	11,608,853	11,697,519	11,701,842	11,812,962	12,499,481

Quarterly Results of Operations (unaudited)

	2003						
	First		Second		Third		Fourth
	As filed	(3,4) Adjusted	As filed	(3) Adjusted	As filed	(3) Adjusted	
Net sales	$73,282	$77,614	$71,529	$76,866	$74,434	$79,433	$82,944
Gross profit	15,838	20,204	15,131	19,548	15,637	19,835	22,409
Cumulative effect of accounting change	—	(4,875)	—	—	—	—	—
Net income (loss)	(1,330)	(6,425)	1,193	1,193	1,557	1,557	3,205
Basic earnings (loss) per share	(0.11)	(0.55)	0.10	0.10	0.13	0.13	0.28
Diluted earnings (loss) per share	(0.11)	(0.55)	0.10	0.10	0.13	0.13	0.28

	2002			
	First	Second	Third	Fourth
Net sales	$84,788	$80,904	$78,367	$79,428
Gross profit	16,728	18,449	16,584	16,733
Net income (loss)	2,912	2,880	(718)	1,667
Basic earnings (loss) per share	0.25	0.25	(0.06)	0.14
Diluted earnings (loss) per share	0.25	0.24	(0.06)	0.14

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

(2) Includes sales from Bassett-owned retail stores.

(3) The adjusted amounts have been adjusted from amounts previously reported to reflect the adoption of FIN 46R for LRG which required consolidation of LRG as of the beginning of 2003. The difference in "as filed" and "adjusted" amounts reflect the consolidation of LRG's results into net sales and gross profit. The difference in first quarter net loss was the minority portion of LRG's first quarter losses ($220) not recorded under the equity method and the cumulative effect of accounting change ($4,875). See Notes B and H to the Consolidated Financial Statements.

(4) First quarter net loss before cumulative effect of accounting change was $(1,550) or $(0.13) basic and diluted loss per share.

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

Bassett Furniture Industries, Incorporated and Subsidiaries
(dollar amounts in thousands)

Overview

Bassett Furniture Industries Inc., based in Bassett, Va., is a leading manufacturer and marketer of branded home furnishings. Bassett's products, designed to provide quality, style and value, are sold through Bassett Furniture Direct® stores, @t Home with Bassett® galleries, and other furniture and department stores. BassettBaby ® products, primarily cribs and casegoods, are sold through specialty stores and mass merchants.

The Bassett Furniture Direct store program, which began in 1997, entailed not only the creation of a new prototype store, but also includes an internal, cultural transformation aimed at re-focusing company practices and strategies to the ultimate end user, the consumer. The strategy also focused on re-styling the Bassett lines and suites with accessories. Bassett Furniture Direct acts as both a furniture design center and a moderate price point leader – two characteristics that combined with custom product and quick delivery offer the Company a unique selling proposition in the furniture industry.

The furniture industry continues to experience rapid change. The change has been precipitated by both the growth of imported furniture (which has included downward pressure on retail prices) and the consolidation and elimination of traditional channels of distribution. The Company has embraced these changes through its BFD program and by reducing its domestic production of product that can be more efficiently sourced overseas. The Company strives to provide its customers with home furnishings at competitive prices and, with that goal in mind, will continue to evaluate the cost effectiveness of domestic production on a product by product basis. The Company also is continuing its focus on the BFD distribution channel. Continual improvements to the retail program are being made through improved product, new advertising and better delivery, service and training. The Company expects to open between 20 and 25 new stores per year over the next several years. The Company believes that overall operating margins will be positively impacted through its efforts to reengineer manufacturing processes and source more product overseas.

Management intends to execute these strategies in such a way as to preserve the Company's investments while simultaneously minimizing the need for borrowed funds. Maintenance of a strong balance sheet is a stated management goal and vital to the Company's retail growth strategy. The BFD program entails key business risks, including the realization of receivables and the coverage of contingent liabilities for which management has established business disciplines and decision criteria to minimize potential losses from these risks.

Two key components of the Company's balance sheet are the Company's investments in the International Home Furnishings Center, Inc. (IHFC) and the Bassett Industries Alternative Asset Fund (Alternative Asset Fund). (For a description of these investments, see Notes F and G of the Consolidated Financial Statements.)

An increasingly important component of the Company's balance sheet is retail real estate. The Company expects to continue to invest in high quality retail real estate as the BFD store program continues to expand. The Company will continue to provide various forms of assistance to procure retail real estate for licensees of BFD stores with a focus on lease/sub-lease arrangements.

The Company enters fiscal 2004 with two key areas of focus: one, continuing to improve and expand the BFD store network through additions of high quality dealers and new stores, and continued emphasis on better value and service to our customers, and two, to improve the financial performance of the wood division through continued gains in productivity and cost management.

Critical Accounting Policies

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

Consolidation — The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and its majority-owned subsidiaries for whom the Company has operating control. In 2003, the Company adopted Revised FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" (FIN46R), for LRG Furniture, LLC (LRG). (See Notes B & H to the Consolidated Financial Statements.)

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

Allowance for Accounts and Notes Receivable — The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts and notes receivable in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

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

Investments — Investments are marked-to-market and recorded at their fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and are reported as other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income and are determined using the specific identification method for ascertaining the cost of securities sold

Revenue Recognition — Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This generally occurs upon the shipment of goods to independent dealers or, in the case of Bassett-owned retail stores, upon delivery to the customer. Terms offered by the Company vary from 30 to 60 days. An estimate for returns and allowances has been provided in recorded sales.

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

Fiscal 2003 Compared to Fiscal 2002

2003 was another difficult year in the Company's continuing transition from solely a furniture manufacturer to a manufacturer/sourcer/retailer of home furnishings. Progress was made in several key areas most notably the Bassett Furniture Direct retail store program, the profitability of the Upholstery segment and reductions in inventory levels. Challenges were experienced due to an overall soft retail economy combined with sales decreases with JCPenney which reduced sales demands and caused capacity issues within manufacturing divisions.

On a consolidated basis, Bassett reported net sales for 2003 of $316,857, a decrease of $6,630 or 2.0% from sales levels attained in fiscal 2002. Consolidating LRG's results increased sales by $19,153 nearly offsetting the 8% sales decrease in wholesale sales.

On a wholesale basis, the Company experienced an $11,038 or 8% increase in sales through the Bassett Furniture Direct (BFD) store channel primarily due to opening 16 more BFD stores. The Company also experienced an increase in sales of its BassettBaby® products of nearly $3,000 through new product introductions and increased business with Babies R Us, Burlington Coat Factory and Target. The Company expects continued growth in this product category with sales surpassing 5% of wholesale shipments in 2004. These increases were offset by a nearly $17,000 reduction in sales to JCPenney for 2003 as compared to 2002. This sales decline with JCPenney was expected and the Company anticipates minimal sales to JCPenney in 2004. The Company expects growth in the BFD channel to more than offset the decline in sales to JCPenney in 2004. Sales to regional furniture chains and independent furniture retailers decreased approximately $14,000 in 2003 from 2002, primarily due to overall soft retail conditions, the opening of new BFD stores, and the Company's on-going product-line transition focused around its BFD stores.

(dollar amounts in thousands)

The BFD store channel continues to be the most significant growth vehicle for the Company. During 2003, licensees opened 19 BFD stores and closed three BFD stores for a net increase of 16 stores. There were 101 stores in operation at November 29, 2003, thirteen of which were owned or consolidated by the Company. New licensee candidates are required to meet rigorous financial and operational requirements before being approved as licensees.

Gross margin, selling, general and administrative (SG&A) expenses; and operating income (loss) were as follows for the years ended November 29, 2003 and November 30, 2002:

	2003		2002	
Net sales	$ 316,857	100.0%	$ 323,487	100.0%
Gross profit	81,996	25.9%	68,494	21.2%
SG&A	80,026	25.3%	60,987	18.9%
Restructuring and impaired asset charges	3,200	1.0%	1,251	0.4%
Operating profit (loss)	$ (1,230)	-0.4%	$ 6,256	1.9%

The Company improved gross margin by 4.7 points over 2002 levels. This improvement is reflective of the consolidation of LRG which has higher margins at the retail level than the Company's wholesale level, restructuring of the wood division, and continued improvements in upholstery margins. Inclusion of LRG's results represented 4.1 points of the 4.7 point improvement, while manufacturing efficiencies and inventory reduction efforts contributed the remaining 0.6 points.

The Company experienced improved operating results from the upholstery division on lower sales by introductions of new product and effectively managing production schedules. Through management's active program to reduce inventories in 2003, the Company reduced required inventory reserves which contributed 0.3 points of margin improvement in 2003 from 2002. Continued excess capacity led to management's decision to close the Dublin, Ga. wood manufacturing plant in 2003 and consolidate these operations into other existing wood manufacturing facilities. Related to the closing of Dublin, Ga. facility, the Company recorded $3,200 in restructuring charges in the first quarter of 2003. $1,530 of the $3,200 restructuring charge represents an estimate of the impaired asset write-down of the facility. The remaining $1,670 represents severance and employee benefits for 320 employees associated with the closure of the plant and additional head count reductions at the corporate office.

During 2002, manufacturing efficiency gains in the Company's upholstery division brought about by the implementation of cellular manufacturing over the past several years led to management's decision to close its California upholstery plant in October of 2002. Upholstery production was consolidated into its two remaining North Carolina facilities. The Company recorded $1,251 in restructuring charges for the third quarter of 2002 entirely related to severance and employee benefits associated with the cessation of operations in California. Nearly the entire volume formerly produced at the California plant was absorbed into the production capacity of the North Carolina upholstery facilities without the need for additional staffing, thereby dramatically improving the manufacturing efficiencies of the remaining facilities. The Company has sold the California property and expects to realize a gain from this transaction in 2004 when payment for the sale is collected.

SG&A expenses increased by $19,039 to $80,026 over the 2002 level. As a percentage of sales, SG&A climbed 6.4 points from 18.9% in 2002 to 25.3% in 2003. The increase in SG&A expense is primarily due to the inclusion of LRG's operations in 2003. SG&A expense related to LRG's operations totaled $18,537. SG&A for the wholesale operations remained relatively flat from 2003 to 2002.

Income from investments is primarily earnings from the Company's investment in the Alternative Asset Fund. Returns from these investments increased by $3,250 in 2003 from 2002 levels due to better overall market conditions. Income from unconsolidated affiliated companies is primarily the Company's investment in IHFC, among other investments. In 2002 and 2001, the Company's equity method share of LRG's losses were reflected here. With the consolidation of LRG for 2003, LRG's results are included in the consolidated results of the Company for 2003.

(dollar amounts in thousands)

The effective income tax provision rate was 9.5% in 2003 and 26% in 2002. The income tax provision rate in 2003 and 2002 was lower than statutory rates primarily due to exclusions for tax exempt income and dividends received from the Company's investment in the IHFC. 2003 net income before cumulative effect of accounting change was $4,405.

The cumulative effect of adopting FIN 46R for LRG in 2003 of ($4,875), net of tax of $3,200, primarily represents the minority interest losses for which an asset was not recorded by the Company.

Net loss for the year ended November 29, 2003 was ($470) or $(0.04) per diluted share. For the year ended November 30, 2002, net income was $6,741 or $0.57 per diluted share.

Fiscal 2002 Compared to Fiscal 2001

2002 marked a year of good progress in the Company's continuing transition from solely a furniture manufacturer to a manufacturer/sourcer/retailer of home furnishings. Progress was made in several key areas most notably the Bassett Furniture Direct retail store program and the profitability of the Upholstery and Import segments. Challenges were presented by sales declines with JCPenney and capacity issues within the Wood division.

Bassett reported net sales for 2002 of $323,487, an increase of $17,811 or 5.8% from sales levels attained in fiscal 2001. The increase reflects a 28% increase in sales through the Bassett Furniture Direct (BFD) store channel, partially offset by a $16,994 or 38% decrease in sales to the Company's largest customer, JCPenney. Sales to JCPenney were 9% and 15% of sales for fiscal 2002 and 2001, respectively. Also included in 2002 results is $8,245 (net of sales elimination of $7,571) of retail sales from the Company's corporately owned BFD stores. Also, sales through exchanges located on military bases increased by $4,772 or 61% over 2001 sales levels reflecting the conversion of many of these locations to @t Home galleries (the Company's gallery program).

During 2002, licensees opened 22 new licensee BFD stores and closed four licensee BFD stores for a net increase of 18 stores. There were 85 stores in operation at November 30, 2002, six of which were 100% corporately owned. In an effort to further enhance the economics of BFD store operators, the Company began implementation of a "ship complete" program in the latter half of 2002. The Company's service levels improved dramatically in 2002 as evidenced by a full percentage point reduction in the returns allowance, from 4% of sales to 3% of sales.

Gross margin, selling, general and administrative (SG&A) expenses; and operating income (loss) were as follows for the years ended November 30, 2002 and November 24, 2001:

	2002		2001	
Net sales	$ 323,487	100.0%	$ 305,676	100.0%
Gross profit	68,494	21.2%	51,220	16.8%
SG&A	60,987	18.9%	54,477	17.8%
Gains on sales of property and equipment	—	0.0%	(5,297)	-1.7%
Restructuring and impaired asset charges	1,251	0.4%	6,952	2.3%
Operating profit (loss)	$ 6,256	1.9%	$ (4,912)	-1.6%

The Company improved gross margin percentage by 4.4 points over 2001 levels. This improvement is reflective of the restructuring and cost cutting efforts completed in 2001, improvements in upholstery and import margins, as well as the inclusion of corporately owned retail store results beginning March 1, 2002. Inclusion of the retail results represented 1.2 points of the 4.4 point improvement, while manufacturing efficiencies and the mix of imported products contributed the remaining 3.2 points.

Manufacturing efficiency gains in the Company's upholstery division brought about by the implementation of cellular manufacturing over the past several years led to management's decision to close its California upholstery plant in October of 2002. Upholstery production was consolidated into its two North Carolina facilities. The Company recorded $1,251 in restructuring charges for the third quarter of 2002 entirely related to severance and employee benefits associated with the cessation of operations in California. Nearly the entire volume formerly produced at the California plant was absorbed into the production capacity of the North Carolina upholstery facilities without the need for additional staffing, thereby dramatically improving the manufacturing efficiencies of the remaining facilities.

During 2001, the Company continued its efforts to eliminate excessive costs, to more efficiently structure manufacturing capacities to match current business levels and to stay competitive with product sourced overseas. The table plant was closed and production of occasional tables was moved to another facility or outsourced. The chair plant and a rough-end facility were permanently closed and production was either transferred to other facilities or sourced to foreign manufacturers. Approximately 800 salaried and hourly positions were eliminated in fiscal 2001. Restructuring activities in 2001 resulted in a charge to earnings of $6,952, of which $4,550 was related to the non-cash write-down of property, plant and equipment to net realizable value and $2,402 was associated with severance and employee benefits.

(dollar amounts in thousands)

SG&A expenses increased by $6,510 to $60,987 over the 2001 level. As a percentage of sales, SG&A climbed 1.1 points from 17.8% in 2001 to 18.9% in 2002. The increase in SG&A expense is entirely the result of the inclusion of corporate store retail operations for nine months in 2002. SG&A expense related to the Company's corporate retail store operation totaled $8,148. Manufacturing SG&A expenses actually declined by $1,638, primarily as a result of restructuring efforts completed in 2001 which resulted in reduced headcount and better spending control in all areas of the business. Manufacturing SG&A as a percentage of manufacturing sales declined from 17.8% in 2001 to 16.8% in 2002.

Gains on sales of property and equipment in 2001 relate to the sale of the Thomasville, North Carolina showroom, a warehouse in Los Angeles, California and two former manufacturing facilities in the Hickory, North Carolina area.

Income from investments consists of dividends and realized gains associated with the Company's portfolio of marketable equity securities as well as earnings from the Company's investment in the Alternative Asset Fund. Income from investments decreased by $5,155 in 2002 from 2001 levels due to a decrease in returns from the Alternative Asset Fund and reduced realized gains from sales of marketable equity securities. Income (loss) from unconsolidated affiliated companies included the Company's share of earnings or loss from investments in LRG and IHFC among other investments. Performance improved from a loss of ($3,030) in 2001 to income of $4,715 in 2002. The Company's share of the loss from LRG improved by $2,848 over that recorded in 2001. Also, the restructuring of LRG debt forced the Company to take an additional charge of $1,359 in 2001. Results from the Company's investment in IHFC improved to $5,756 in 2002, $2,214 better than 2001 results.

The effective income tax provision (benefit) rate was 26% in 2002 and (28%) in 2001. The income tax provision (benefit) rates were lower than statutory rates primarily due to exclusions for tax exempt income and dividends received.

For the year ended November 30, 2002, net income was $6,741 or $0.57 per diluted share. Net loss for the year ended November 24, 2001 was $(2,642) or $(0.23) per diluted share.

Segment Information:

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

Wood Division

	2003		2002		2001	
Net sales	$ 135,515	100.0%	$ 160,591	100.0%	$ 173,106	100.0%
Gross profit	19,898	14.7%	25,785	16.1%	20,934	12.1%
Contribution to profit and overhead	10,522	7.8%	15,713	9.8%	10,194	5.9%

Wood Division net sales decreased by 15.6% in 2003, due principally to the soft retail economy leading to less demand for goods, the continued decline in sales to JCPenney as well as the continued shifting of sales to the Company's Import Division. Sales to JCPenney were down by 59% from sales levels attained in 2002. Sales increases through the BFD sales channel partially offset this decline. Sales declined by 7.2% in 2002, due to the sharp decline in sales to JCPenney as well as the shifting of sales to the Company's Import Division. Imported wood furniture continues to pressure top line sales growth in this division. In order to improve sales and margins in this segment, the Company is introducing new products, opening more BFD stores, and refocusing manufacturing efforts on improving productivity, quality and delivery. Production levels have been substantially reduced to meet current demand and to reduce expense levels. The Division closed four plants over the last three years and at the end of 2003, had five plants in operation; three in Virginia, one in North Carolina and one in Georgia. Each plant produces a different range of product, categorized as "good", "better" or "best".

(dollar amounts in thousands)

Gross margin declined by 1.4 points from fiscal 2002 to fiscal 2003 due principally to continued decline in sales volumes experienced by the Wood Division. The Company reduced production schedules to meet sales demand, which caused under-utilization of plants yet allowed inventory levels to be reduced. Gross margin improved by four points from 2001 to 2002 principally as a result of restructuring efforts completed during fiscal 2001. Sales of discontinued product at lower margins also negatively impacted margins in 2001.

Contribution to profit and overhead is defined by the Company as gross profit less direct divisional operating expenses but excluding any allocation of corporate overhead expenses, interest expense or income taxes. Wood Division contribution to profit and overhead declined from 9.8% in 2002 to 7.8% in 2003 due entirely to the sales decline and under-utilization of plants experienced during fiscal 2003. Contribution to profit and overhead improved to 9.8% of sales in 2002 from 5.9% of sales in 2001. The improvement was the result of significant restructuring efforts undertaken to better match production capacity with anticipated demand.

There are a number of productivity enhancement initiatives currently under way that are designed to improve the competitiveness and profitability of the domestic wood business. These include the introduction of new products such as the Bassett Kids® program, semi-customization of product offerings, shorter production runs and superior service initiatives.

Upholstery Division

	2003		2002		2001	
Net sales	$ 99,271	100.0%	$ 105,562	100.0%	$ 90,117	100.0%
Gross profit	23,258	23.4%	22,893	21.7%	16,807	18.7%
Contribution to profit and overhead	13,826	13.9%	14,373	13.6%	9,209	10.2%

Net sales for the Upholstery Division declined $6,291 from 2002 to 2003 as a result of soft retail sales leading to lower demand for goods in 2003 as compared to 2002. Net sales climbed by 17% during 2002. The sales increase was the result of strong product offerings sold principally through the Company's BFD stores. The Company has successfully completed its re-merchandising of the upholstery product line. The growth of the BFD store network has a more dramatic effect on the Upholstery Division as the BFD stores are now the Division's primary sales channel.

Gross margin has improved in each of the last two years as a result of several initiatives completed by the Company over the same time span. The Company successfully repositioned the segment away from lower margin accounts and products and into higher quality, more stylish goods. Additionally, the Division has introduced a cellular manufacturing environment to its North Carolina upholstery manufacturing facilities. Under this concept, upholstery products are made one at a time, allowing for "just in time" inventory concepts to be used. A large portion of direct labor employee pay is now paid through a skill based team incentive pay plan. This plan provides financial incentives to meet or exceed production goals and to maximize production of goods with superior quality. These manufacturing initiatives have led to increases in productivity at the North Carolina facilities.

Subsequent to year-end, the Company announced further restructuring of the Upholstery Division through the consolidation of the Hiddenite, NC plant into the operations of the Newton, NC plant. During the fourth quarter of 2002, the Company closed its California upholstery plant and consolidated production into its two remaining manufacturing facilities in North Carolina.

Contribution to profit and overhead also improved over each of the past two years as a result of the manufacturing improvements implemented as well as other cost cutting initiatives. For 2003, contribution to profit and overhead improved to $13,826 or 13.9% compared to $14,373 or 13.6% in 2002 and $9,209 or 10.2% in 2000.

Import Division

	2003		2002		2001	
Net sales	$ 46,113	100.0%	$ 40,566	100.0%	$ 32,136	100.0%
Gross profit	13,578	29.4%	12,345	30.4%	9,516	29.6%
Contribution to profit and overhead	9,093	19.7%	9,129	22.5%	6,941	21.6%

Net sales of the Company's Import Division reached $46,113 for 2003, an increase of 13% over the 2002 level. The increased sales levels reflect the Company's ongoing strategy of sourcing products to deliver the best value to its customers. The vast majority of the Company's occasional table business and all of its crib business have successfully been sourced to overseas suppliers. During 2003, the Company began importing entire suites of furniture, including promotional bedrooms previously manufactured domestically, which also contributed to the higher sales levels.

(dollar amounts in thousands)

The products of the Import Division will continue to supplement the product offerings of the other divisions, as well as include complete suites of bedroom and dining room furniture. This should continue to have a positive impact on the Company's overall gross profit margin as the products sold by the Import Division typically have a higher gross profit margin. Contribution to profit and overhead decreased to 19.7% of sales in 2003 from 22.5% of sales in 2001. This decline in contribution to profit and overhead percentage was primarily due to discounting of product to turn slow-moving product and generate cash flow and to allow for new incoming products in the latter half of 2003. The expected sales growth of this segment requires the Company to focus more attention on forecasting and purchasing practices, inventory management, logistics and quality.

Retail Division—Bassett Owned Retail Stores

	2003		2002		2001	
Net sales	$52,157	100.0%	$15,816	100.0%	n/a	n/a
Gross profit	24,322	46.6%	7,104	44.9%	n/a	n/a
Operating loss	(3,999)	-7.7%	(1,044)	-6.6%	n/a	n/a

The Bassett Owned Retail Stores consist of 15 stores in North Carolina, Nevada and Texas as of November 29, 2003. As previously discussed, the Company consolidated LRG in 2003, due to the adoption of FIN 46 for LRG.

In the fourth quarter of 2003, the Company consummated a transaction with LRG to obtain an additional 29% ownership in LRG, bringing the Company's total ownership to 80%. With operating control of LRG, the Company implemented changes to lower LRG's cost structure and improve its operating results. Additionally, the Company acquired ownership of two stores in Las Vegas for net book value (approximately $1,200) allowing management of LRG to focus on the 7 remaining stores in Texas. LRG retail sales were $36,600 in 2003 and $45,736 in 2002. Operating losses were $2,084 for 2003 and $1,980 for 2002. The retail economy in Texas was a major factor in the year over year sales decrease offsetting improvements in gross margin and expense control. The Company expects LRG's lower cost structure combined with a better economic environment will lead to improved results in 2004.

The six stores 100% owned by the Company are in North Carolina and Nevada. A new management team was installed and charged with improving the operating results of these stores. This management team hired a new sales force and further reduced operating costs. Sales for these stores were $15,557 in 2003 and $15,816 for 2002. Operating losses were $1,915 in 2003 and $1,044 in 2002. During 2003, this transition and soft retail conditions negatively impacted sales. Management is focused in 2004 on increasing traffic through more effective advertising and promotions, and in turn converting this increased traffic into higher rates of closed sales.

The Company's retail growth strategy is primarily centered around opening independently owned BFD stores and not increasing its Basset owned retail stores. The Company believes that local management with furniture experience, ownership interest and a passion for furniture retailing is key to the success of the BFD stores.

Liquidity and Capital Resources

Bassett's November 29, 2003 balance sheet, with no debt and a sizeable investment portfolio, remains strong and continues to bolster its retail growth strategy. Bassett's primary sources of funds have been its cash flow from operations, a bank line of credit, and its investment portfolio. The primary sources of cash for fiscal 2003 were reductions in working capital (primarily inventories), sales of investments, and dividends from affiliates. Cash was used in 2003 to fund capital spending (including retail real estate), repay debt, and pay dividends. The primary sources of cash for fiscal 2002 were cash provided by operating earnings and dividends received from our investments. Cash was used in fiscal 2002 to fund capital expenditures including retail real estate, increases in import division inventories, pay dividends, and to reduce long-term debt. The primary sources of cash in fiscal 2001 were reductions in inventories and the receipt of a large dividend from IHFC. Cash was used in fiscal 2001 to repay long-term debt, fund capital spending, and pay dividends.

The current ratio for the past two years was 2.69 to 1 and 3.02 to 1, respectively. Working capital was $63,229 at November 29, 2003, and $68,822 at November 30, 2002.

Net cash generated by operating activities was $22,561, $11,876 and $22,283 in fiscal 2003, 2002 and 2001, respectively. The increase in cash from operations from fiscal 2002 to fiscal 2003 was related to the successful execution of inventory replenishment and reduction programs in fiscal 2003. The reduction in operating cash from 2001 to 2002 was entirely related to increases in inventories of imported finished goods and imported component parts which more than offset improved operating earnings in fiscal 2002.

(dollar amounts in thousands)

Net cash provided by investing activities was $5,167, $115 and $27,151 in fiscal 2003, 2002 and 2001, respectively. The reduction in fiscal 2002 from 2001 was related to an unusually large $25,059 dividend received from IHFC in fiscal 2001 and the proceeds from the sales of two properties in fiscal 2001. The increase in fiscal 2003 related to sales of investments during fiscal 2003.

Dividends from an affiliate represent cash distributions from the Company's investment in IHFC. The Company received dividends from this investment as follows; $5,154 in 2003, $5,623 in 2002 and $25,059 in 2001. The unusually large dividend in 2001 was a result of the refinancing of its High Point, North Carolina building. The Company's investment in IHFC reflects a credit balance and is shown in the liabilities section of the Company's balance sheet as Distributions in excess of affiliate earnings. Based on current and expected future earnings of IHFC, management believes that the market value of this investment is positive and substantially greater than its current negative book value. The financial statements of IHFC are included in the Company's Form 10-K. During 2002 the Company purchased an additional investment interest in IHFC for $1,519.

Net cash used in financing activities were $13,918, $15,967 and $47,346 in fiscal 2003, 2002 and 2001, respectively. In the last three years the Company has repaid $45,000 of long-term debt through both reductions in working capital and the proceeds of dividends from an affiliate. Cash dividends to shareholders and a share repurchase plan have been the primary financing uses of cash in each year.

During 2003, the Company amended its bank credit facility to address restrictive covenants and to reduce the total facility to $50,000. At November 29, 2003, the Company had reduced borrowings under this facility to $0.

The Company purchased and retired 89,278 shares of its Common Stock during 2003. These purchases were part of the Company's stock repurchase program, approved in 1998, which allows the Company to repurchase its shares for an aggregate purchase price not to exceed $40,000. The average cost of the shares purchased in 2003 was $13.36, resulting in a total expenditure of $1,193. The Company repurchased 89,519 shares of common stock for $1,253 during fiscal 2002. In 2001, the Company repurchased 63,500 shares for a total of $730. The Company plans to continue its share repurchase program in fiscal 2004.

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

We currently anticipate that manufacturing capital spending for fiscal 2004 will approximate $6,000, primarily for machinery and equipment and technology. Capital spending for retail real estate will be approximately $26,000 and may include the assumption of mortgage debt totaling $16,000. Our capital expenditure and working capital requirements in the foreseeable future may change depending on many factors including, but not limited to, our rate of growth, our operating results and any other adjustments in our operating plan needed in response to competition, acquisition opportunities or unexpected events. We believe that our existing cash and investment portfolio, and our borrowing capacity, together with cash provided by operations, will be more than sufficient to meet our capital expenditure and working capital requirements through fiscal 2004.

Contractual Obligations and Commitments:

The Company enters into contractual obligations and commercial commitments in the ordinary course of business. The following table summarizes our contractual payment obligations and other commercial commitments.

Contractual obligations and commitments by fiscal year

	2004	2005	2006	2007	Thereafter	Total
Other Long-term Liabilities	$ 1,468	$ 1,481	$ 1,377	$ 1,427	$ 4,071	$ 9,824
Letters of credit	4,235	—	—	—	—	4,235
Operating leases	6,326	5,986	5,478	5,256	33,981	57,027
Lease guarantees	7,859	2,410	1,637	1,393	5,212	18,511
Loan guarantees	3,916	2,617	1,361	—	—	7,894
Total	$ 23,804	$ 12,494	$ 9,853	$ 8,076	$ 43,264	$ 97,491

Off-Balance Sheet Arrangements:

The Company utilizes letters of credit in the purchase of goods in the normal course of business. The Company leases land and buildings that are primarily used in the operation of BFD stores. The Company has guaranteed certain lease obligations of licensee operations of the BFD stores, as part of the Company's retail expansion strategy. The Company also has guaranteed loans of certain of its BFD dealers to finance initial inventory packages for these stores. See Contractual Obligations and Commitments table above and Note P to the Consolidated Financial Statement for further discussion of operating leases, lease guarantees and loan guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

Contingencies:

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

Market Risk:

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

The Company's marketable securities portfolio, which totaled $19,900, at November 29, 2003 is diversified among six different money managers and over thirty different medium to large capitalization interests. Although there are no maturity dates for the Company's equity investments, management has plans to liquidate its current marketable equity securities portfolio on a scheduled basis over the next three to four years. Maturity dates on other investments in the portfolio range from two to five years.

The Company's Bassett Industries Alternative Asset Fund investment, which totaled $45,251 at November 29, 2003, invests in various private limited partnerships, which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest, market currency rates, and liquidity. Risks to these funds arise from the possible adverse changes in the market value of such interests and the potential inability of counterparties to perform under the terms of the contracts. However, the risk to the Alternative Asset Fund is limited to the amount of the Alternative Asset Fund's investment in each of these funds. (See Note F of the Consolidated Financial Statements.)

Safe-harbor, forward-looking statements:

This discussion contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and Subsidiaries. These forward-looking statements involve certain risks and uncertainties. No assurance can be given that any such matters will be realized. Important factors that could cause actual results to differ materially from those contemplated by such forward-looking statements include:

- competitive conditions in the home furnishings industry
- general economic conditions that are less favorable than expected
- overall consumer demand for home furnishings
- BFD store openings and closings
- the profitability of BFD licensees and corporately-owned BFD stores
- not fully realizing cost reductions through restructurings
- fluctuations in the cost and availability of raw materials, labor and sourced products
- information and technology advances
- success of marketing and advertising campaigns
- future tax legislation, or regulatory or judicial positions
- ability to execute and expand global sourcing strategies
- performance of the Company's investment portfolios
- potential imposition of duties on imported products

Investor Information

Corporate Information and Investor Inquiries:

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

Transfer Agent/Stockholder Inquiries:

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

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

Annual Meeting:

The Bassett Annual Meeting of Shareholders will be held Tuesday, February 24, 2004, at 10:00 a.m. EST at the Company's headquarters in Bassett, Virginia.

Market and Dividend Information:

Bassett's common stock trades on the NASDAQ national market system under the symbol "BSET." The Company had approximately 1,285 registered stockholders at November 29, 2003. The range of per share amounts for the high and low market prices and dividends declared for the last two fiscal years are listed below:

	Market Prices of Common Stock				Dividends Declared	
Quarter	2003		2002		2003	2002
	High	Low	High	Low		
First	14.89	11.24	18.05	13.60	.20	.20
Second	13.75	9.86	21.96	16.81	.20	.20
Third	15.40	13.09	19.77	13.60	.20	.20
Fourth	17.32	13.44	15.00	12.38	.20	.20

Forward-Looking Statements:

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

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

Internet site:

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

EXHIBIT 21 – LIST OF SUBSIDIARIES*

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

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

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

(d) Bassett Direct NC, LLC (Virginia limited liability company)

(e) Bassett Direct SC, LLC (Virginia limited liability company)

(f) The Accessories Group, Inc. (Virginia Corporation)

(g) Bassett Industries Alternative Asset Fund, L.P. (99.8% ownership) (Delaware limited partnership)

(h) LRG Furniture, LLC (80% ownership) (Virginia limited liability company)

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* All subsidiaries are wholly-owned unless otherwise noted.

EXHIBIT 23A

Consent of Independent Auditors

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Bassett Furniture Industries, Incorporated of our report dated January 9, 2004, included in the 2003 Annual Report to Shareholders of Bassett Furniture Industries, Incorporated.

Our audit also included the financial statement schedule of Bassett Furniture Industries, Incorporated listed in Item 15(a) for the years ended November 29, 2003 and November 30, 2002. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based upon our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-52405, Form S-8 No. 33-52407, Form S-8 No. 333-60327, and Form S-8 No. 333-43188) of our report dated January 9, 2004, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) of Bassett Furniture Industries, Incorporated.

/s/ Ernst & Young LLP

Greensboro, North Carolina
January 30, 2004

EXHIBIT 23B

CONSENT OF INDEPENDENT AUDITORS

Board of Directors
Bassett Furniture Industries, Incorporated
Bassett, Virginia

We consent to incorporation by reference in the Registration Statements (Nos. 33-52405, 33-52407, 333-60327 and 333-43188) on Form S-8 of Bassett Furniture Industries, Incorporated and subsidiaries of our report dated November 26, 2003, relating to the balance sheets of International Home Furnishings Center, Inc. as of October 31, 2003 and 2002, and the related statements of income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended October 31, 2003, which report is incorporated by reference in the November 29, 2003 annual report on Form 10-K of Bassett Furniture Industries, Incorporated and subsidiaries.

Dixon Odom PLLC

High Point, North Carolina
January 30, 2004

EXHIBIT 23C

NOTICE REGARDING LACK OF CONSENT OF ARTHUR ANDERSEN

On May 13, 2002, Bassett Furniture Industries, Incorporated (the “Company”) dismissed Arthur Andersen LLP as its independent auditors and retained Ernst & Young LLP as its new auditors. Ernst & Young audited the financial statements of the Company as of and for the fiscal years ended November 29, 2003 and November 30, 2002 (and the related financial statement schedules for such years) and the financial statements of LRG Furniture, LLC (“LRG”) as of and for the fiscal year ended November 30, 2002 and issued their reports with respect thereto. However, the Company has been unable to obtain from Arthur Andersen reissued audit reports with respect to the financial statements of the Company as of and for the fiscal year ended November 24, 2001 (and the related financial statement schedule for such year) or the financial statements of LRG as of and for the fiscal year ended November 30, 2001 (collectively, the fiscal 2001 financials). In accordance with regulations of the Securities and Exchange Commission, the Company has filed with this Annual Report on Form 10-K copies of the previously-issued audit report dated January 15, 2002 of Arthur Andersen with respect to the fiscal 2001 financials. Because this Annual Report on Form 10-K is incorporated by reference into the Company’s registration statements on Form S-8 (Nos. 33-52405, 33-52407, 333-60327 and 333-43188), it is deemed to be a new registration statement relating to the securities offered therein. The Company has been unable to obtain Arthur Andersen’s written consent to the incorporation by reference of its previously-issued audit reports into those registration statements. As a result, Arthur Andersen may not have any liability under Section 11(a) of the Securities Act of 1933 (the “Securities Act”)[1] for any untrue statements of a material fact contained in the fiscal 2001 financials or any omissions of a material fact required to be stated therein. Accordingly, persons acquiring securities under those registration statements may be unable to assert a claim against Arthur Andersen under Section 11(a) of the Securities Act.

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[1] Section 11(a) of the Securities Act provides that if part of a registration statement at the time it becomes effective contains an untrue statement of a material fact, or omits a material fact required to be stated therein or necessary to make the statements therein not misleading, any person acquiring a security pursuant to such registration statement (unless it is proved that at the time of such acquisition such person knew of such untruth or omission) may assert a claim against, among others, an accountant who has consented to be named as having certified any part of the registration statement or as having prepared any report for use in connection with the registration statement.

CERTIFICATIONS

EXHIBIT 31A

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

1. I have reviewed this annual report on Form 10-K of Bassett Furniture Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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
   c) Disclosed in this report any change in the registrants internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal 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 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.

January 30, 2004

/s/ Robert H. Spilman, Jr.

Robert H. Spilman, Jr.
President, Chief Executive Officer

CERTIFICATIONS

EXHIBIT 31B

I, Barry C. Safrit, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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) 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

   c) Disclosed in this report any change in the registrants internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal 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 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.

January 30, 2004

/s/ Barry C. Safrit

Barry C. Safrit
Vice President, 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 Annual Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-K for the period ending November 29, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert H. Spilman, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert H. Spilman, Jr.

Robert H. Spilman, Jr.
President and Chief Executive Officer

January 30, 2004

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 Annual Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-K for the period ending November 29, 2003, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Barry C. Safrit, Vice President, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Barry C. Safrit

Barry C. Safrit
Vice President, Chief Financial Officer

January 30, 2004

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.