

**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 30, 2019

OR

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

For the transition period from _____ to _____

Commission File No. 000-00209

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(b) of the Act:

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

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 1, 2019 was \$62,765,082.

The number of shares of the Registrant's common stock outstanding on January 18, 2020 was 10,116,625.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be held March 11, 2020, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

TABLE OF CONTENTS

FORWARD-LOOKING STATEMENTS	1
PART I	
Item 1. Business	2
Item 1A. Risk Factors	7
Item 1B. Unresolved Staff Comments	9
Item 2. Properties	9
Item 3. Legal Proceedings	10
Item 4. Mine Safety Disclosures	10
Information about our Executive Officers	10
PART II	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	11
Item 6. Selected Financial Data	12
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	13
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	29
Item 8. Financial Statements and Supplementary Data	30
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	64
Item 9A. Controls and Procedures	64
Item 9B. Other Information	66
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	66
Item 11. Executive Compensation	66
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	66
Item 13. Certain Relationships and Related Transactions, and Director Independence	66
Item 14. Principal Accountant Fees and Services	66
PART IV	
Item 15. Exhibits	67
Item 16. Form 10-K Summary	68
SIGNATURES	69

As used herein, unless the context otherwise requires, “Bassett,” the “Company,” “we,” “us” and “our” refer to Bassett Furniture Industries, Incorporated and its subsidiaries. References to 2019, 2018, 2017, 2016 and 2015 mean the fiscal years ended November 30, 2019, November 24, 2018, November 25, 2017, November 26, 2016 and November 28, 2015. Please note that fiscal 2019 contained 53 weeks.

SAFE-HARBOR, FORWARD-LOOKING STATEMENTS

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

- competitive conditions in the home furnishings industry
- general economic conditions, including the strength of the housing market in the United States
- overall retail traffic levels in stores and on the web and consumer demand for home furnishings
- ability of our customers and consumers to obtain credit
- Bassett store openings and store closings and the profitability of the stores (independent licensees and Company-owned retail stores)
- ability to implement our retail strategies, including our initiatives to expand and improve our digital marketing capabilities, and realize the benefits from such strategies as they are implemented
- fluctuations in the cost and availability of raw materials, fuel, labor and sourced products, including those which may result from the imposition of new or increased duties, tariffs, retaliatory tariffs and trade limitations with respect to foreign-sourced products

- results of marketing and advertising campaigns
- effectiveness and security of our information technology systems
- future tax legislation, or regulatory or judicial positions
- ability to efficiently manage the import supply chain to minimize business interruption
- concentration of domestic manufacturing, particularly of upholstery products, and the resulting exposure to business interruption from accidents, weather and other events and circumstances beyond our control
- general risks associated with providing freight transportation and other logistical services by our wholly-owned subsidiary Zenith Freight Lines, LLC

PART I

ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

General

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings (“BHF”) name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 117-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 103 BHF stores at November 30, 2019, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 30 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

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

We have factories in Newton, North Carolina and Grand Prairie, Texas that manufacture custom upholstered furniture, a factory in Martinsville, Virginia that primarily assembles and finishes our custom casual dining offerings and a factory in Bassett, Virginia that assembles and finishes our “Bench Made” line of custom, solid hardwood furniture. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its process, with custom pieces often manufactured within two weeks of taking the order in our stores. Our logistics team then promptly ships the product to one of our home delivery hubs or to a location specified by our licensees. In addition to the furniture that we manufacture domestically, we source most of our formal bedroom and dining room furniture (casegoods) and certain leather upholstery offerings from several foreign plants, primarily in Vietnam, Thailand and China. Over 75% of the products we currently sell are manufactured in the United States.

We also own Zenith Freight Lines, LLC (“Zenith”) which provides logistical services to Bassett along with other furniture manufacturers and retailers. Zenith delivers best-of-class shipping and logistical support services that are uniquely tailored to the needs of Bassett and the furniture industry. Approximately 60% of Zenith’s revenue is generated from services provided to non-Bassett customers.

On December 21, 2017, we purchased certain assets and assumed certain liabilities of Lane Venture from Heritage Home Group, LLC for \$15,556 in cash. Lane Venture is a manufacturer and distributor of premium outdoor furniture and is now being operated as a component of our wholesale segment. This acquisition marked our entry into the market for outdoor furniture and we believe that Lane Venture has provided a foundation for us to become a significant participant in this category. Our strategy is to distribute this brand outside of our BHF store network only. See Note 3 to our consolidated financial statements for additional details regarding this acquisition.

With the knowledge we have gained through operating Lane Venture, we have developed a new separate brand that will only be marketed through the BHF store network. This will allow Bassett branded product to move from inside the home to outside the home to capitalize the growing trend of outdoor living. Bassett Outdoor is currently marketed in a limited number of stores with a broader distribution planned late in the first quarter of 2020.

Operating Segments

We have strategically aligned our business into three reportable segments: Wholesale, Retail – Company-owned stores, and Logistical Services.

The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of BHF stores (Company-owned retail stores and licensee-owned stores) and independent furniture retailers. Our retail segment consists of 70 Company-owned and operated BHF stores. The following table shows the number of Company-owned stores by state as of November 30, 2019:

State	Number of Stores	State	Number of Stores
Alabama	1	Missouri	1
Arizona	3	Nevada	1
Arkansas	1	New Jersey	2
California	5	New York	6
Connecticut	3	North Carolina	5
Delaware	1	Ohio	2
Florida	6	Oklahoma	1
Georgia	3	Pennsylvania	2
Kansas	1	South Carolina	1
Kentucky	1	Tennessee	1
Maryland	3	Texas	12
Massachusetts	3	Virginia	5
		Total	70

Our six locations in the state of New York include a 16,000 square foot clearance center in Middletown, New York. Unlike our other 69 BHF locations, the clearance center offers only clearance merchandise at reduced price points and without design consulting services.

Wholesale Segment Overview

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

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

	2019		2018		2017	
Bassett Custom Upholstery	\$ 152,415	58.4%	\$ 141,321	55.2%	\$ 136,366	54.7%
Bassett Leather	19,220	7.4%	21,589	8.4%	22,528	9.0%
Bassett Custom Wood	46,082	17.6%	46,074	18.0%	43,793	17.6%
Bassett Casegoods	40,920	15.7%	42,875	16.8%	42,874	17.2%
Accessories (1)	2,468	0.9%	4,099	1.6%	3,632	1.5%
Total	\$ 261,105	100.0%	\$ 255,958	100.0%	\$ 249,193	100.0%

- (1) Beginning with the third quarter of fiscal 2019, our wholesale segment no longer purchases accessory items for resale to our retail segment or to third party customers such as licensees or independent furniture retailers. Our retail segment and third party customers now source their accessory items directly from the accessory vendors.

Approximately 23% of our 2019 wholesale sales were of imported product compared to 27% in both 2018 and 2017. We define imported product as fully finished product that is sourced. Our domestic product includes certain products that contain components which were also sourced. We continue to believe that a blended strategy including domestically produced products primarily of a custom-order nature combined with sourcing of major collections provides the best value and quality of products to our customers. The decline in imported goods share of our wholesale sales over the last three years has been driven primarily by increasing sales of our domestic custom wood and upholstery product offerings.

The dollar value of our wholesale backlog, representing orders received but not yet shipped to the BHF store network or independent dealers, was \$19,952 at November 30, 2019 and \$25,810 at November 24, 2018. We expect that the November 30, 2019 backlog will be filled within fiscal 2020, with the majority of the backlog being filled during the first quarter.

We use lumber, fabric, leather, foam and other materials in the production of wood and upholstered furniture. These components are purchased from a variety of domestic and international suppliers and are widely available. The price and availability of foam, which is highly dependent on the cost of oil and available capacity of oil refineries, can be subject to significant volatility from time to time. We currently assemble and finish these components in our four plants in the United States.

Other Investments and Real Estate

Our balance sheet at November 30, 2019 and November 24, 2018 included short-term investments in certificates of deposit and certain retail real estate related to former licensee-owned stores. The impact upon earnings arising from these assets is included in other loss, net, in our consolidated statements of operations. Our investment balances at each of the last three fiscal year-ends are as follows:

	November 30, 2019	November 24, 2018	November 25, 2017
--	----------------------	----------------------	----------------------

Investments in certificates of deposit	\$	17,436	\$	22,643	\$	23,125
Certain retail real estate		-		1,655		2,969

Our short-term investments at November 30, 2019 consist of certificates of deposit (“CDs”) with original terms generally ranging from six to twelve months, bearing interest at rates ranging from 0.85% to 2.55% with a weighted average yield of approximately 2.09%. At November 30, 2019, the weighted average remaining time to maturity of the CDs was approximately three months. Each CD is placed with a federally insured financial institution and all deposits are within Federal deposit insurance limits.

Prior to November 30, 2019 we held investments in retail store properties that we had previously leased to licensees. In November of 2019 we sold one such property, which had a carrying value of \$1,655 at November 24, 2018, to the lessee for net proceeds of \$1,475. At November 30, 2019, our only remaining investment real estate consisted of a building subject to a ground lease expiring in 2020. During fiscal 2017, we fully impaired the carrying value of the building. See Item 2, Properties, for additional information about our retail real estate holdings.

Retail Segment Overview – Company-Owned Retail Stores

The retail furniture industry remains very competitive and includes local furniture stores, regional furniture retailers, national department and chain stores and single-vendor branded retailers. As a whole, our store network with 70 Company-owned stores and 33 licensee-owned stores, ranks in the top 30 in retail furniture sales in the United States. As of November 30, 2019, we have completed a three-year store expansion program and have no further openings planned at this time. We will continue to assess the economic and competitive environment in various markets and may consider future expansion should attractive opportunities arise.

Net sales for our Company-owned retail stores for the last three fiscal years are summarized below:

	2019	2018	2017
Net sales	\$ 268,693	\$ 268,883	\$ 268,264

Maintaining and enhancing our brand is critical to our ability to expand our base of customers and drive increased traffic at both Company-owned and licensee-owned stores and to our website. We believe that most of our customers research our brand and furniture offerings on our website prior to visiting a store. Our advertising and marketing campaign utilizes local and national television, direct mail, catalogs, newspapers, magazines, radio, internet and social and other digital media in an effort to maintain and enhance our existing brand equity.

Our stores incorporate a stylish, residential feel while highlighting our unmatched custom manufacturing capabilities in upholstered furniture and casual and formal dining.

Logistical Services Segment Overview

Zenith is a specialized supply chain solutions provider, offering the home furnishings industry the benefit of an asset-based network to move product with greater efficiency, enhanced speed to market, less damage and a single source of shipment visibility. We provide fully integrated solutions with the highest commitment to customer care and service as we seek to go beyond our customers’ transactional expectations to create collaborative partnerships that provide a single source network to:

- Better manage inventory across multiple locations and provide total audit-ready accountability
- Reduce line haul and delivery costs
- Ensure availability of high-volume items in stores
- Integrate the omnichannel nature of today’s retail supply chain
- Management and predictability of the total landed cost of goods

Our customer solutions are provided through the following services:

- Network line haul freight (middle mile)
- Warehousing, distribution and inventory management

At November 30, 2019, our shipping and delivery fleet consisted of the following:

	Owned	Leased	Total
Tractors	139	121	260
Trailers	239	271	510
Local delivery trucks	18	4	22

We own a central warehousing and national distribution hub located in Conover, North Carolina, and we lease eleven facilities in ten states across the continental United States from which we operate regional freight terminals and provide warehouse and distribution services.

Trademarks

Our trademarks, including “Bassett” and the names of some of our marketing divisions, products and collections, are significant to the conduct of our business. This is important due to consumer recognition of the names and identification with our broad range of products. Certain of our trademarks are licensed to

independent retailers for use in full store and store gallery presentations of our products. We also own copyrights that are important in the conduct of our business.

Government Regulations

We believe that we have materially complied with all federal, state and local standards regarding safety, health and pollution and environmental controls.

Our logistical services segment is also subject to regulation by several federal governmental agencies, including the Department of Transportation (“DOT”). Specifically the Federal Motor Carrier Safety Administration and the Surface Transportation Board, which are agencies within the DOT. We are also subject to rules and regulations of various state agencies. These regulatory authorities have broad powers, generally governing matters such as authority to engage in motor carrier operations, motor carrier registration, driver hours of service, safety and fitness of transportation equipment and drivers and other matters.

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

People

We employed 2,555 people as of November 30, 2019, of which 887 were employed in our retail segment, 1,050 were employed in our wholesale segment and 618 were employed in our logistical services segment, which also utilized another 24 temporary workers provided through staffing agencies. None of our employees are subject to collective bargaining arrangements and we have not experienced any recent work stoppages. We consider our relationship with our employees to be good.

5

Major Customers

Our risk exposure related to our customers, consisting primarily of trade accounts receivable along with certain guarantees, net of recognized reserves, totaled approximately \$23,129 and \$21,050 at November 30, 2019 and November 24, 2018, respectively. At November 30, 2019 and November 24, 2018, approximately 28% and 33%, respectively, of the aggregate risk exposure, net of reserves, was attributable to five customers. In fiscal 2019, 2018 and 2017, no customer accounted for more than 10% of total consolidated net sales. However, two customers accounted for approximately 44%, 40% and 47% of our consolidated revenue from logistical services during 2019, 2018 and 2017, respectively.

Available Information

We file our annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public at the SEC’s website at www.sec.gov.

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

6

ITEM 1A. RISK FACTORS

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. The risk factors below represent what we believe are the known material risk factors with respect to us and our business. Any of the following risks could materially adversely affect our business, operations, industry, financial position or future financial results.

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

Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Should the current economic recovery falter or the current recovery in housing starts stall, consumer confidence and demand for home furnishings could deteriorate which could adversely affect our business through its impact on the performance of our Company-owned stores, as well as our licensees and the ability of a number of them to meet their obligations to us.

Our retail stores face significant competition from national, regional and local retailers of home furnishings, including increasing on-line competition via the internet.

The retail market for home furnishings is highly fragmented and intensely competitive. We currently compete against a diverse group of retailers, including national department stores, regional or independent specialty stores, and dedicated franchises of furniture manufacturers. National mass merchants such as Costco also have limited product offerings. We also compete with retailers that market products through store catalogs and the internet. In addition, there are few barriers to entry into our current and contemplated markets, and new competitors may enter our current or future markets at any time. We have also seen increasing competition from retailers offering consumers the ability to purchase home furnishings via the internet for home delivery, and this trend is expected to continue. Our existing competitors or new entrants into our industry may use a number of different strategies to compete against us, including aggressive advertising, pricing and marketing, extension of credit to customers on terms more favorable than we offer, and expansion into markets where we currently operate.

Competition from any of these sources could cause us to lose market share, revenues and customers, increase expenditures or reduce prices, any of which could have a material adverse effect on our results of operations.

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

We have a significant amount of accounts receivable attributable to our network of licensee-owned stores. We also guarantee some of the leases of some of our licensees. If these stores do not generate the necessary level of sales and profits, the licensees may not be able to fulfill their obligations to us resulting in additional bad debt expenses and real estate related losses.

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

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

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

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

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

Our use of foreign sources of production for a portion of our products exposes us to certain additional risks associated with international operations.

Our use of foreign sources for the supply of certain of our products exposes us to risks associated with overseas sourcing. These risks are related to government regulation, volatile ocean freight costs, delays in shipments, and extended lead time in ordering. Governments in the foreign countries where we source our products may change their laws, regulations and policies, including those related to tariffs and trade barriers, investments, taxation and exchange controls which could make it more difficult to service our customers resulting in an adverse effect on our earnings. We could also experience increases in the cost of ocean freight shipping which could have an adverse effect on our earnings. Shipping delays and extended order lead times may adversely affect our ability to respond to sudden changes in demand, resulting in the purchase of excess inventory in the face of declining demand, or lost sales due to insufficient inventory in the face of increasing demand, either of which would also have an adverse effect on our earnings or liquidity.

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

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

We rely extensively on computer systems to process transactions, summarize results and manage our business. Disruptions in both our primary and back-up systems could adversely affect our business and operating results.

Our primary and back-up computer systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, natural disasters and errors by employees. Though losses arising from some of these issues would be covered by insurance, interruptions of our critical business computer systems or failure of our back-up systems could reduce our sales or result in longer production times. If our critical business computer systems or back-up systems are damaged or cease to function properly, we may have to make a significant investment to repair or replace them.

We may incur costs and reputational harm resulting from security risks we face in connection with our electronic processing, storage and transmission of confidential information.

We accept electronic payment cards in our stores and also gather certain personal identifiable information in the processing of our retail sales transactions. We also store and process confidential information pertaining to our employees and other third parties on our networks. We may in the future become subject to claims for purportedly fraudulent transactions arising out of the actual or alleged theft of credit or debit card information. In addition, if there were a disclosure of confidential information provided by, or concerning, our employees, customers or other third parties, including through inadvertent disclosure, unapproved dissemination, or unauthorized access, our reputation could be harmed and we could be subject to civil or criminal liability and regulatory actions. Proceedings related to theft of credit or debit card information may be brought by payment card providers, banks and credit unions that issue cards, cardholders (either individually or as part of a class action lawsuit) and federal and state regulators. Any such proceedings could distract our management from running our business and cause us to incur significant unplanned losses and expenses. Consumer perception of our brand could also be negatively affected by these events, which could further adversely affect our results and prospects.

We may suffer adverse impacts from additional risks associated with the operations of Zenith, a freight transportation and logistics business.

Zenith exposes us to certain risks common to that business, including, but not limited to: difficulties attracting and retaining qualified drivers which could result in increases in driver compensation and could adversely affect our profitability and our ability to maintain or grow our fleet; adverse impacts from unfavorable fluctuations in the availability and price of diesel fuel; increased costs of compliance with, or liability for violation of, existing or future regulations in the highly regulated freight transportation industry; adverse impacts upon Zenith's results of operations which may result from seasonal factors and harsh weather conditions; and the increased liability inherent with the operation of heavy over-the-road vehicles.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

We own our corporate office building, which includes an annex, located in Bassett, Va.

We own the following facilities, by segment:

Wholesale Segment:

<u>Facility</u>	<u>Location</u>
Bassett Wood Division	Martinsville, Va.
Bassett Wood Division	Bassett, Va.
Bassett Upholstery Division	Newton, N.C.
3 Warehouses	Bassett, Va.

In general, these facilities are suitable and are considered to be adequate for the continuing operations involved. All facilities are in regular use and provide adequate capacity for our manufacturing and warehousing needs. In addition to the owned properties shown above, we have an upholstery division manufacturing facility which occupies part of a regional distribution center in Grand Prairie, Texas that is leased by our logistical services segment, and we lease property in Newton, North Carolina for the manufacturing and warehousing operations of Lane Venture and Bassett Outdoor. We also lease a facility in Haleyville, Alabama which houses a production line for aluminum outdoor furniture.

Retail Segment:

Real estate associated with our retail segment consists of eight owned locations with an aggregate square footage of 201,096 and a net book value of \$17,845. These stores are located as follows:

Concord, North Carolina	Greensboro, North Carolina
Greenville, South Carolina	Fredericksburg, Virginia
Houston, Texas (2 locations)	Louisville, Kentucky
Knoxville, Tennessee	

Of these locations, two are subject to land leases. A ninth location in Gulfport, Mississippi was closed during the fourth fiscal quarter of 2019 and was under contract for sale as of November 30, 2019 with the sale ultimately closing in December 2019. Our remaining 63 store locations are leased from third-parties. In addition to retail stores, we also lease fifteen locations for use as regional warehouses and home delivery distribution centers.

Logistical Services Segment:

Owned real estate associated with our logistical services segment is located in Conover, North Carolina and includes the following facilities:

<u>Facility</u>	<u>Square Footage</u>
Distribution center and corporate office	242,000
2 Maintenance facilities	15,142
2 Transit warehouses	86,135

In addition to the owned facilities listed above, we also lease warehouse space in eleven locations across the United States with an aggregate square footage of 942,876.

Other Real Estate Owned:

We hold one retail store property that we previously leased to a licensee. The property, with a square footage of 24,675, is subject to a ground lease

which expires in the first quarter of fiscal 2020. The carrying value of this property was fully impaired in fiscal 2017.

See Note 16 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

David C. Baker, 59, joined the Company in 2005 as Director, Store Operations. From 2006 to 2015 he served as Vice President – Corporate Retail, and in 2015 was appointed to Senior Vice President, Corporate Retail. In 2019, he was appointed Senior Vice President, Chief Retail Officer. Prior to joining Bassett, Mr. Baker managed Bassett stores for licensees from 1999 to 2005 after having previously managed stores for other furniture retail chains including Haverty's and Rhodes Furniture.

John E. Bassett III, 61, has been with the Company since 1981 and served in various wood manufacturing and product sourcing capacities, including Vice President, Wood Manufacturing; Vice-President, Global Sourcing from 2001 to 2007 and Vice President, Wood in 2008. He was appointed Senior Vice President, Wood in 2009. In 2019, he was also promoted to the position of Senior Vice President, Chief Operations Officer.

Bruce R. Cohenour, 61, has been with the Company since 2011, starting as Senior Vice President of Upholstery Merchandising. In 2013, he was promoted to Senior Vice President of Sales and Merchandising. In 2019, he was appointed Senior Vice President, Chief Sales Officer. Prior to joining Bassett, Mr. Cohenour was with Hooker Furniture Corp. from 2007 through 2010, last serving as President of the Case Goods Division.

J. Michael Daniel, 58, joined the Company in 2007 as Corporate Controller. From April 2009 through December 2009, he served as Corporate Controller and Interim Chief Financial Officer. In January 2010, he was appointed Vice President and Chief Accounting Officer. In January 2013, he was promoted to Senior Vice President and Chief Financial Officer. In 2019, he was also promoted to the position of Senior Vice President, Chief Financial and Administrative Officer.

Jack L. Hawn, 66, has been with the Company since 2015 as Senior Vice President, Bassett and President, Zenith. His company, Zenith Transportation, Inc., was majority owner of Zenith (Zenith Freight Lines, LLC) from 1999 until its interest in Zenith was acquired by the Company in 2015. He has served as President of Zenith since its formation in 1999.

Jay R. Hervey, Esq., 60, has served as the General Counsel, Vice President and Secretary for the Company since 1997.

Kara Kelchner-Strong, 45, joined the Company in 2007 as Director, Retail Communications. In 2015, she was promoted to Vice President, Strategy and Planning. In 2018, she was appointed Vice President, Strategic Transformation Officer and in 2019, she was promoted to Senior Vice President, Customer Experience Officer. Prior to joining Bassett, she held several positions with Restoration Hardware.

Stefanie J. Lucas, 56, joined the Company in 2019 as Senior Vice President, Chief Merchandising Officer. Prior to joining Bassett, she was the Chief Executive Officer of Boston Interiors, a top 100 home furnishings retailer.

Robert H. Spilman, Jr., 63, has been with the Company since 1984. Since 2000, he has served as Chief Executive Officer and President, and in 2016 also became the Chairman of the Board of Directors.

PART II

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

Market Information:

Bassett's common stock trades on the NASDAQ global select market system under the symbol "BSET." We had approximately 3,700 beneficial stockholders at January 17, 2020.

Issuer Purchases of Equity Securities:

We are authorized to repurchase Company stock under a plan which was originally announced in 1998. On October 3, 2018, the Board of Directors increased the remaining limit of the repurchase plan to \$20 million. The repurchase program does not include a specific time table or price targets and may be suspended or terminated at any time. Shares may be purchased through open market or privately negotiated transactions at the discretion of management based on its evaluation of prevailing market conditions and other factors. The following table summarizes the stock repurchase activity for the three months ended November 30, 2019 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

Issuer Purchases of Equity Securities
(dollar amounts in thousands, except share and per share data)

	Total Shares Purchased	Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
September 1 - October 5, 2019	5,500	\$ 12.58	5,500	\$ 11,069
October 6 -November 2, 2019	8,410	\$ 14.49	8,410	\$ 10,948
November 3 - November 30, 2019	19,864	\$ 15.52	19,864	\$ 10,639

11

ITEM 6. SELECTED FINANCIAL DATA

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

(In thousands)	2019	2018	2017	2016	2015
Net sales	\$ 452,087 (1)	\$ 456,855 (1)	\$ 452,503 (1)	\$ 432,038 (1)	\$ 430,927 (1)
Operating income	\$ (595) (2)	\$ 14,084 (2)	\$ 27,018 (2)	\$ 28,193 (2)	\$ 25,989 (2)
Other income (loss), net	\$ (1,145)	\$ (1,878)	\$ 858 (3)	\$ (2,416)	\$ 5,879 (4)
Income before income taxes	\$ (1,740)	\$ 12,206	\$ 27,876	\$ 25,777	\$ 31,868
Income tax expense	\$ 188	\$ 3,988 (5)	\$ 9,620	\$ 9,948	\$ 11,435
Net income	\$ (1,928)	\$ 8,218	\$ 18,256	\$ 15,829	\$ 20,433
Diluted earnings per share	\$ (0.19)	\$ 0.77	\$ 1.70	\$ 1.46	\$ 1.88
Cash dividends declared	\$ 5,133	\$ 5,041	\$ 8,266	\$ 7,345	\$ 5,868
Cash dividends per share	\$ 0.50	\$ 0.47	\$ 0.77	\$ 0.68	\$ 0.54
Total assets	\$ 275,766	\$ 291,641	\$ 293,748	\$ 278,267	\$ 282,543
Long-term debt	\$ -	\$ -	\$ 329	\$ 3,821	\$ 8,500
Current ratio	1.89 to 1	1.82 to 1	1.91 to 1	1.83 to 1	1.84 to 1
Book value per share	\$ 17.66	\$ 18.08	\$ 17.83	\$ 16.85	\$ 16.25

- (1) Fiscal 2019, 2018, 2017, 2016 and 2015 included logistical services revenue from Zenith in the amount of \$48,222, \$54,386, \$54,406, \$54,842 and \$43,522, respectively, since the acquisition of Zenith on February 2, 2015.
- (2) Fiscal 2019 operating income includes asset impairment charges, a goodwill impairment charge, litigation costs, early retirement program charges and lease exit costs totaling \$8,041. Fiscal 2018 operating income includes restructuring and asset impairment charges and lease exit costs totaling \$770. Fiscal 2017 operating income includes a gain of \$1,220 resulting from the sale of our retail store in Las Vegas, Nevada. Fiscal 2016 operating income includes the benefit of a \$1,428 award received from the settlement of class action litigation. Fiscal 2015 included restructuring and asset impairment charges and lease exit costs totaling \$974. See Note 15 to the Consolidated Financial Statements for additional information related to each of these items.
- (3) Fiscal 2017 includes \$4,221 of gains resulting from the sale of investments (see Note 9 to the Consolidated Financial Statements), and an impairment charge of \$1,084 retail real estate held for investment (see Note 2 to the Consolidated Financial Statements).
- (4) Fiscal 2015 includes a remeasurement gain of \$7,212 arising from our acquisition of Zenith and \$240 of income received from the Continued Dumping and Subsidy Offset Act (“CDSOA”).
- (5) Fiscal 2018 income tax expense includes a charge of \$1,331 resulting from the remeasurement of our deferred tax assets following the reduction of federal income tax rates with the enactment of the Tax Cuts and Jobs Act (see Note 14 to the Consolidated Financial Statements).

12

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

(Amounts in thousands except share and per share data)

Our fiscal year, which ends on the last Saturday of November, periodically results in a 53-week year instead of the normal 52 weeks. The current fiscal year ending November 30, 2019 is a 53-week year, with the additional week being included in our first fiscal quarter. Accordingly, the information presented below includes 53 weeks of operations for the year ended November 30, 2019 as compared to 52 weeks included in the years ended November 24, 2018 and November 25, 2017.

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings (“BHF”) name, with additional distribution through other wholesale channels including multi-line furniture stores. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 117-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 103 BHF stores at November 30, 2019, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach

markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 30 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

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

We have factories in Newton, North Carolina and Grand Prairie, Texas that manufacture custom upholstered furniture, a factory in Martinsville, Virginia that primarily assembles and finishes our custom casual dining offerings and a factory in Bassett, Virginia that assembles and finishes our “Bench Made” line of custom, solid hardwood furniture. In late 2019, we also began operating a facility in Haleyville, Alabama that will provide Bassett with the capability to manufacture custom aluminum outdoor furniture primarily under the Lane Venture brand. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its process, with custom pieces often manufactured within two weeks of taking the order in our stores. Our logistics team then promptly ships the product to one of our home delivery hubs or to a location specified by our licensees. In addition to the furniture that we manufacture domestically, we source most of our formal bedroom and dining room furniture (casegoods) and certain leather upholstery offerings from several foreign plants, primarily in Vietnam, Thailand and China. Over 75% of the products we currently sell are manufactured in the United States.

We also own Zenith Freight Lines, LLC (“Zenith”) which provides logistical services to Bassett along with other furniture manufacturers and retailers. Zenith delivers best-of-class shipping and logistical support services that are uniquely tailored to the needs of Bassett and the furniture industry. Approximately 60% of Zenith’s revenue is generated from services provided to non-Bassett customers.

On December 21, 2017, we purchased certain assets and assumed certain liabilities of Lane Venture from Heritage Home Group, LLC for \$15,556 in cash. Lane Venture is a manufacturer and distributor of premium outdoor furniture and is now being operated as a component of our wholesale segment. This acquisition marked our entry into the market for outdoor furniture and we believe that Lane Venture has provided a foundation for us to become a significant participant in this category. Our strategy is to distribute this brand outside of our BHF store network only. See Note 3 to our consolidated financial statements for additional details regarding this acquisition.

With the knowledge we have gained through operating Lane Venture, we have developed a new separate brand that will only be marketed through the BHF store network. This will allow Bassett branded product to move from inside the home to outside the home to capitalize the growing trend of outdoor living. Bassett Outdoor is currently marketed in a limited number of stores with a broader distribution planned late in the first quarter of 2020.

At November 30, 2019, our BHF store network included 70 Company-owned stores and 33 licensee-owned stores. During fiscal 2019, we opened new stores in Coral Gables, Florida, Columbus, Ohio, Tucson, Arizona, Estero, Florida, Sarasota, Florida and Princeton, New Jersey. During fiscal 2019 we closed one underperforming store in Gulfport, Mississippi and repositioned our store in Friendswood, Texas and another store in Palm Beach, Florida. In addition, a new licensee store was opened in Boise, Idaho. A new 23,000 square foot licensee store was opened in December of 2019 in Thornton, Colorado.

We have completed a three-year store expansion program that has seen us grow to more than 100 stores throughout the country. We currently have no Company-owned or licensee-owned store openings planned. Our strategy is to assess the current fleet of stores and improve the overall operations and profitability of the Corporate Retail segment. We will continue to assess the economic and competitive environment in various markets and may consider future expansion should attractive opportunities arise.

As with any retail operation, prior to opening a new store we incur such expenses as rent, training costs and other payroll related costs. These costs generally range between \$200 to \$400 per store depending on the overall rent costs for the location and the period between the time when we take physical possession of the store space and the time of the store opening. Generally, rent payments during a buildout period between delivery of possession and opening of a new store are deferred and therefore straight-line rent expense recognized during that time does not require cash. Inherent in our retail business model, we also incur losses in the two to three months of operation following a new store opening. Like other furniture retailers, we do not recognize a sale until the furniture is delivered to our customer. Because our retail business model does not involve maintaining a stock of retail inventory that would result in quick delivery and because of the custom nature of many of our furniture offerings, delivery to our customers usually occurs about 30 days after an order is placed. We generally require a deposit at the time of order and collect the remaining balance when the furniture is delivered, at which time the sale is recognized. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from \$400 to \$600 per store.

Today’s customers expect their digital experiences and communications to be personalized, highly-relevant and catered to match their specific needs and preferences. We have established a centralized customer care center that is using customer relationship management (CRM) software to track each customer’s path from initial engagement through point of sale and ultimately to their post-delivery experience. We will continue to invest in our digital effort to improve our customers’ journey from the time they begin on our website to the final step of delivering the goods to their homes. We view the combination of website traffic and store traffic in a holistic fashion where our customer generally experiences our brand on our website before visiting a store. While store traffic has been decreasing over the last few years, traffic to our website increased this year with web visits up 15% for the year ended November 30, 2019 as compared to the prior year period. We plan to invest more in new digital outreach strategies on a store market by market basis to drive more traffic to the website.

Our pure e-commerce sales (ordering directly from the website) have historically been immaterial. We plan to invest in our website in 2020 to improve the navigation and the ordering capabilities to increase web sales. Much of our current product offerings highlight the breadth and depth of our custom furniture capabilities which are difficult to show and sell online. We plan to expand our merchandising strategies to include more product that can be more easily purchased online with or without a store visit. While we work to increase web sales, we will not compromise on our in-store experience or the quality of our in-home makeover capabilities.

Analysis of Operations

Net sales revenue, cost of furniture and accessories sold, selling, general and administrative (“SG&A”) expense, new store pre-opening costs, other charges, and income from operations were as follows for the years ended November 30, 2019, November 24, 2018 and November 25, 2017:

	2019*		2018		2017		Change from Prior Year				
							2019 vs 2018		2018 vs 2017		
							Dollars	Percent	Dollars	Percent	
Sales Revenue:											
Furniture and accessories	\$403,865	89.3%	\$402,469	88.1%	\$398,097	88.0%	\$ 1,396	0.3%	\$ 4,372	1.1%	
Logistics	48,222	10.7%	54,386	11.9%	54,406	12.0%	(6,164)	-11.3%	(20)	0.0%	
Total net sales revenue	452,087	100.0%	456,855	100.0%	452,503	100.0%	(4,768)	-1.0%	4,352	1.0%	
Cost of furniture and accessories sold	179,244	39.6%	179,581	39.3%	177,579	39.2%	(337)	-0.2%	2,002	1.1%	
SG&A	264,280	58.5%	260,339	57.0%	245,493	54.3%	3,941	1.5%	14,846	6.0%	
New store pre-opening costs	1,117	0.2%	2,081	0.5%	2,413	0.6%	(964)	-46.3%	(332)	-13.8%	
Other charges	8,041	1.8%	770	0.2%	-	0.0%	7,271	994.3%	770	NM	
Income (loss) from operations	<u>\$ (595)</u>	<u>-0.1%</u>	<u>\$ 14,084</u>	<u>3.1%</u>	<u>\$ 27,018</u>	<u>6.0%</u>	<u>\$ (14,679)</u>	<u>-104.2%</u>	<u>\$ (12,934)</u>	<u>-47.9%</u>	

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2018 and 2017.

Our consolidated net sales by segment were as follows:

	2019		2018		2017		Change from Prior Year			
							2019 vs 2018		2018 vs 2017	
							Dollars	Percent	Dollars	Percent
Net Sales										
Wholesale	\$ 261,105		\$ 255,958		\$ 249,193		\$ 5,147	2.0%	\$ 6,765	2.7%
Retail	268,693		268,883		268,264		(190)	-0.1%	619	0.2%
Logistical services	80,074		82,866		83,030		(2,792)	-3.4%	(164)	-0.2%
Inter-company eliminations:										
Furniture and accessories	(125,933)		(122,372)		(119,360)		(3,561)	2.9%	(3,012)	2.5%
Logistical services	(31,852)		(28,480)		(28,624)		(3,372)	11.8%	144	-0.5%
Consolidated	<u>\$ 452,087</u>		<u>\$ 456,855</u>		<u>\$ 452,503</u>		<u>\$ (4,768)</u>	<u>-1.0%</u>	<u>\$ 4,352</u>	<u>1.0%</u>

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for fiscal 2019 and 2018 as compared with the prior year periods.

Certain other items affecting comparability between periods are discussed below in “Other Items Affecting Net Income”.

Segment Information

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

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

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

Logistical services. With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping and warehousing services for the Company, the revenue from which is eliminated upon consolidation, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our consolidated statement of operations. Zenith’s operating costs are included in selling, general and administrative expenses.

During the fourth quarter of fiscal 2018, we substantially completed transferring operational control of home delivery services for BHF stores from Zenith to our retail segment, including the transfer of the assets and many of the employees used in providing that service. Accordingly, the revenues for the logistical services segment for all periods presented have been restated to no longer include the intercompany revenues and related costs for those services. Concurrently with the transfer of home delivery operations to retail, Zenith also ceased providing such services to third party customers. Revenues from Zenith’s home

delivery services formerly provided to third party customers and the associated costs thereof continue to be reported in the logistical services segment. The impact upon segment operating income (loss) from the restatement was not material. Zenith continues to provide other intercompany shipping and warehousing services to Bassett which are eliminated in consolidation.

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

	Year Ended November 30, 2019				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 261,105	\$ 268,693	\$ -	\$ (125,933) (1)	\$ 403,865
Logistics	-	-	80,074	(31,852) (2)	48,222
Total sales revenue	261,105	268,693	80,074	(157,785)	452,087
Cost of furniture and accessories sold	173,350	131,528	-	(125,634) (3)	179,244
SG&A expense	76,299	143,057	78,219	(33,295) (4)	264,280
New store pre-opening costs	-	1,117	-	-	1,117
Income (loss) from operations (5)	\$ 11,456	\$ (7,009)	\$ 1,855	\$ 1,144	\$ 7,446

	Year Ended November 24, 2018				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 255,958	\$ 268,883	\$ -	\$ (122,372) (1)	\$ 402,469
Logistics	-	-	82,866	(28,480) (2)	54,386
Total sales revenue	255,958	268,883	82,866	(150,852)	456,855
Cost of furniture and accessories sold	171,272	130,591	-	(122,282) (3)	179,581
SG&A expense	72,412	136,523	81,468	(30,064) (4)	260,339
New store pre-opening costs	-	2,081	-	-	2,081
Income (loss) from operations (5)	\$ 12,274	\$ (312)	\$ 1,398	\$ 1,494	\$ 14,854

	Year Ended November 25, 2017				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 249,193	\$ 268,264	\$ -	\$ (119,360) (1)	\$ 398,097
Logistics	-	-	83,030	(28,624) (2)	54,406
Total sales revenue	249,193	268,264	83,030	(147,984)	452,503
Cost of furniture and accessories sold	164,028	132,463	-	(118,912) (3)	177,579
SG&A expense	66,044	129,898	80,068	(30,517) (4)	245,493
New store pre-opening costs	-	2,413	-	-	2,413
Income from operations	\$ 19,121	\$ 3,490	\$ 2,962	\$ 1,445	\$ 27,018

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

	Year Ended		
	November 30, 2019	November 24, 2018	November 25, 2017
Intercompany logistical services	\$ (31,852)	\$ (28,480)	\$ (28,624)
Intercompany rents	(1,443)	(1,584)	(1,893)
Total SG&A expense elimination	\$ (33,295)	\$ (30,064)	\$ (30,517)

- (5) Excludes the effects of goodwill and asset impairment charges, cost of early retirement program, litigation costs and lease exit costs which are not allocated to our segments.

The following table reconciles income from operations as shown above for our consolidated segment results with income (loss) from operations as reported in accordance with GAAP:

	2019	2018	2017
--	------	------	------

Consolidated segment income from operations excluding special charges	\$	7,446	\$	14,854	\$	27,018
Less:						
Asset impairment charges		4,431		469		-
Goodwill impairment charge		1,926		-		-
Early retirement program		835		-		-
Litigation expense		700		-		-
Lease exit costs		149		301		-
Income (loss) from operations as reported	\$	(595)	\$	14,084	\$	27,018

Asset Impairment Charges

During fiscal 2019 the loss from operations included \$4,431 of non-cash impairment charges recognized on the assets of six underperforming retail stores.

During fiscal 2018 income from operations included \$469 of non-cash asset impairment charges recognized on the assets of one underperforming retail store.

With regard to these seven locations, we are evaluating their ongoing viability which may result in the decision to close certain of these stores in the future.

Goodwill Impairment Charge

During fiscal 2019 our annual evaluation of the carrying value of our recorded goodwill resulted in the recognition of a \$1,926 non-cash charge for the impairment of goodwill associated with our retail reporting unit (see Note 8 to our Consolidated Financial Statements).

Early Retirement Program

During the first quarter of fiscal 2019, we offered a voluntary early retirement package to certain eligible employees of the Company. Twenty-three employees accepted the offer, which expired on February 28, 2019. These employees are to receive pay equal to one-half their current salary plus benefits over a period of one year from the final day of each individual's active employment. Accordingly, we recognized a charge of \$835 during the year ended November 30, 2019.

Litigation Expense

During fiscal 2019 we accrued \$700 for the estimated costs to resolve certain wage and hour violation claims that have been asserted against the Company. While the ultimate cost of resolving these claims may be substantially higher, the amount accrued represents our estimate of the most likely outcome of a mediated settlement.

Lease Exit Costs

During fiscal 2019 we recognized a \$149 charge for lease exit costs incurred in connection with the repositioning of a Company-owned retail store in Palm Beach, Florida to a new location within the same market.

During fiscal 2018 we recognized a \$301 charge for lease exit costs incurred in connection with the closing of a Company-owned retail store location in San Antonio, Texas.

Wholesale Segment

Net sales, gross profit, SG&A expense and operating income for our Wholesale Segment were as follows for the years ended November 30, 2019, November 24, 2018 and November 25, 2017:

	2019*		2018		2017		Change from Prior Year			
							2019 vs 2018		2018 vs 2017	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent		
Net sales	\$261,105	100.0%	\$255,958	100.0%	\$249,193	100.0%	\$ 5,147	2.0%	\$ 6,765	2.7%
Gross profit	87,755	33.6%	84,686	33.1%	85,165	34.2%	3,069	3.6%	(479)	-0.6%
SG&A	76,299	29.2%	72,412	28.3%	66,044	26.5%	3,887	5.4%	6,368	9.6%
Income from operations	\$ 11,456	4.4%	\$ 12,274	4.8%	\$ 19,121	7.7%	\$ (818)	-6.7%	\$ (6,847)	-35.8%

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

	2019*		2018		2017		Change from Prior Year			
							2019 vs 2018		2018 vs 2017	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent		
Bassett Custom Upholstery	\$152,415	58.4%	\$141,321	55.2%	\$136,366	54.7%	\$ 11,094	7.9%	\$ 4,955	3.6%
Bassett Leather	19,220	7.4%	21,589	8.4%	22,528	9.0%	(2,369)	-11.0%	(939)	-4.2%
Bassett Custom Wood	46,082	17.6%	46,074	18.0%	43,793	17.6%	8	0.0%	2,281	5.2%
Bassett Casegoods	40,920	15.7%	42,875	16.8%	42,874	17.2%	(1,955)	-4.6%	1	0.0%
Accessories	2,468	0.9%	4,099	1.6%	3,632	1.5%	(1,631)	-39.8%	467	12.9%

Total \$261,105 100.0% \$255,958 100.0% \$249,193 100.0% \$ 5,147 2.0% \$ 6,765 2.7%

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2018 and 2017.

Fiscal 2019 as Compared to Fiscal 2018

On an average weekly basis (normalizing for 53 weeks compared to 52 weeks), net sales for 2019 were essentially flat at \$256,178. A \$3,206 increase in outdoor furniture shipments was primarily offset by a \$2,707 decrease in juvenile furniture shipments as we exited this furniture line during 2019. In addition, the wholesale segment ceased selling accessories to the BHF network beginning at the start of the third quarter of 2019. Both the corporate- and licensee-owned stores now purchase accessories directly from third-party accessory providers. This resulted in a \$1,678 decrease in the sale of accessories. Gross margin for the wholesale segment was 33.6% for fiscal 2019 as compared to 33.1% for the prior year. This increase was primarily driven by higher margins in domestic custom upholstery operations as price increases implemented during the third quarter of 2018 offset the increased raw material costs experienced late in 2017 and early 2018. Margins in the imported wood operations increased due to lower realized container freight costs and improved margins on the sales of discontinued product, partially offset by the \$390 inventory valuation charge associated with our exit from the juvenile line of business. The increase in SG&A as a percentage of sales was primarily driven by higher marketing and other brand development costs and increased over-the-road freight and warehousing costs.

Fiscal 2018 as Compared to Fiscal 2017

The increase in net sales was driven by the addition of \$9,546 of revenue for Lane Venture, acquired during the first quarter of 2018, along with a 1.8% increase in furniture shipments to the open market (outside the BHF network and excluding shipments from Lane Venture), partially offset by a 2.8% decrease in furniture shipments to the BHF network as compared to the prior year period. A much smaller component of our wholesale revenues, shipments of wholesale accessories, increased 12.9% over the prior year period. Gross margins for the wholesale segment were 33.1% for fiscal 2018 compared to 34.2% for the prior year. This decrease was primarily driven by lower margins in the Bassett Custom Upholstery operations, excluding Lane Venture, due to higher materials costs coupled with lower absorption of fixed costs due to lower volumes. In June 2018, we implemented targeted price increases to our Custom Upholstery line to mitigate the effects of the cost increases and began seeing the benefit on margins in July 2018. Wholesale SG&A increased as a percentage of sales over the prior year period primarily driven by planned higher digital marketing and other brand development costs, partially offset by decreased incentive compensation. In addition, we incurred \$256 of one-time acquisition costs along with other startup costs associated with the Lane Venture operation.

19

Wholesale Backlog

The dollar value of our wholesale backlog, representing orders received but not yet delivered to dealers and Company stores as of November 30, 2019, November 24, 2018, and November 25, 2017 was as follows:

	2019	2018	2017
Year end wholesale backlog	\$ 19,953	\$ 25,810	\$ 22,239

Retail Segment – Company Owned Stores

Net sales, gross profit, SG&A expense, new store pre-opening costs and operating income for our Retail Segment were as follows for the years ended November 30, 2019, November 24, 2018 and November 25, 2017:

	2019 vs 2018		2018 vs 2017		Change from Prior Year							
					2019 vs 2018		2018 vs 2017					
	2019*	2018	2018	2017	Dollars	Percent	Dollars	Percent				
Net sales	\$ 268,693	100.0%	\$ 268,883	100.0%	\$ 268,883	100.0%	\$ 268,264	100.0%	\$ (190)	-0.1%	\$ 619	0.2%
Gross profit	137,165	51.0%	138,292	51.4%	138,292	51.4%	135,801	50.6%	(1,127)	-0.8%	2,491	1.8%
SG&A expense	143,057	53.2%	136,523	50.8%	136,523	50.8%	129,898	48.4%	6,534	4.8%	6,625	5.1%
New store pre-opening costs	1,117	0.4%	2,081	0.8%	2,081	0.8%	2,413	0.9%	(964)	-46.3%	(332)	-13.8%
Income (loss) from operations	\$ (7,009)	-2.6%	\$ (312)	-0.1%	\$ (312)	-0.1%	\$ 3,490	1.3%	\$ (6,697)	2146.5%	\$ (3,802)	-108.9%

The following tables present operating results on a comparable store basis for each comparative set of periods. Table A compares the results of the 56 stores that were open and operating for all of 2019 and 2018. Table B compares the results of the 53 stores that were open and operating for all of 2018 and 2017.

Comparable Store Results:

	Table A: 2019 vs 2018 (56 Stores)		Table B: 2018 vs 2017 (53 Stores)		Change from Prior Year							
					2019 vs 2018		2018 vs 2017					
	2019*	2018	2018	2017	Dollars	Percent	Dollars	Percent				
Net sales	\$ 234,401	100.0%	\$ 252,353	100.0%	\$ 235,868	100.0%	\$ 239,633	100.0%	\$ (17,952)	-7.1%	\$ (3,765)	-1.6%
Gross profit	119,786	51.1%	130,102	51.6%	121,399	51.5%	122,710	51.2%	(10,316)	-7.9%	(1,311)	-1.1%
SG&A expense	120,755	51.5%	124,396	49.3%	115,094	48.8%	115,161	48.1%	(3,641)	-2.9%	(67)	-0.1%
Income (loss) from operations	\$ (969)	-0.4%	\$ 5,706	2.3%	\$ 6,305	2.7%	\$ 7,549	3.2%	\$ (6,675)	-117.0%	\$ (1,244)	-16.5%

The following tables present operating results for all other stores which were not comparable year-over-year. Each table includes the results of stores that either opened or closed at some point during the 24 months of each comparative set of periods.

All Other (Non-Comparable) Store Results:

	2019 vs 2018 All Other Stores				2018 vs 2017 All Other Stores				Change from Prior Year			
	2019*		2018		2018		2017		2019 vs 2018		2018 vs 2017	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
Net sales	\$ 34,292	100.0%	\$ 16,530	100.0%	\$ 33,015	100.0%	\$ 28,631	100.0%	\$ 17,762	107.5%	\$ 4,384	15.3%
Gross profit	17,379	50.7%	8,190	49.5%	16,893	51.2%	13,091	45.7%	9,189	112.2%	3,802	29.0%
SG&A expense	22,302	65.0%	12,127	73.4%	21,429	64.9%	14,737	51.5%	10,175	83.9%	6,692	45.4%
New store pre-opening costs	1,117	3.3%	2,081	12.6%	2,081	6.3%	2,413	8.4%	(964)	-46.3%	(332)	-13.8%
Loss from operations	\$ (6,040)	-17.6%	\$ (6,018)	-36.4%	\$ (6,617)	-20.0%	\$ (4,059)	-14.2%	\$ (22)	0.4%	\$ (2,558)	63.0%

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2018 and 2017.

Fiscal 2019 as Compared to Fiscal 2018

The decrease in net sales for the 70 Company-owned BHF stores was driven by a 7.1% decrease for the 56 comparable stores from fiscal 2018, offset by a \$17,762 increase in non-comparable store sales as we have opened 13 stores over the last 24 months. On an average weekly basis (normalizing for the extra week in fiscal 2019), comparable store sales decreased 8.9%.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores decreased by 7.5% for fiscal 2019 as compared to fiscal 2018. On an average weekly basis, comparable store written sales decreased 9.3%.

The decrease in comparable store gross margins was primarily due to increased wholesale costs as a result of tariffs on Chinese products instituted in late 2018 along with higher costs of freight, both of which were passed on in a wholesale price increase in January 2019. Although most of our goods are domestically made, and most of our other goods are imported from countries outside of China, the tariffs have had a significant impact on the cost of a portion of the fabric that we use in our upholstered furniture manufactured in the United States. We implemented a price increase late in the second quarter to mitigate these cost increases. Gross margins were also impacted by increased clearance activity primarily in the first quarter of 2019 due to the launch of the new custom upholstery program and the sell-off of existing floor samples and other clearance product as a result of the repositioning of two stores in the Houston market late in 2018.

The increase in SG&A expenses for comparable stores as a percentage of sales to 51.5% was primarily due to a de-leveraging of fixed costs from lower sales volumes, inefficiencies in the warehouse and home delivery operation and higher financing costs as more of our retail customers chose to finance their purchases through our third-party credit provider. These increases were partially offset by various fixed cost decreases primarily implemented in the second half of the year that resulted from changes to our cost structure.

The \$22 increase in the operating loss from non-comparable stores for fiscal 2019 includes new store pre-opening costs of \$1,117 compared to \$2,081 for the prior year. We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$400 to \$600 per store. During fiscal 2019 we incurred \$1,392 of post-opening losses associated with six new stores opened during fiscal 2019 compared to \$1,601 of post-opening losses incurred during fiscal 2018 associated with other locations.

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

Fiscal 2018 as Compared to Fiscal 2017

The increase in net sales for the 65 Company-owned stores over the prior year was comprised of a \$4,384 increase in non-comparable store sales partially offset by a 1.6% decrease in comparable store sales.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores decreased by 3.6% for fiscal 2018 as compared to prior year.

The increase in comparable store gross margins to 51.5% for fiscal 2018 from 51.2% in the prior year period is primarily due to improved pricing strategies and product mix. SG&A expenses as a percentage of sales for comparable stores increased slightly from 2017 due to decreased leverage of fixed costs on lower sales volume and increased advertising expenses.

We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$400 to \$600 per store. During fiscal 2018 we incurred \$1,601 of post-opening losses associated with the seven new stores and clearance center opened during 2018 and late 2017 compared with \$969 of post-opening losses during fiscal 2017. Included in the 2017 Non-Comparable store loss was a \$1,220 gain on the sale of our retail store location in Las Vegas,

Nevada.

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

21

Retail Comparable Store Sales Trends

The following table provides year-over-year comparable store sales trends for the last three fiscal years:

	2019	2018	2017
As reported:			
Delivered	-7.1%	-1.6%	1.9%
Written	-7.5%	-3.6%	1.8%
Average weekly basis:			
Delivered	-8.9%	-1.6%	1.9%
Written	-9.3%	-3.6%	1.8%

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers as of November 30, 2019, November 24, 2018, and November 25, 2017, was as follows:

	2019	2018	2017
Year end retail backlog	\$ 31,146	\$ 35,493	\$ 35,684
Retail backlog per open store	\$ 445	\$ 546	\$ 595

Logistical Services Segment

Revenues, operating expenses and income from operations for our logistical services segment were as follows for the years ended November 30, 2019, November 24, 2018 and November 25, 2017:

	2019*		2018		2017		Change from Prior Year			
							2019 vs 2018		2018 vs 2017	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent		
Logistics revenue	\$ 80,074	100.0%	\$ 82,866	100.0%	\$ 83,030	100.0%	\$ (2,792)	-3.4%	\$ (164)	-0.2%
Operating expenses	78,219	97.7%	81,468	98.3%	80,068	96.4%	(3,249)	-4.0%	1,400	1.7%
Income from operations	\$ 1,855	2.3%	\$ 1,398	1.7%	\$ 2,962	3.6%	\$ 457	32.7%	\$ (1,564)	-52.8%

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2018 and 2017.

Fiscal 2019 as Compared to Fiscal 2018

On an average weekly basis (normalizing for the extra week fiscal 2019), revenues for Zenith decreased \$4,303 or 5.2%. This decrease was primarily due to the discontinuation of home delivery services to third-party customers, partially offset by revenue increases in third-party warehousing operations. The decrease in Zenith's operating expenses as a percent of sales was primarily due to reduced expenses due to the elimination of the home delivery operation, partially offset by increased employee health care and workers compensation costs due to unfavorable claims experience. Operating costs for fiscal 2019 and 2018 include non-cash depreciation and amortization charges of \$4,019 and \$4,068, respectively.

Fiscal 2018 as Compared to Fiscal 2017

Zenith's revenues were comparable year over year. Increased operating costs as a percentage of revenue were primarily due to significantly higher fuel costs coupled with the increasing cost of hiring and retaining over-the-road drivers. Operating costs for fiscal 2018 and 2017 include non-cash depreciation and amortization charges of \$4,068 and \$4,309, respectively.

22

Other Items Affecting Net Income (Loss)

Other items affecting net income (loss) for fiscal 2019, 2018 and 2017 are as follows:

	2019	2018	2017
Gain on sales of investments (1)	\$ -	\$ -	\$ 4,221
Interest income (2)	568	431	230
Interest expense (3)	(6)	(57)	(234)
Retail real estate impairment charge (4)	-	-	(1,084)

Net periodic pension costs (5)	(883)	(986)	(1,049)
Cost of company-owned life insurance (6)	(39)	(598)	(517)
Income from the Continued Dumping & Subsidy Offset Act (7)	-	7	94
Other investment income (8)	57	52	88
Other	(842)	(727)	(891)
Total other income (loss), net	\$ (1,145)	\$ (1,878)	\$ 858

- (1) See Note 9 to the Consolidated Financial Statements for information related to gains realized from the sale of two investments during fiscal 2017.
- (2) Consists of interest income arising from our short-term investments. See Note 4 to the Consolidated Financial Statements for additional information regarding our investments in certificates of deposit.
- (3) Our interest expense in fiscal 2019 and 2018 declined significantly from fiscal 2017 as all remaining debt incurred with the 2015 acquisition of Zenith was repaid during fiscal 2018 and the remaining balances on the mortgages of two retail store locations were repaid in fiscal 2019. See Note 10 to the Consolidated Financial Statements for additional information regarding our debt.
- (4) See Note 2 to the Consolidated Financial Statements for information related to impairment of retail real estate during fiscal 2017.
- (5) Represents the portion of net periodic pension costs not included in income from operations. See Note 11 to the Consolidated Financial Statements for additional information related to our defined benefit pension plans.
- (6) Cost for fiscal 2019 and 2018 is net of life insurance proceeds of \$629 and \$266, respectively, arising from the deaths of former executives.
- (7) These amounts represent distributions received from U.S. Customs and Border Protection (“Customs”) under the Continued Dumping and Subsidy Offset Act of 2000 (“CDSOA”). These distributions primarily represent amounts previously withheld by Customs pending the resolution of certain claims filed by other manufacturers which were dismissed in 2014. The distributions received from Customs have gradually diminished in the years subsequent to the dismissal and are no longer expected to be significant beyond 2018.
- (8) Primarily reflects gains arising from the partial liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired during fiscal 2012.

Provision for Income taxes

On December 22, 2017, The Tax Cuts and Jobs Act (the “Act”) was signed into law. The Act reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018 for all corporate taxpayers, while most other provisions of the Act took effect for fiscal years beginning on or after January 1, 2018. Therefore, we computed our income tax expense for fiscal 2018 using a blended federal statutory rate of 22.2%. The 21% federal statutory rate, as well as certain other provisions of the Act including the elimination of the domestic manufacturing deduction and new limitations on certain business deductions, were applied to our 2019 fiscal year.

We recorded an income tax provision of \$188, \$3,988 and \$9,948 in fiscal 2019, 2018 and 2017, respectively. Our effective tax rate of (10.8%) for 2019 differs from the federal statutory rate of 21.0% primarily due to the \$1,926 Goodwill impairment charge which is not deductible for tax purposes. Other items affecting the rate include the effects of state income taxes and certain other non-deductible expense. For fiscal 2018, our effective tax rate of 32.7% differs from the federal blended statutory rate of 22.2% primarily due to a discrete charge of \$1,331 arising from the re-measurement of our deferred tax assets. Other items impacting our effective tax rate for fiscal 2018 include the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation of \$223 and the Section 199: Domestic Production Activities Deduction of \$866. For fiscal 2017, our effective tax rate was 34.5% and differs from the statutory rate of 35.0% primarily due to the effects of state income taxes and various permanent differences including the favorable impact of the Section 199 manufacturing deduction. See Note 14 to the Consolidated Financial Statements for additional information regarding our income tax provision (benefit), as well as our net deferred tax assets and other matters.

We have net deferred tax assets of \$5,744 as of November 30, 2019, which, upon utilization, are expected to reduce our cash outlays for income taxes in future years. It will require approximately \$22,000 of future taxable income to utilize our net deferred tax assets.

Liquidity and Capital Resources

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

Cash Flows

Cash provided by operations for fiscal 2019 was \$9,809 compared to \$29,907 for fiscal 2018, a decrease of \$20,098. This decrease is primarily due to increased investment in inventory due to opening new stores, other changes in working capital due in part to the timing impact of the additional week in the current fiscal year and lower comparable store sales on an average weekly basis resulting in reduced cash flows.

Our overall cash position decreased by \$13,781 during fiscal 2019. In addition to the cash provided by operations, we had a net use of \$11,173 of cash in investing activities, primarily consisting of capital expenditures associated with retail store expansion and relocations partially offset by the maturity of \$5,207 of our investment in CDs. Net cash used in financing activities was \$12,417, including dividend payments of \$5,133 and stock repurchases of \$7,345 under our existing share repurchase plan, of which \$10,639 remains authorized at November 30, 2019. With cash and cash equivalents and short-term investments totaling \$37,123 on hand at November 30, 2019, expected future operating cash flows, expected reduced capital expenditures from fewer store openings and the availability under our credit line noted below, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Debt and Other Obligations

Our credit facility with our bank provides for a line of credit of up to \$25,000. This credit facility is unsecured and contains covenants requiring us to maintain

certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future. The credit facility will mature in December 2021. At November 30, 2019, we had \$2,673 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$22,327. In addition, we have outstanding standby letters of credit with another bank totaling \$325.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services segment. We had obligations of \$184,704 at November 30, 2019 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terms under these lease guarantees range from approximately one to three years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,776 at November 30, 2019. See Note 16 to our consolidated financial statements for additional details regarding our leases and lease guarantees.

Dividends and Share Repurchases

During fiscal 2019, we declared and paid four quarterly dividends totaling \$5,133, or \$0.50 per share. During fiscal 2019, we repurchased 513,649 shares of our stock for \$7,345 under our share repurchase program. The weighted-average effect of these share repurchases on both our basic and diluted earnings (loss) per share was not significant. The approximate dollar value that may yet be purchased pursuant to our stock repurchase program as of November 30, 2019 was \$10,639.

Capital Expenditures

We currently anticipate that total capital expenditures for fiscal 2020 will be approximately \$10 to \$12 million which will be used primarily for additional tractors for our logistical services segment, additional investments in technology and various remodels or updates to the existing store fleet. Our capital expenditure and working capital requirements in the foreseeable future may change depending on many factors, including but not limited to the overall performance of the new stores, our rate of growth, our operating results and any adjustments in our operating plan needed in response to industry conditions, competition or unexpected events. We believe that our existing cash, together with cash from operations, will be sufficient to meet our capital expenditure and working capital requirements for the foreseeable future.

24

Fair Value Measurements

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our mortgages and notes payable for disclosure purposes (see Note 10 to the Consolidated Financial Statements) involves Level 3 inputs. Our primary non-recurring fair value estimates, typically involving the valuation of business acquisitions (see Note 3 to the Consolidated Financial Statements), goodwill impairments (see Note 8 to the Consolidated Financial Statements) and asset impairments (see Note 15 to the Consolidated Financial Statements) have utilized Level 3 inputs.

25

Contractual Obligations and Commitments

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

	2020	2021	2022	2023	2024	Thereafter	Total
Post employment benefit obligations (1)	\$ 921	\$ 918	\$ 1,123	\$ 1,052	\$ 1,007	\$ 7,730	\$ 12,751
Contractual advertising	810	-	-	-	-	-	810
Letters of credit	2,998	-	-	-	-	-	2,998
Operating leases (2)	37,031	32,478	27,929	22,913	16,835	47,518	184,704
Lease guarantees (3)	347	347	347	353	382	-	1,776
Other obligations & commitments	200	200	100	100	100	150	850
Purchase obligations (4)	-	-	-	-	-	-	-
Total	\$ 42,307	\$ 33,943	\$ 29,499	\$ 24,418	\$ 18,324	\$ 55,398	\$ 203,889

- (1) Does not reflect a reduction for the impact of any company owned life insurance proceeds to be received. Currently, we have life insurance policies with net death benefits of \$17,271 to provide funding for these obligations. See Note 11 to the Consolidated Financial Statements for more information.

- (2) Does not reflect a reduction for the impact of sublease income to be received. See Note 16 to the Consolidated Financial Statements for more information.
- (3) Lease guarantees relate to payments we would only be required to make in the event of default on the part of the guaranteed parties.
- (4) The Company is not a party to any long-term supply contracts with respect to the purchase of raw materials or finished goods. At the end of fiscal year 2018, we had approximately \$18,732 in open purchase orders, primarily for imported inventories, which are in the ordinary course of business.

Off-Balance Sheet Arrangements

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of BHF stores and Zenith distribution facilities. We have guaranteed certain lease obligations of licensee operators as part of our retail strategy. See Contractual Obligations and Commitments table above and Note 16 to the Consolidated Financial Statements, included in Item 8 of this Annual Report on Form 10-K, for further discussion of operating leases and lease guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

Contingencies

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

Critical Accounting Policies and Estimates

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

Revenue Recognition - We adopted ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606 or "ASC 606") effective as of November 25, 2018, the beginning of our 2019 fiscal year. ASC 606 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. For our wholesale and retail segments, revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer.

At wholesale, transfer occurs and revenue is recognized upon the shipment of goods to independent dealers and licensee-owned BHF stores. We offer payment terms varying from 30 to 60 days for wholesale customers. Estimates for returns and allowances have been recorded as a reduction of revenue based on our historical return patterns. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us.

At retail, transfer occurs and revenue is recognized upon delivery of goods to the customer. We typically collect a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. These deposits are carried on our balance sheet as a current liability until delivery is fulfilled and amounted to \$25,341 and \$27,157 as of November 30, 2019 and November 24, 2018, respectively. Substantially all of the customer deposits held at November 24, 2018 related to performance obligations satisfied during fiscal 2019 and have therefore been recognized in revenue for the year ended November 30, 2019. Estimates for returns and allowances have been recorded as a reduction of revenue based on our historical return patterns. We also sell furniture protection plans to our retail customers on behalf of a third party which is responsible for the performance obligations under the plans. Revenue from the sale of these plans is recognized upon delivery of the goods net of amounts payable to the third party service provider.

For our logistical services segment, line-haul freight revenue is recognized as services are performed and are billed to the customer upon the completion of delivery to the destination. Because the customer receives the benefits of these services as the freight is in transit from point of origin to destination, we recognize revenue using a percentage of completion method based on our estimate of the amount of time freight has been in transit as of the reporting date compared with our estimate of the total required time for the deliveries. We recognize an asset for the amount of line-haul revenue earned but not yet billed which is included in other current assets. The balance of this asset was \$441 at November 30, 2019 and \$512 at the beginning of fiscal 2019 upon adoption of ASC 606. Warehousing services revenue is based upon warehouse space occupied by a customer's goods and inventory movements in and out of a warehouse and is recognized as such services are provided and billed to the customer concurrently in the same period. All invoices for logistical services are due 30 days from invoice date.

Allowance for Doubtful Accounts - We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our accounts receivable reserves were \$815 and \$754 at November 30, 2019 and November 24, 2018, respectively, representing 3.7% and 3.8% of our gross accounts receivable balances at those dates, respectively. The allowance for doubtful accounts is based on a review of specifically identified customer accounts in addition to an overall aging analysis. We evaluate the collectibility of our receivables from our licensees and other customers on a quarterly basis based on factors such as their financial condition, our collateral position, potential future plans with licensees and other similar factors. Our allowance for doubtful accounts represents our best estimate of potential losses on our accounts and notes receivable and is adjusted accordingly based on historical experience, current developments and present economic conditions and trends. Although actual losses have not differed materially from our previous estimates, future losses could differ from our current estimates. Unforeseen events such as a licensee or customer bankruptcy filing could have a material impact on our results of operations.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined for domestic furniture inventories, excluding outdoor furniture products, using the last-in, first-out method. The cost of imported inventories and domestic outdoor furniture products is determined on a first-in, first-out basis. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. Our reserves for excess and obsolete inventory were \$2,362 and \$1,766 at November 30, 2019 and November 24, 2018,

respectively, representing 3.4% and 2.7%, respectively, of our inventories on a last-in, first-out basis. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Goodwill – Goodwill represents the excess of the fair value of consideration given over the fair value of the tangible assets and liabilities and identifiable intangible assets of businesses acquired. The acquisition of assets and liabilities and the resulting goodwill is allocated to the respective reporting unit: Wood, Upholstery, Retail or Logistical Services. We review goodwill at the reporting unit level annually for impairment or more frequently if events or circumstances indicate that assets might be impaired.

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other*, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test described in ASC Topic 350 (as amended by Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which we adopted for our annual evaluation of goodwill performed as of September 1, 2019). The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the quantitative evaluation process. Based on our qualitative assessment as described above, we concluded that, given declines in our income from operations, primarily resulting from operating losses incurred in our retail reporting unit, as well as in our stock price since the previous analysis in fiscal 2018, it was necessary to perform the quantitative evaluation in the current year.

27

The quantitative evaluation compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, a goodwill impairment charge will be recognized in the amount by which the reporting unit's carrying amount exceeds its fair value, but not to exceed the total goodwill assigned to the reporting unit. The determination of the fair value of our reporting units is based on a combination of a market approach, that considers benchmark company market multiples, an income approach, that utilizes discounted cash flows for each reporting unit and other Level 3 inputs, and, in the case of our retail reporting unit, a cost approach that utilizes estimates of net asset value. The cash flows used to determine fair value are dependent on a number of significant management assumptions such as our expectations of future performance and the expected future economic environment, which are partly based upon our historical experience. Our estimates are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate and the terminal growth rate are based on our judgment of the rates that would be utilized by a hypothetical market participant. As part of the goodwill impairment testing, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts. As a result of our annual goodwill impairment test performed as of September 1, 2019, we recognized an impairment of \$1,926 on the goodwill assigned to our retail reporting unit, and concluded that the remaining \$14,117 of goodwill assigned to our other reporting units was not impaired. The fair values of the other reporting units with material amounts of goodwill substantially exceeded their carrying values as of September 1, 2019.

Other Intangible Assets – Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or between annual tests when an impairment indicator exists. The recoverability of indefinite-lived intangible assets is assessed by comparison of the carrying value of the asset to its estimated fair value. If we determine that the carrying value of the asset exceeds its estimated fair value, an impairment loss equal to the excess would be recorded. At November 30, 2019, our indefinite-lived intangible assets other than goodwill consist of trade names acquired in the acquisitions of Zenith and Lane Venture and have a carrying value of \$9,338.

Definite-lived intangible assets are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We estimate the useful lives of our intangible assets and ratably amortize the value over the estimated useful lives of those assets. If the estimates of the useful lives should change, we will amortize the remaining book value over the remaining useful lives or, if an asset is deemed to be impaired, a write-down of the value of the asset may be required at such time. At November 30, 2019 our definite-lived intangible assets consist of customer relationships and customized technology applications acquired in the acquisition of Zenith and customer relationships acquired in the acquisition of Lane Venture with a total carrying value of \$2,721.

Impairment of Long-Lived Assets - We periodically evaluate whether events or circumstances have occurred that indicate long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. When analyzing our real estate properties for potential impairment, we consider such qualitative factors as our experience in leasing and selling real estate properties as well as specific site and local market characteristics. Upon the closure of a Bassett Home Furnishings store, we generally write off all tenant improvements which are only suitable for use in such a store.

Recent Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements regarding the impact or potential impact of recent accounting pronouncements upon our financial position and results of operations.

28

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in the value of foreign currencies. Substantially all of our imports purchased outside of North America are denominated in U.S. dollars. Therefore, we believe that gains or losses resulting from changes in the value of foreign currencies relating to foreign purchases not denominated in U.S. dollars would not be material to our results from operations in fiscal 2018.

We are exposed to market risk from changes in the cost of raw materials used in our manufacturing processes, principally wood, woven fabric, and foam

products. An increase in the rate of in home construction could result in increases in wood and fabric costs from current levels, and the cost of foam products, which are petroleum-based, is sensitive to changes in the price of oil.

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

We have potential exposure to market risk related to conditions in the commercial real estate market. Our retail real estate holdings of \$17,845 and \$19,997 at November 30, 2019 and November 24, 2018, respectively, for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties during periods of weakness in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of \$1,776 and \$2,021 which we have guaranteed on behalf of licensees as of November 30, 2019 and November 24, 2018, respectively, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

	<u>Number of Locations</u>	<u>Aggregate Square Footage</u>	<u>Net Book Value (in thousands)</u>
Real estate occupied by Company-owned and operated stores, included in property and equipment, net	8	201,096	\$ 17,845
Investment real estate leased to others	1	24,675	-*
Total Company investment in retail real estate	<u>9</u>	<u>225,771</u>	<u>\$ 17,845</u>

*The carrying value of a building in Chesterfield, Virginia that is subject to a ground lease was fully impaired during fiscal 2017.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated and Subsidiaries (the Company) as of November 30, 2019 and November 24, 2018, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended November 30, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at November 30, 2019 and November 24, 2018, and the results of its operations and its cash flows for each of the three years in the period ended November 30, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of November 30, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated January 23, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.
Richmond, Virginia
January 23, 2020

Bassett Furniture Industries, Incorporated and Subsidiaries
November 30, 2019 and November 24, 2018
(In thousands, except share and per share data)

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 19,687	\$ 33,468
Short-term investments	17,436	22,643
Accounts receivable, net of allowance for doubtful accounts of \$815 and \$754 as of November 30, 2019 and November 24, 2018, respectively	21,378	19,055
Inventories	66,302	64,192
Other current assets	11,983	9,189
Total current assets	136,786	148,547
Property and equipment, net	101,724	104,863
Other long-term assets		
Deferred income taxes, net	5,744	3,266
Goodwill and other intangible assets	26,176	28,480
Other	5,336	6,485
Total other long-term assets	37,256	38,231
Total assets	\$ 275,766	\$ 291,641
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 23,677	\$ 27,407
Accrued compensation and benefits	11,308	12,994
Customer deposits	25,341	27,157
Other accrued liabilities	11,945	14,261
Total current liabilities	72,271	81,819
Long-term liabilities		
Post employment benefit obligations	11,830	13,173
Other long-term liabilities	12,995	6,340
Total long-term liabilities	24,825	19,513
Commitments and Contingencies		
Stockholders' equity		
Common stock, \$5 par value; 50,000,000 shares authorized; issued and outstanding 10,116,290 at November 30, 2019 and 10,527,636 at November 24, 2018	50,581	52,638
Retained earnings	129,130	140,009
Additional paid-in-capital	195	-
Accumulated other comprehensive loss	(1,236)	(2,338)
Total stockholders' equity	178,670	190,309
Total liabilities and stockholders' equity	\$ 275,766	\$ 291,641

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

Consolidated Statements of Operations
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 30, 2019, November 24, 2018, and November 25, 2017
(In thousands, except per share data)

	2019	2018	2017
Sales revenue:			
Furniture and accessories	\$ 403,865	\$ 402,469	\$ 398,097
Logistics	48,222	54,386	54,406
Total sales revenue	452,087	456,855	452,503
Cost of furniture and accessories sold	179,244	179,581	177,579
Selling, general and administrative expenses excluding new store pre-opening costs	264,280	260,339	245,493
New store pre-opening costs	1,117	2,081	2,413

Asset impairment charges	4,431	469	-
Goodwill impairment charge	1,926	-	-
Early retirement program	835	-	-
Litigation expense	700	-	-
Lease exit costs	149	301	-
Income (loss) from operations	(595)	14,084	27,018
Gain on sale of investments	-	-	4,221
Interest income	568	431	230
Interest expense	(6)	(57)	(234)
Impairment of investment in real estate	-	-	(1,084)
Other loss, net	(1,707)	(2,252)	(2,275)
Income (loss) before income taxes	(1,740)	12,206	27,876
Income tax expense	188	3,988	9,620
Net income (loss)	<u>\$ (1,928)</u>	<u>\$ 8,218</u>	<u>\$ 18,256</u>
Net income per share			
Basic income (loss) per share	<u>\$ (0.19)</u>	<u>\$ 0.77</u>	<u>\$ 1.71</u>
Diluted income (loss) per share	<u>\$ (0.19)</u>	<u>\$ 0.77</u>	<u>\$ 1.70</u>
Dividends per share			
Regular dividends	<u>\$ 0.50</u>	<u>\$ 0.47</u>	<u>\$ 0.42</u>
Special dividend	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 0.35</u>

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

32

Consolidated Statements of Comprehensive Income (Loss)
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 30, 2019, November 24, 2018, and November 25, 2017
(In thousands)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net income (loss)	\$ (1,928)	\$ 8,218	\$ 18,256
Other comprehensive income (loss):			
Recognize prior service cost associated with Long Term Cash Awards (LTCA)	-	-	(932)
Actuarial adjustment to LTCA	(141)		
Amortization associated with LTCA	124	126	73
Income taxes related to LTCA	4	(32)	331
Actuarial adjustment to supplemental executive retirement defined benefit plan (SERP)	1,313	616	448
Amortization associated with SERP	184	304	374
Income taxes related to SERP	(382)	(237)	(311)
Other comprehensive income (loss), net of tax	1,102	777	(17)
Total comprehensive income (loss)	<u>\$ (826)</u>	<u>\$ 8,995</u>	<u>\$ 18,239</u>

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

33

Consolidated Statements of Cash Flows
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 30, 2019, November 24, 2018, and November 25, 2017
(In thousands)

	2019	2018	2017
Operating activities:			
Net income (loss)	\$ (1,928)	\$ 8,218	\$ 18,256
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,500	13,203	13,312
Non-cash goodwill impairment charge	1,926	-	-
Non-cash asset impairment charges	4,431	469	-
Non-cash portion of lease exit costs	149	301	-
Gain on sale of investments	-	-	(4,221)
Net (gain) loss on disposals of property and equipment	515	(234)	(1,190)
Impairment charges on retail real estate	-	-	1,084
Deferred income taxes	(2,890)	4,663	(302)
Other, net	1,497	2,607	2,018
Changes in operating assets and liabilities			
Accounts receivable	(2,555)	1,732	(1,225)
Inventories	(2,942)	(5,998)	(918)
Other current and long-term assets	1,017	(961)	2,477
Customer deposits	(1,816)	50	1,926
Accounts payable and accrued liabilities	(1,095)	5,857	5,840
Net cash provided by operating activities	9,809	29,907	37,057
Investing activities:			
Purchases of property and equipment	(17,375)	(18,301)	(15,500)
Proceeds from sales of property and equipment	1,643	2,689	4,474
Cash paid for business acquisitions, net of cash acquired	-	(15,556)	(655)
Proceeds from sales and maturities of investments	5,207	482	5,546
Other	(648)	(1,287)	(857)
Net cash used in investing activities	(11,173)	(31,973)	(6,992)
Financing activities:			
Cash dividends	(5,133)	(8,800)	(7,725)
Proceeds from exercise of stock options	25	27	310
Issuance of common stock	328	355	168
Repurchases of common stock	(7,345)	(5,946)	(83)
Taxes paid related to net share settlement of equity awards	-	(674)	(641)
Payments on notes and equipment loans	(292)	(3,377)	(3,289)
Net cash used in financing activities	(12,417)	(18,415)	(11,260)
Change in cash and cash equivalents	(13,781)	(20,481)	18,805
Cash and cash equivalents - beginning of year	33,468	53,949	35,144
Cash and cash equivalents - end of year	\$ 19,687	\$ 33,468	\$ 53,949

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 30, 2019, November 24, 2018, and November 25, 2017
(In thousands, except share and per share data)

	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Shares	Amount				
Balance, November 26, 2016	10,722,947	\$ 53,615	\$ 255	\$ 129,388	\$ (2,553)	\$ 180,705
Comprehensive income						
Net income	-	-	-	18,256	-	18,256
Prior service cost of LTCA, net of tax	-	-	-	-	(528)	-
Actuarial adjustment to SERP, net of tax	-	-	-	-	511	511
Regular dividends (\$0.42 per share)	-	-	-	(4,508)	-	(4,508)
Special dividend (\$0.35 per share)	-	-	-	(3,758)	-	(3,758)
Issuance of common stock	39,313	197	281	-	-	478
Purchase and retirement of common stock	(24,310)	(122)	(602)	-	-	(724)
Stock-based compensation	-	-	1,028	-	-	1,028
Balance, November 25, 2017	10,737,950	53,690	962	139,378	(2,570)	191,460
Comprehensive income						

Net income	-	-	-	8,218	-	8,218
Prior service cost of LTCA, net of tax	-	-	-	-	94	94
Actuarial adjustment to SERP, net of tax	-	-	-	-	683	683
Reclassification of certain tax effects	-	-	-	545	(545)	
Regular dividends (\$0.47 per share)	-	-	-	(5,041)	-	(5,041)
Issuance of common stock	63,403	317	65	-	-	382
Purchase and retirement of common stock	(273,717)	(1,369)	(2,160)	(3,091)	-	(6,620)
Stock-based compensation	-	-	1,133	-	-	1,133
Balance, November 24, 2018	<u>10,527,636</u>	<u>52,638</u>	<u>-</u>	<u>140,009</u>	<u>(2,338)</u>	<u>190,309</u>
Comprehensive income (loss)						
Net loss	-	-	-	(1,928)	-	(1,928)
Prior service cost of LTCA, net of tax	-	-	-	-	94	94
Actuarial adjustment to LTCA, net of tax	-	-	-	-	(105)	(105)
Actuarial adjustment to SERP, net of tax	-	-	-	-	1,113	1,113
Cumulative effect of a change in accounting principle	-	-	-	(21)	-	(21)
Regular dividends (\$0.50 per share)	-	-	-	(5,133)	-	(5,133)
Issuance of common stock	102,303	511	217	-	-	728
Purchase and retirement of common stock	(513,649)	(2,568)	(980)	(3,797)	-	(7,345)
Stock-based compensation	-	-	958	-	-	958
Balance, November 30, 2019	<u>10,116,290</u>	<u>\$ 50,581</u>	<u>\$ 195</u>	<u>\$ 129,130</u>	<u>\$ (1,236)</u>	<u>\$ 178,670</u>

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

Notes to Consolidated Financial Statements

(In thousands, except share and per share data)

1. Description of Business

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, “Bassett”, “we”, “our”, the “Company”) based in Bassett, Virginia, is a leading manufacturer, marketer and retailer of branded home furnishings. Bassett’s full range of furniture products and accessories, designed to provide quality, style and value, are sold through an exclusive nation-wide network of 103 retail stores known as Bassett Home Furnishings (referred to as “BHF”). Of the 103 stores, the Company owns and operates 70 stores (“Company-owned retail stores”) with the other 33 being independently owned (“licensee operated”). We also distribute our products through other multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants.

We sourced approximately 23% of our wholesale products from various foreign countries, with the remaining volume produced at our five domestic manufacturing facilities.

Lane Venture Acquisition

On December 21, 2017, we purchased certain assets and assumed certain liabilities of Lane Venture from Heritage Home Group, LLC. Lane Venture is being operated as a component of our wholesale segment (see Note 3, Business Combinations). Results of operations for the Lane Venture business are included in our consolidated statements of operations since the date of acquisition.

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Our fiscal year ends on the last Saturday in November, which periodically results in a 53-week year. Fiscal 2019 contained 53 weeks while fiscal 2018 and 2017 each contained 52 weeks. The Consolidated Financial Statements include the accounts of Bassett Furniture Industries, Incorporated and our majority-owned subsidiaries in which we have a controlling interest. All significant intercompany balances and transactions are eliminated in consolidation. Accordingly, the results of Lane Venture have been consolidated with our results since the date of the acquisition. Sales of logistical services from Zenith to our wholesale and retail segments have been eliminated, and Zenith’s operating costs and expenses since the date of acquisition are included in selling, general and administrative expenses in our consolidated statements of net income. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). Unless otherwise indicated, references in the Consolidated Financial Statements to fiscal 2019, 2018 and 2017 are to Bassett’s fiscal year ended November 30, 2019, November 24, 2018 and November 25, 2017, respectively. References to the “ASC” included hereinafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board as the source of authoritative GAAP.

We analyzed our licensees under the requirements for variable interest entities (“VIEs”). All of these licensees operate as BHF stores and are furniture retailers. We sell furniture to these licensees, and in some cases have extended credit beyond normal terms, made lease guarantees, guaranteed loans, or loaned directly to the licensees. We have recorded reserves for potential exposures related to these licensees. See Note 16 for disclosure of leases and lease guarantees. Based on financial projections and best available information, all licensees have sufficient equity to carry out their principal operating activities without subordinated financial support. Furthermore, we believe that the power to direct the activities that most significantly impact the licensees’ operating performance continues to

lie with the ownership of the licensee dealers. Our rights to assume control over or otherwise influence the licensees' significant activities only exist pursuant to our license and security agreements and are in the nature of protective rights as contemplated under ASC Topic 810. We completed our assessment for other potential VIEs, and concluded that there were none. We will continue to reassess the status of potential VIEs including when facts and circumstances surrounding each potential VIE change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include allowances for doubtful accounts, calculation of inventory reserves, the valuation of our reporting units for the purpose of testing the carrying value of goodwill, valuation of income tax reserves, lease guarantees, insurance reserves and assumptions related to our post-employment benefit obligations. Actual results could differ from those estimates.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Revenue Recognition

We adopted ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606 or "ASC 606") effective as of November 25, 2018, the beginning of our 2019 fiscal year. ASC 606 requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the company expects to receive in exchange for those goods or services. For our wholesale and retail segments, revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer.

At wholesale, transfer occurs and revenue is recognized upon the shipment of goods to independent dealers and licensee-owned BHF stores. We offer payment terms varying from 30 to 60 days for wholesale customers. Estimates for returns and allowances have been recorded as a reduction of revenue based on our historical return patterns. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us.

At retail, transfer occurs and revenue is recognized upon delivery of goods to the customer. We typically collect a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. These deposits are carried on our balance sheet as a current liability until delivery is fulfilled and amounted to \$25,341 and \$27,157 as of November 30, 2019 and November 24, 2018, respectively. Substantially all of the customer deposits held at November 24, 2018 related to performance obligations satisfied during fiscal 2019 and have therefore been recognized in revenue for the year ended November 30, 2019. Estimates for returns and allowances have been recorded as a reduction of revenue based on our historical return patterns. We also sell furniture protection plans to our retail customers on behalf of a third party which is responsible for the performance obligations under the plans. Revenue from the sale of these plans is recognized upon delivery of the goods net of amounts payable to the third party service provider.

For our logistical services segment, line-haul freight revenue is recognized as services are performed and are billed to the customer upon the completion of delivery to the destination. Because the customer receives the benefits of these services as the freight is in transit from point of origin to destination, we recognize revenue using a percentage of completion method based on our estimate of the amount of time freight has been in transit as of the reporting date compared with our estimate of the total required time for the deliveries. We recognize an asset for the amount of line-haul revenue earned but not yet billed which is included in other current assets. The balance of this asset was \$441 at November 30, 2019 and \$512 at the beginning of fiscal 2019 upon adoption of ASC 606. Warehousing services revenue is based upon warehouse space occupied by a customer's goods and inventory movements in and out of a warehouse and is recognized as such services are provided and billed to the customer concurrently in the same period. All invoices for logistical services are due 30 days from invoice date.

Sales commissions are expensed as part of selling, general and administrative expenses at the time revenue is recognized because the amortization period would have been one year or less. Sales commissions at wholesale are accrued upon the shipment of goods. Sales commissions at retail are accrued at the time a sale is written (i.e. – when the customer's order is placed) and are carried as prepaid commissions in other current assets until the goods are delivered and revenue is recognized. At November 30, 2019 and November 24, 2018, our balance of prepaid commissions included in other current assets was \$2,435 and \$2,739, respectively. We do not incur sales commissions in our logistical services segment.

We adopted ASC 606 using the modified retrospective method and applied the standard only to contracts that were not completed as of initial application. Results for reporting periods beginning after November 24, 2018 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting. Our adoption of ASC 606 did not have a material impact on our consolidated financial statements except for our enhanced presentation and disclosures.

Upon adoption of ASC 606, we have adopted the following policy elections and practical expedients:

- We exclude from revenue amounts collected from customers for sales tax, which is consistent with our policy prior to the adoption of ASC 606.
- We do not adjust the promised amount of consideration for the effects of a significant financing component since the period of time between transfer of our goods or services and the collection of consideration from the customer is less than one year.
- We do not disclose the value of unsatisfied performance obligations because the transfer of goods or services is made within one year of the placement of customer orders.

See Note 19, Segment Information, for disaggregated revenue information.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Cash Equivalents and Short-Term Investments

The Company considers cash on hand, demand deposits in banks and all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Our short-term investments consist of certificates of deposit that have original maturities of twelve months or less but greater than three months.

Accounts Receivable

Substantially all of our trade accounts receivable is due from customers located within the United States. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

Concentrations of Credit Risk and Major Customers

Financial instruments that subject us to credit risk consist primarily of investments, accounts and notes receivable and financial guarantees. Investments are managed within established guidelines to mitigate risks. Accounts and notes receivable and financial guarantees subject us to credit risk partially due to the concentration of amounts due from and guaranteed on behalf of independent licensee customers. At November 30, 2019 and November 24, 2018, our aggregate exposure from receivables and guarantees related to customers consisted of the following:

	2019	2018
Accounts receivable, net of allowances (Note 5)	\$ 21,378	\$ 19,055
Contingent obligations under lease and loan guarantees, less amounts recognized (Note 16)	1,751	1,995
Other	168	-
Total credit risk exposure related to customers	<u>\$ 23,297</u>	<u>\$ 21,050</u>

At November 30, 2019 and November 24, 2018, approximately 28% and 33%, respectively, of the aggregate risk exposure, net of reserves, shown above was attributable to five customers. In fiscal 2019, 2018 and 2017, no customer accounted for more than 10% of total consolidated net sales. However, two customers accounted for approximately 44%, 40% and 47% of our consolidated revenue from logistical services during 2019, 2018 and 2017, respectively.

We have no foreign manufacturing or retail operations. We define export sales as sales to any country or territory other than the United States or its territories or possessions. Our export sales were approximately \$1,846, \$1,587, and \$2,288 in fiscal 2019, 2018, and 2017, respectively. All of our export sales are invoiced and settled in U.S. dollars.

Inventories

Inventories (retail merchandise, finished goods, work in process and raw materials) are stated at the lower of cost or market. Cost is determined for domestic manufactured furniture inventories using the last-in, first-out (“LIFO”) method because we believe this methodology provides better matching of revenue and expenses. The cost of imported inventories and Lane Venture product inventories are determined on a first-in, first-out (“FIFO”) basis. Inventories accounted for under the LIFO method represented 52% of total inventory before reserves at both November 30, 2019 and November 24, 2018. We estimate inventory reserves for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Property and Equipment

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

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Retail Real Estate

Prior to November 30, 2019, retail real estate was comprised of owned and leased properties which have in the past been utilized by licensee operated BHF stores and are now leased or subleased to non-licensee tenants. The net book value of our retail real estate at November 24, 2018 was \$1,655, included in other long-term assets in our consolidated balance sheet, and consisted of one property located near Charleston, South Carolina which was fully occupied by a tenant under a long term lease. During fiscal 2019, this property was sold to the tenant for net proceeds in the amount of \$1,475, resulting in a loss of \$98, included in other loss, net in our accompanying statement of operations for the year ended November 30, 2019. Depreciation expense was \$94, \$103, and \$127 in fiscal 2019, 2018, and 2017, respectively, and is included in other loss, net, in our consolidated statements of operations.

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

Goodwill

Goodwill represents the excess of the fair value of consideration given over the fair value of the tangible assets and liabilities and identifiable intangible assets of businesses acquired. The acquisition of assets and liabilities and the resulting goodwill is allocated to the respective reporting unit: Wood, Upholstery, Retail or Logistical Services. We review goodwill at the reporting unit level annually for impairment or more frequently if events or circumstances indicate that assets might be impaired.

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other*, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test described in ASC Topic 350 (as amended by Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which we adopted for our annual evaluation of goodwill performed as of September 1, 2019). The more likely than not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the quantitative impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the quantitative evaluation process. Based on our qualitative assessment as described above, we concluded that, given declines in our income from operations, primarily resulting from operating losses incurred in our retail reporting unit, as well as in our stock price since the previous analysis in fiscal 2018, it was necessary to perform the quantitative evaluation in the current year.

The quantitative evaluation compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, a goodwill impairment charge will be recognized in the amount by which the reporting unit's carrying amount exceeds its fair value, but not to exceed the total goodwill assigned to the reporting unit. The determination of the fair value of our reporting units is based on a combination of a market approach, that considers benchmark company market multiples, an income approach, that utilizes discounted cash flows for each reporting unit and other Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosure* (see Note 4), and, in the case of our retail reporting unit, a cost approach that utilizes estimates of net asset value. The cash flows used to determine fair value are dependent on a number of significant management assumptions such as our expectations of future performance and the expected future economic environment, which are partly based upon our historical experience. Our estimates are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate and the terminal growth rate are based on our judgment of the rates that would be utilized by a hypothetical market participant. As part of the goodwill impairment testing, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts. See Note 8 for additional information regarding the results of our annual goodwill impairment test performed as of September 1, 2019.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Other Intangible Assets

Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or between annual tests when an impairment indicator exists. The recoverability of indefinite-lived intangible assets is assessed by comparison of the carrying value of the asset to its estimated fair value. If we determine that the carrying value of the asset exceeds its estimated fair value, an impairment loss equal to the excess would be recorded.

Definite-lived intangible assets are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We estimate the useful lives of our intangible assets and ratably amortize the value over the estimated useful lives of those assets. If the estimates of the useful lives should change, we will amortize the remaining book value over the remaining useful lives or, if an asset is deemed to be impaired, a write-down of the value of the asset may be required at such time.

Impairment of Long Lived Assets

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

When analyzing our real estate properties for potential impairment, we consider such qualitative factors as our experience in leasing and selling real estate properties as well as specific site and local market characteristics. Upon the closure of a Bassett Home Furnishings store, we generally write off all tenant improvements which are only suitable for use in such a store.

Income Taxes

We account for income taxes under the liability method which requires that we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. See Note 14.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Despite our belief that our liability for unrecognized tax benefits is adequate, it is often difficult to predict the final outcome or the timing of the resolution of any particular tax matters. We may adjust these liabilities as relevant circumstances evolve, such as guidance from the relevant tax authority or our tax advisors, or resolution of issues in the courts. These adjustments are recognized as a component of income tax expense in the period in which they are identified.

We evaluate our deferred income tax assets to determine if valuation allowances are required or should be adjusted. A valuation allowance is established against our deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified. See Note 14.

New Store Pre-Opening Costs

Income from operations for fiscal 2019, 2018 and 2017 includes new store pre-opening costs of \$1,117, \$2,081 and \$2,413, respectively. Such costs consist of expenses incurred at the new store location during the period prior to its opening and include, among other things, facility occupancy costs such as rent and utilities and local store personnel costs related to pre-opening activities including training. New store pre-opening costs do not include costs which are capitalized in accordance with our property and equipment capitalization policies, such as leasehold improvements and store fixtures and equipment. Such capitalized costs associated with new stores are depreciated commencing with the opening of the store. There are no pre-opening costs associated with stores acquired from licensees, as such locations were already in operation at the time of their acquisition.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Shipping and Handling Costs

Costs incurred to deliver wholesale merchandise to customers are recorded in selling, general and administrative expense and totaled \$8,402, \$17,511, and \$18,514 for fiscal 2019, 2018 and 2017, respectively. Costs incurred to deliver retail merchandise to customers, including the cost of operating regional distribution warehouses, are also recorded in selling, general and administrative expense and totaled \$23,710, \$20,640, and \$19,604 for fiscal 2019, 2018 and 2017, respectively.

Advertising

Costs incurred for producing and distributing advertising and advertising materials are expensed when incurred and are included in selling, general and administrative expenses. Advertising costs totaled \$20,674, \$20,922, and \$18,834 in fiscal 2019, 2018, and 2017, respectively.

Insurance Reserves

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

Supplemental Cash Flow Information

During the fourth quarter of fiscal 2019, we purchased certain fixed assets and inventory with a total purchase price of \$2,225, of which \$375 was paid for with the issuance of 24,590 shares of our common stock. There were no material non-cash investing or financing activities during fiscal 2018 or 2017.

Recent Accounting Pronouncements

Recently Adopted Pronouncements

Effective as of the beginning of fiscal 2019, we adopted ASU 2014-09, Revenue from Contracts with Customers (Topic 606). Refer to the preceding discussion under "Revenue Recognition" for more information regarding the impact of ASC 606 on our financial statements.

Effective as of the beginning of fiscal 2019, we adopted Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. Among the types of cash flows addressed are payments for costs related to debt prepayments or extinguishments, payments representing accreted interest on discounted debt, payments of contingent consideration after a business combination, proceeds from insurance claims and company-owned life insurance, and distributions from equity method investees, among others. The amendments in ASU 2016-15 are to be adopted retrospectively with comparative amounts in prior period cash flow statements reclassified to conform to the current period presentation. Accordingly, for the years ended November 24, 2018 and November 25, 2017 we have reclassified investments in Company-owned life insurance (net of death benefits received) of \$1,287 and \$857, respectively, from cash flows from operating activities to cash flows from investing activities, and we have reclassified \$78 and \$184, respectively, representing the portion of a debt payment attributable to discount accretion from cash flows from financing activities to cash flows from operating activities.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

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

Effective as of the beginning of fiscal 2019, we adopted Accounting Standards Update No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 provides a screen to determine when an integrated set of assets and activities (collectively referred to as a “set”) does not constitute a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in ASU 2017-01 (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. During the fourth quarter of fiscal 2019, we purchased a set of production equipment for \$1,966 which, upon application of the screen, did not constitute a business and was therefore accounted for as an asset purchase.

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

Effective for our annual test for impairment of goodwill as of the beginning of the fourth fiscal quarter of 2019, we have adopted Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Refer to the preceding discussion under “Goodwill” for additional information regarding the results of our annual impairment test following the adoption of ASU 2017-04.

Recent Pronouncements Not Yet Adopted

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 (as subsequently amended by ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20) requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As with previous guidance, there continues to be a differentiation between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. Lease assets and liabilities arising from both finance and operating leases will be recognized in the statement of financial position. ASU 2016-02 leaves the accounting for leases by lessors largely unchanged from previous GAAP. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. In addition, ASU 2018-11 provides for an additional (and optional) transition method by which entities may elect to initially apply the transition requirements in Topic 842 at that Topic’s effective date with the effects of initially applying Topic 842 recognized as a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption and without retrospective application to any comparative prior periods presented. Also, ASU 2018-20 provides certain narrow-scope improvements to Topic 842 as it relates to lessors. We have substantially completed identifying the population of contracts that meet the definition of a lease under ASU 2016-02. We are in the final stage of implementing a lease accounting system and finalizing our control framework in preparation for the adoption of this standard in the first quarter of fiscal 2020. We plan to elect certain practical expedients permitted under the transition guidance, including the package of practical expedients, which allows the Company to not reassess whether existing contracts contain leases, the lease classification of existing leases, or initial direct costs for existing leases. We also plan to elect not to separate lease and non-lease components for certain classes of leased assets and not to recognize a right-of-use asset and a lease liability for leases with an initial term of twelve months or less. We will adopt the guidance of ASU 2016-02 using the optional transition method as provided by ASU 2018-11. On adoption, we will recognize additional operating liabilities, with corresponding right of use assets of the same amount adjusted for prepaid/deferred rent, unamortized lease incentives and any impairment of right of use assets based on the present value of the remaining minimum rental payments. We expect the adoption of this standard to have a material effect on our statement of financial position (refer to Note 16 for information regarding our leases currently classified as operating leases under ASC Topic 840).

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

In August 2018, the FASB issued Accounting Standards Update No. 2018-15 – Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in ASU 2018-15. The amendments in ASU 2018-15 will become effective for us as of the beginning of our 2021 fiscal year. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact that this guidance will have upon our financial position and results of operations, if any.

In December 2019, the FASB issued Accounting Standards Update No. 2019-12 – Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes, as part of its initiative to reduce complexity in the accounting standards. The amendments in ASU 2019-12 eliminate certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also clarifies and simplifies other aspects of the accounting for income taxes. The amendments in ASU 2019-12 will become effective for us as of the beginning of our 2022 fiscal year. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact that this guidance will have upon our financial position and results of operations, if any.

Reclassifications

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation with no effect on previously reported net income or Stockholders' equity. See "*Recently Adopted Accounting Pronouncements*" above regarding the impact of our adoption of ASU 2016-15 on the statements of cash flows for fiscal 2018 and 2017.

3. Business Combinations

Acquisition of Lane Venture

On December 21, 2017, we purchased certain assets and assumed certain liabilities of Lane Venture from Heritage Home Group, LLC for \$15,556 in cash. Lane Venture is a manufacturer and distributor of premium outdoor furniture, and is now being operated as a component of our wholesale segment.

Under the acquisition method of accounting, the fair value of the consideration transferred was allocated to the tangible and intangible assets acquired and the liabilities assumed based on their estimated fair values as of the acquisition date with the remaining unallocated amount recorded as goodwill.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

The allocation of the fair value of the acquired business was initially based on a preliminary valuation. Our estimates and assumptions were revised during 2018 as we obtained additional information for our estimates during the measurement period, which we consider to be closed as of November 24, 2018. During fiscal 2018, we recorded measurement period adjustments resulting in a net increase to the opening value of various acquired assets and assumed liabilities with an offsetting reduction of recognized goodwill of \$76. The final allocation of the \$15,556 all-cash purchase price to the acquired assets and liabilities of the Lane Venture business, including measurement period adjustments, is as follows:

Allocation of the fair value of consideration transferred:	
Identifiable assets acquired:	
Accounts receivable, net of reserve (Note 5)	\$ 1,507
Inventory, net of reserve (Note 6)	3,718
Prepaid expenses and other current assets	37
Intangible assets	7,360
Total identifiable assets acquired	12,622
Liabilities assumed:	
Accounts payable	(357)
Other accrued liabilities	(852)
Total liabilities assumed	(1,209)
Net identifiable assets acquired	11,413
Goodwill	4,143
Total net assets acquired	\$ 15,556

Goodwill was determined based on the residual difference between the fair value of the consideration transferred and the value assigned to the tangible and intangible assets and liabilities recognized in connection with the acquisition and is deductible for tax purposes. Among the factors that contributed to a purchase price resulting in the recognition of goodwill are the expected synergies arising from combining the Company's manufacturing and distribution capabilities with Lane Venture's position in the outdoor furnishings market, a segment of the market not previously served by Bassett.

A portion of the fair value of the consideration transferred has been assigned to identifiable intangible assets as follows:

Description:	Useful Life In Years	Fair Value
Trade name	Indefinite	\$ 6,848
Customer relationships	9	512
Total acquired intangible assets		\$ 7,360

The finite-lived intangible asset is being amortized on a straight-line basis over its estimated useful life. The indefinite-lived intangible asset and goodwill are not amortized but will be tested for impairment annually or between annual tests if an indicator of impairment exists.

The fair values of consideration transferred and net assets acquired were determined using a combination of Level 2 and Level 3 inputs as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 4.

Acquisition costs related to the Lane Venture acquisition totaled \$256 during the year ended November 24, 2018, and are included in selling, general and administrative expenses in the consolidated statements of operations. The acquisition costs are primarily related to legal, accounting and valuation services.

The pro forma impact of the acquisition and the results of operations attributable to Lane Venture since the acquisition have not been presented because they are not material to our consolidated results of operations for the three fiscal years ended November 24, 2018.

Licensee Store Acquisition

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

The purchase price was allocated as follows:

Inventory	\$ 343
Goodwill	312
Purchase price	\$ 655

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

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

The pro forma impact of the acquisition and the results of operations for the Columbus store since the acquisition was not material to our consolidated results of operations for the year ended November 25, 2017.

4. Financial Instruments, Investments and Fair Value Measurements

Financial Instruments

Our financial instruments include cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, cost method investments, accounts payable and long-term debt. Because of their short maturities, the carrying amounts of cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, and accounts payable approximate fair value.

Investments

Our short-term investments of \$17,436 and \$22,643 at November 30, 2019 and November 24, 2018, respectively, consisted of certificates of deposit (CDs) with original terms of six to twelve months, bearing interest at rates ranging from 0.85% to 2.55%. At November 30, 2019, the weighted average remaining time to maturity of the CDs was approximately three months and the weighted average yield of the CDs was approximately 2.09%. Each CD is placed with a federally insured financial institution and all deposits are within Federal deposit insurance limits. As the CDs mature, we expect to reinvest them in CDs of similar maturities of up to one year. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at November 30, 2019 and November 24, 2018 approximates their fair value.

Fair Value Measurement

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our notes payable for disclosure purposes (see Note 10) involves Level 3 inputs. Our primary non-recurring fair value estimates typically involve business acquisitions (Note 3) which involve a combination of Level 2 and Level 3 inputs, goodwill impairment testing (Note 8), which involves Level 3 inputs, and asset impairments (Note 15) which utilize Level 3 inputs.

5. Accounts Receivable

Accounts receivable consists of the following:

	November 30, 2019	November 24, 2018
Gross accounts receivable	\$ 22,193	\$ 19,809
Allowance for doubtful accounts	(815)	(754)
Net accounts receivable	<u>\$ 21,378</u>	<u>\$ 19,055</u>

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Activity in the allowance for doubtful accounts was as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of the year	\$ 754	\$ 617
Acquired allowance on accounts receivable (Note 3)	-	50
Additions charged to expense	61	339
Reductions to allowance, net	-	(252)
Balance, end of the year	<u>\$ 815</u>	<u>\$ 754</u>

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

6. Inventories

Inventories consist of the following:

	<u>November 30, 2019</u>	<u>November 24, 2018</u>
Wholesale finished goods	\$ 27,792	\$ 30,750
Work in process	733	432
Raw materials and supplies	17,293	15,503
Retail merchandise	31,534	27,599
Total inventories on first-in, first-out method	77,352	74,284
LIFO adjustment	(8,688)	(8,326)
Reserve for excess and obsolete inventory	(2,362)	(1,766)
	<u>\$ 66,302</u>	<u>\$ 64,192</u>

We source a significant amount of our wholesale product from other countries. During 2019, 2018 and 2017, purchases from our two largest vendors located in Vietnam and China were \$15,221, \$24,073 and \$21,977 respectively.

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

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

	<u>Wholesale Segment</u>	<u>Retail Segment</u>	<u>Total</u>
Balance at November 25, 2017	\$ 1,618	\$ 277	\$ 1,895
Acquired reserve on inventory (Note 3)	110	-	110
Additions charged to expense	1,884	425	2,309
Write-offs	(2,112)	(436)	(2,548)
Balance at November 24, 2018	1,500	266	1,766
Additions charged to expense	1,881	373	2,254
Write-offs	(1,327)	(331)	(1,658)
Balance at November 30, 2019	<u>\$ 2,054</u>	<u>\$ 308</u>	<u>\$ 2,362</u>

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Additions charged to expense for our wholesale segment during the year ended November 30, 2019 includes a \$390 inventory valuation charge arising from our decision to exit the juvenile furniture line of business.

7. Property and Equipment

Property and equipment consist of the following:

	November 30, 2019	November 24, 2018
Land	\$ 9,478	\$ 9,908
Buildings and leasehold improvements	126,085	124,449
Machinery and equipment	115,131	108,379
Property and equipment at cost	250,694	242,736
Less accumulated depreciation	(148,970)	(137,873)
Property and equipment, net	<u>\$ 101,724</u>	<u>\$ 104,863</u>

The net book value of our property and equipment by reportable segment is as follows:

	November 30, 2019	November 24, 2018
Wholesale	\$ 28,993	\$ 26,511
Retail - Company-owned stores	55,625	61,380
Logistical Services	17,106	16,972
Total property and equipment, net	<u>\$ 101,724</u>	<u>\$ 104,863</u>

At November 30, 2019 we owned one retail store property located in Gulfport, Mississippi which was under contract to be sold. The net book value of the property of \$1,569 at November 30, 2019 is classified as held for sale and is included in other current assets in the accompanying consolidated balance sheets at November 30, 2019. The sale of the property was completed subsequent to November 30, 2019 for net proceeds of \$1,639.

Depreciation expense associated with the property and equipment shown above was included in income from operations in our consolidated statements of operations as follows:

	2019	2018	2017
Cost of goods sold (wholesale segment)	\$ 1,402	\$ 1,264	\$ 989
Selling, general and administrative expenses:			
Wholesale segment	1,672	1,666	1,531
Retail segment	7,479	7,060	7,080
Logistical services segment	3,697	3,747	3,987
Total included in selling, general and administrative expenses	12,848	12,473	12,598
Total depreciation expense included in income from operations	<u>\$ 14,250</u>	<u>\$ 13,737</u>	<u>\$ 13,587</u>

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

8. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

	November 30, 2019		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangibles subject to amortization:			
Customer relationships	\$ 3,550	\$ (1,088)	\$ 2,462
Technology - customized applications	834	(575)	259
Total intangible assets subject to amortization	\$ 4,384	\$ (1,663)	2,721
Intangibles not subject to amortization:			
Trade names			9,338
Goodwill			14,117
Total goodwill and other intangible assets			\$ 26,176
	November 24, 2018		
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangibles subject to amortization:			
Customer relationships	\$ 3,550	\$ (829)	\$ 2,721
Technology - customized applications	834	(456)	378
Total intangible assets subject to amortization	\$ 4,384	\$ (1,285)	3,099
Intangibles not subject to amortization:			
Trade names			9,338
Goodwill			16,043
Total goodwill and other intangible assets			\$ 28,480

We performed our annual goodwill impairment test as of September 1, 2019. As a result of this test, we concluded that the carrying value of our retail reporting unit exceeded its fair value by an amount in excess of the goodwill previously allocated to the reporting unit. Therefore, we recognized a goodwill impairment charge of \$1,926. The fair values of the other reporting units with material amounts of goodwill substantially exceeded their carrying values as of September 1, 2019.

The determination of the fair value of our reporting units is based on a combination of a market approach, that considers benchmark company market multiples, and an income approach, that utilizes discounted cash flows for each reporting unit and other Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosure* (see Note 4). Under the income approach, we determine fair value based on the present value of the most recent cash flow projections for each reporting unit as of the date of the analysis and calculate a terminal value utilizing a terminal growth rate. The significant assumptions under this approach include, among others: income projections, which are dependent on future sales, new product introductions, customer behavior, competitor pricing, operating expenses, the discount rate, and the terminal growth rate. The cash flows used to determine fair value are dependent on a number of significant management assumptions such as our expectations of future performance and the expected future economic environment, which are partly based upon our historical experience. Our estimates are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate and the terminal growth rate are based on our judgment of the rates that would be utilized by a hypothetical market participant. As part of the goodwill impairment testing, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Changes in the carrying amounts of goodwill by reportable segment were as follows:

	<u>Wholesale</u>	<u>Retail</u>	<u>Logistics</u>	<u>Total</u>
Balance as of November 25, 2017	\$ 5,045	\$ 1,926	\$ 4,929	\$ 11,900
Goodwill arising from Lane Venture acquisition (Note 3)	4,143	-	-	4,143
Balance as of November 24, 2018	9,188	1,926	4,929	16,043
Goodwill impairment	-	(1,926)	-	(1,926)
Balance as of November 30, 2019	<u>\$ 9,188</u>	<u>\$ -</u>	<u>\$ 4,929</u>	<u>\$ 14,117</u>

Accumulated impairment losses at November 30, 2019 were \$1,926. There were no accumulated impairment losses on goodwill as of November 24, 2018 or November 25, 2017.

The weighted average useful lives of our finite-lived intangible assets and remaining amortization periods as of November 30, 2019 are as follows:

	<u>Useful Life in Years</u>	<u>Remaining Amortization Period in Years</u>
Customer relationships	14	10
Technology - customized applications	7	2

Amortization expense associated with intangible assets during fiscal 2019, 2018 and 2017 was \$379, \$374 and \$322, respectively and is included in selling, general and administrative expense in our consolidated statement of operations. All expense arising from the amortization of intangible assets is associated with our logistical services segment except for \$57 and \$51 in fiscal 2019 and 2018, respectively, associated with our wholesale segment arising from Lane Venture (Note 3). Estimated future amortization expense for intangible assets that exist at November 30, 2019 is as follows:

Fiscal 2020	\$ 379
Fiscal 2021	379
Fiscal 2022	279
Fiscal 2023	259
Fiscal 2024	259
Thereafter	<u>1,166</u>
Total	<u>\$ 2,721</u>

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

9. Unconsolidated Affiliated Companies

International Market Centers, L.P.

In connection with the sale of our interest in International Home Furnishings Center, Inc. on May 2, 2011, we acquired a minority interest in International Market Centers, L.P. (“IMC”) in exchange for \$1,000. Our investment in IMC was included in other long-term assets in our consolidated balance sheet as of November 26, 2016 and was accounted for using the cost method as we did not have significant influence over IMC. During fiscal 2017 IMC was sold resulting in the redemption of our entire interest for total proceeds of \$1,954 resulting in a gain of \$954 which is included in gain on sale of investments in our consolidated statement of operations.

Other

In 1985, we acquired a minority interest in a privately-held, start-up provider of property and casualty insurance for \$325. We have accounted for this investment on the cost method and it was included in other long-term assets in our consolidated balance sheet as of November 26, 2016. During fiscal 2017 we sold our entire interest for \$3,592 in cash, resulting in a gain of \$3,267 which is included in gain on sale of investments in our consolidated statement of operations.

10. Notes Payable and Bank Credit Facility

Real Estate Notes Payable

Certain of our retail real estate properties were financed through commercial mortgages with outstanding principal totaling \$92 at November 24, 2018, which was included in other current liabilities and accrued expenses in the accompanying condensed consolidated balance sheet. These obligations were paid in full during the third quarter of fiscal 2019.

Fair Value

We believe that the carrying amount of our notes payable approximated fair value at November 24, 2018. In estimating the fair value, we utilize current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 4.

Bank Credit Facility

Our credit facility with our bank provides for a line of credit of up to \$25,000. This credit facility is unsecured and contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future. The credit facility will mature in December 2021.

We have \$2,673 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$22,327. In addition, we have outstanding standby letters of credit with another bank totaling \$325.

Total interest paid during fiscal 2019, 2018 and 2017 was \$7, \$166 and \$322, respectively.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

11. Post-Employment Benefit Obligations

Management Savings Plan

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

The Plan is an account-based plan under which (i) participants may defer voluntarily the payment of current compensation to future years (“participant deferrals”) and (ii) the Company may make annual awards to participants payable in future years (“Company contributions”). The Plan permits each participant to defer up to 75% of base salary and up to 100% of any incentive compensation or other bonus, which amounts would be credited to a deferral account established for the participant. Such deferrals will be fully vested at the time of the deferral. Participant deferrals will be indexed to one or more deemed investment alternatives chosen by the participant from a range of alternatives made available under the Plan. Each participant’s account will be adjusted to reflect gains and losses based on the performance of the selected investment alternatives. A participant may receive distributions from the Plan: (1) upon separation from service, in either a lump sum or annual installment payments over up to a 15 year period, as elected by the participant, (2) upon death or disability, in a lump sum, or (3) on a date or dates specified by the participant (“scheduled distributions”) with such scheduled payments made in either a lump sum or substantially equal annual installments over a period of up to five years, as elected by the participant. Participant contributions commenced during the third quarter of fiscal 2017. Company contributions will vest in full (1) on the third anniversary of the date such amounts are credited to the participant’s account, (2) the date that the participant reaches age 63 or (3) upon death or disability. Company contributions are subject to the same rules described above regarding the crediting of gains or losses from deemed investments and the timing of distributions. Expense associated with the Company contribution was \$196, \$102 and \$55 for fiscal 2019, 2018 and 2017, respectively. Our liability for Company contributions and participant deferrals at November 30, 2019 and November 24, 2018 was \$894 and \$749, respectively, and is included in post-employment benefit obligations in our consolidated balance sheets.

On May 2, 2017, we made Long Term Cash Awards (“LTC Awards”) totaling \$ 2,000 under the Plan to certain management employees in the amount of \$400 each. The LTC Awards vest in full on the first anniversary of the date of the award if the participant has reached age 63 by that time, or, if later, on the date the participant reaches age 63, provided in either instance that the participant is still employed by the Company at that time. If not previously vested, the awards will also vest immediately upon the death or disability of the participant prior to the participant’s separation from service. The awards will be payable in 10 equal annual installments following the participant’s death, disability or separation from service. We are accounting for the LTC Awards as a defined benefit pension plan.

During fiscal 2019, 2018 and 2017, we invested \$627, \$900 and \$431 in life insurance policies covering all participants in the Plan. At November 30, 2019, these policies have a net death benefit of \$14,998 for which the Company is the sole beneficiary. These policies are intended to provide a source of funds to meet the obligations arising from the deferred compensation and LTC Awards under the Plan, and serve as an economic hedge of the financial impact of changes in the liabilities. They are held in an irrevocable trust but are subject to claims of creditors in the event of the Company’s insolvency.

Supplemental Retirement Income Plan

We have an unfunded Supplemental Retirement Income Plan (the “Supplemental Plan”) that covers one current and certain former executives. Upon retirement, the Supplemental Plan provides for lifetime monthly payments in an amount equal to 65% of the participant’s final average compensation as defined in the Supplemental Plan, which is reduced by certain social security benefits to be received and other benefits provided by us. The Supplemental Plan also provides a death benefit that is calculated as (a) prior to retirement death, which pays the beneficiary 50% of final average annual compensation for a period of 120 months, or (b) post-retirement death, which pays the beneficiary 200% of final average compensation in a single payment. We own life insurance policies on these executives with a current net death benefit of \$2,273 at November 30, 2019 and we expect to substantially fund this death benefit through the proceeds received upon the death of the executive. Funding for the remaining cash flows is expected to be provided through operations. There are no benefits payable as a result of a termination of employment for any reason other than death or retirement, other than a change of control provision which provides for the immediate vesting and payment of the retirement benefit under the Supplemental Plan in the event of an employment termination resulting from a change of control.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Aggregated summarized information for the Supplemental Plan and the LTC Awards, measured as of the end of each year presented, is as follows:

	<u>2019</u>	<u>2018</u>	
Change in Benefit Obligation:			
Projected benefit obligation at beginning of year	\$ 11,652	\$ 12,322	
Service cost	190	196	
Interest cost	441	418	
Actuarial gains	(1,172)	(616)	
Benefits paid	(1,021)	(668)	
Projected benefit obligation at end of year	<u>\$ 10,090</u>	<u>\$ 11,652</u>	
Accumulated Benefit Obligation	<u>\$ 9,998</u>	<u>\$ 11,559</u>	
Discount rate used to value the ending benefit obligations:	2.75%	4.00%	
Amounts recognized in the consolidated balance sheet:			
Current liabilities	\$ 655	\$ 798	
Noncurrent liabilities	9,435	10,854	
Total amounts recognized	<u>\$ 10,090</u>	<u>\$ 11,652</u>	
Amounts recognized in accumulated other comprehensive income:			
Prior service cost	\$ 606	\$ 806	
Actuarial loss	1,055	2,408	
Net amount recognized	<u>\$ 1,661</u>	<u>\$ 3,214</u>	
Total recognized in net periodic benefit cost and accumulated other comprehensive income:	<u>\$ (541)</u>	<u>\$ (2)</u>	
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Components of Net Periodic Pension Cost:			
Service cost	\$ 190	\$ 196	\$ 146
Interest cost	441	418	423
Amortization of transition obligation	-	42	42
Amortization of prior service cost	126	126	-
Amortization of other loss	183	262	323
Net periodic pension cost	<u>\$ 940</u>	<u>\$ 1,044</u>	<u>\$ 934</u>
Assumptions used to determine net periodic pension cost:			
Discount rate	4.00%	3.50%	3.75%
Increase in future compensation levels	3.00%	3.00%	3.00%
Estimated Future Benefit Payments (with mortality):			
Fiscal 2020	655		
Fiscal 2021	622		
Fiscal 2022	821		
Fiscal 2023	779		
Fiscal 2024	734		
Fiscal 2025 through 2029	2,961		

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Of the \$1,661 recognized in accumulated other comprehensive income at November 30, 2019, amounts expected to be recognized as components of net periodic pension cost during fiscal 2020 are as follows:

Prior service cost	\$	126
Other loss		7
Total expected to be amortized to net periodic pension cost in 2020	\$	<u>133</u>

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

Deferred Compensation Plan

We have an unfunded Deferred Compensation Plan that covers one current and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or benefits permitted. We recognized expense of \$204, \$216, and \$216 in fiscal 2019, 2018, and 2017, respectively, associated with the plan. Our liability under this plan was \$1,767 and \$1,837 as of November 30, 2019 and November 24, 2018, respectively. The non-current portion of this obligation is included in post-employment benefit obligations in our consolidated balance sheets, with the current portion included in accrued compensation and benefits.

Defined Contribution Plan

We have a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers substantially all employees who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched at the rate of 25% of up to 8% of gross pay, regardless of years of service. Expense for employer matching contributions was \$1,157, \$1,128 and \$1,068 during fiscal 2019, 2018 and 2017, respectively.

12. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the fiscal years ended November 30, 2019 and November 24, 2018, which is comprised solely of post-retirement benefit costs related to our SERP and LTC Awards, is as follows:

Balance at November 25, 2017	\$	(2,570)
Reclassification of certain tax effects to retained earnings ⁽¹⁾		(545)
Actuarial gains		616
Net pension amortization reclassified from accumulated other comprehensive loss		430
Tax effects		(269)
Balance at November 24, 2018		<u>(2,338)</u>
Actuarial gains		1,172
Net pension amortization reclassified from accumulated other comprehensive loss		308
Tax effects		(378)
Balance at November 30, 2019	\$	<u>(1,236)</u>

(1) In 2018 we adopted ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Comprehensive Income. ASU 2018-02 addressed the impact of the remeasurement of deferred taxes on items in accumulated other comprehensive income due to the reduction in federal statutory rates arising from the Tax Cuts and Jobs Act of December 2017 by allowing the transfer of certain tax effects carried over from prior years to retained earnings as of the beginning of fiscal 2018.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

13. Capital Stock and Stock Compensation

We account for our stock-based employee and director compensation plans in accordance with ASC 718, *Compensation – Stock Compensation*. ASC 718 requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period) which we recognize on a straight-line basis. Compensation expense related to restricted stock and stock options included in selling, general and administrative expenses in our consolidated statements of operations for fiscal 2019, 2018 and 2017 was as follows:

	2019	2018	2017
Stock based compensation expense	\$ 958	\$ 1,133	\$ 1,028

Incentive Stock Compensation Plans

On April 14, 2010, our shareholders approved the Bassett Furniture Industries, Incorporated 2010 Stock Incentive Plan which was amended and restated effective January 13, 2016 (the “2010 Plan”). All present and future non-employee directors, key employees and outside consultants for the Company are eligible to receive incentive awards under the 2010 Plan. Our Organization, Compensation and Nominating Committee (the “Compensation Committee”) selects eligible key employees and outside consultants to receive awards under the 2010 Plan in its discretion. Our Board of Directors or any committee designated by the Board of Directors selects eligible non-employee directors to receive awards under the 2010 Plan in its discretion. 1,250,000 shares of common stock are reserved for issuance under the 2010 Plan as amended. Participants may receive the following types of incentive awards under the 2010 Plan: stock options, stock appreciation rights, payment shares, restricted stock, restricted stock units and performance shares. Stock options may be incentive stock options or non-qualified stock options. Stock appreciation rights may be granted in tandem with stock options or as a freestanding award. Non-employee directors and outside consultants are eligible to receive restricted stock and restricted stock units only. We expect to issue new common stock upon the exercise of options.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies, the expected life is based on the estimated average of the life of options using the simplified method. Forfeitures are recognized as they occur. We utilize the simplified method to determine the expected life of our options due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns.

Stock Options

There were no new grants of options made in 2019, 2018 or 2017.

Changes in the outstanding options under our plans during the year ended November 30, 2019 were as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at November 24, 2018	8,350	\$ 8.02
Granted	-	-
Exercised	(3,100)	8.02
Forfeited/Expired	-	-
Outstanding at November 30, 2019	<u>5,250</u>	8.02
Exercisable at November 30, 2019	<u>5,250</u>	\$ 8.02

All remaining options outstanding at November 30, 2019 are exercisable at \$8.02 per share with a remaining contractual life of 1.6 years and an aggregate intrinsic value of \$38. There were no non-vested options outstanding under our plans during the year ended November 30, 2019.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

Additional information regarding activity in our stock options during fiscal 2019, 2018 and 2017 is as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total intrinsic value of options exercised	\$ 34	\$ 75	\$ 564
Total cash received from the exercise of options	25	27	310
Excess tax benefits recognized in income tax expense upon the exercise of options	6	16	188

Restricted Shares

Changes in the outstanding non-vested restricted shares during the year ended November 30, 2019 were as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>
Non-vested restricted shares outstanding at November 24, 2018	81,036	\$ 32.03
Granted	18,153	15.81
Vested	(6,036)	33.07
Forfeited	(3,000)	20.97
Non-vested restricted shares outstanding at November 30, 2019	<u>90,153</u>	\$ 32.03

Restricted share awards granted in fiscal 2019 consisted of 9,653 restricted shares granted to our non-employee directors on March 6, 2019 which will vest on the first anniversary of the grant, and 5,000 and 3,500 restricted shares granted to employees on July 23, 2019 and October 9, 2019, respectively, which will vest on the third anniversary of each grant.

During fiscal 2019, 6,036 restricted shares were vested and released, all of which had been granted to directors. During fiscal 2018 and 2017, 19,810 shares and 21,210 shares, respectively, were withheld to cover withholding taxes of \$674 and \$641, respectively, arising from the vesting of restricted shares. During fiscal 2019, 2018 and 2017, excess tax benefits of \$0, \$207 and \$366, respectively, were recognized within income tax expense upon the release of vested shares.

Additional information regarding our outstanding non-vested restricted shares at November 30, 2019 is as follows:

<u>Grant Date</u>	<u>Restricted Shares Outstanding</u>	<u>Share Value at Grant Date Per Share</u>	<u>Remaining Restriction Period (Years)</u>
January 10, 2017	36,000	\$ 29.05	0.1
January 11, 2018	36,000	35.75	1.1
March 6, 2019	9,653	18.13	0.3
July 23, 2019	5,000	12.34	2.6
October 9, 2019	3,500	14.37	2.9
	<u>90,153</u>		

Unrecognized compensation cost related to these non-vested restricted shares at November 30, 2019 is \$594, of which \$525 is expected to be recognized in fiscal 2020 with the remainder to be recognized over the following two fiscal years.

Employee Stock Purchase Plan

In March of 2017 we adopted and implemented the 2017 Employee Stock Purchase Plan (“2017 ESPP”) that allows eligible employees to purchase a limited number of shares of our stock at 85% of market value. Under the 2017 ESPP we sold 23,460, 14,967 and 6,275 shares to employees during fiscal 2019, 2018 and 2017, respectively, which resulted in an immaterial amount of compensation expense. There are 205,298 shares remaining available for sale under the 2017 ESPP at November 30, 2019.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

14. Income Taxes

The components of the income tax provision are as follows:

	2019	2018	2017
Current:			
Federal	\$ 2,150	\$ (1,137)	\$ 7,887
State	892	462	2,035
Deferred:			
Increase (decrease) in			
Federal	(2,191)	4,747	(200)
State	(663)	(84)	(102)
Total	<u>\$ 188</u>	<u>\$ 3,988</u>	<u>\$ 9,620</u>

On December 22, 2017, The Tax Cuts and Jobs Act (the “Act”) was signed into law. The Act reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018 for all corporate taxpayers, while most other provisions of the Act became effective for fiscal years beginning on or after January 1, 2018. Therefore, we computed our income tax expense for fiscal 2018 using a blended federal statutory rate of 22.2%. The 21% federal statutory rate, as well as certain other provisions of the Act including the elimination of the domestic manufacturing deduction and new limitations on certain business deductions, applies to our 2019 fiscal year and thereafter. The federal rate reduction had a significant impact on our provision for income taxes for fiscal 2018 due to a discrete charge of \$1,331 arising from the re-measurement of our deferred tax assets. Our accounting for the income tax effects of the Act was complete as of November 24, 2018.

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:

	2019	2018	2017
Statutory federal income tax rate	21.0%	22.2%	35.0%
Revaluation of deferred tax assets resulting from new enacted rates	-	10.9	-
State income tax, net of federal benefit	(14.0)	4.6	3.9
Impairment of non-deductible goodwill	(23.2)	-	-
Excess tax benefits from stock-based compensation	0.3	(1.5)	(1.8)
Other	5.1	(3.5)	(2.6)
Effective income tax rate	<u>(10.8)%</u>	<u>32.7%</u>	<u>34.5%</u>

Excess tax benefits in the amount of \$22, \$223 and \$554 were recognized as a component of income tax expense during fiscal 2019, 2018 and 2017, respectively, resulting from the exercise of stock options and the release of restricted shares. The fiscal 2019 adjustment for impairment of non-deductible goodwill reflects the fact that there was no tax basis related to the impaired goodwill.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

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

	November 30, 2019	November 24, 2018
Deferred income tax assets:		
Trade accounts receivable	\$ 207	\$ 192
Inventories	2,487	1,755
Notes receivable	44	109
Post employment benefit obligations	3,241	3,619
State net operating loss carryforwards	193	218
Unrealized loss from affiliates	81	15
Net deferred rents	3,753	3,199
Other	1,828	1,290
Gross deferred income tax assets	11,834	10,397
Valuation allowance	-	-
Total deferred income tax assets	11,834	10,397
Deferred income tax liabilities:		
Property and equipment	4,288	5,353
Intangible assets	1,114	1,060
Prepaid expenses and other	688	718
Total deferred income tax liabilities	6,090	7,131
Net deferred income tax assets	<u>\$ 5,744</u>	<u>\$ 3,266</u>

We have state net operating loss carryforwards available to offset future taxable state income of \$4,095, which expire in varying amounts between 2021 and 2027. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards.

Income taxes paid, net of refunds received, during 2019, 2018 and 2017 were \$1,228, \$1,431, and \$7,516, respectively.

We regularly evaluate, assess and adjust our accrued liabilities for unrecognized tax benefits in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period. Our accrued liabilities for uncertain tax benefits at November 30, 2019 and November 24, 2018 were not material.

Significant judgment is required in evaluating the Company's federal and state tax positions and in the determination of its tax provision. Despite our belief that the liability for unrecognized tax benefits is adequate, it is often difficult to predict the final outcome or the timing of the resolution of any particular tax matter. We may adjust these liabilities as relevant circumstances evolve, such as guidance from the relevant tax authority, or resolution of issues in the courts. These adjustments are recognized as a component of income tax expense in the period in which they are identified. The Company also cannot predict when or if any other future tax payments related to these tax positions may occur.

We remain subject to examination for tax years 2016 through 2019 for all of our major tax jurisdictions.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

15. Other Gains and Losses

Gains on Sales of Retail Store Locations

Selling, general and administrative expenses for the year ended November 24, 2018 includes a gain of \$165 resulting from the sale of our retail store location in Spring, Texas for \$2,463 in cash. The store was closed in October of 2018 and repositioned to a new location serving the Houston market in The Woodlands, Texas, which opened in November of 2018.

Selling, general and administrative expenses for the year ended November 25, 2017 includes a gain of \$1,220 resulting from the sale of our retail store location in Las Vegas, Nevada for \$4,335 in cash. The store was closed in August of 2017 in preparation for its repositioning to a new location serving the Las Vegas market, in Summerlin, Nevada, which opened in January of 2018.

Early Retirement Program

During the first quarter of fiscal 2019, we offered a voluntary early retirement package to certain eligible employees of the Company. Twenty-three employees accepted the offer, which expired on February 28, 2019. These employees are to receive pay equal to one-half their current salary plus benefits over a period of one year from the final day of each individual's active employment. Accordingly, we recognized a charge of \$835 during the year ended November 30, 2019. The unpaid obligation of \$374 is included in other accrued liabilities in our consolidated balance sheet as of November 30, 2019.

Asset Impairment Charges and Lease Exit Costs

During fiscal 2019, the loss from operations included \$4,431 of non-cash impairment charges recognized on the assets of six underperforming retail stores. In addition, a \$149 charge was accrued for lease exit costs incurred in connection with the repositioning of a Company-owned retail store in Palm Beach, Florida to a new location within the same market.

During fiscal 2018 income from operations included \$469 of non-cash asset impairment charges recognized on the assets of one underperforming retail location, and a \$301 charge for the accrual of lease exit costs incurred in connection with the closing of a Company-owned retail store location in San Antonio, Texas.

There were no asset impairment charges or lease exit costs incurred against income from operations during fiscal 2017. See Note 2 regarding non-operating impairment charges incurred in connection with our investments in retail real estate.

Litigation Expense

During fiscal 2019 we accrued \$700 for the estimated costs to resolve certain wage and hour violation claims that have been asserted against the Company. While the ultimate cost of resolving these claims may be substantially higher, the amount accrued represents our estimate of the most likely outcome of a mediated settlement.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

16. Leases and Lease Guarantees

Leases

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our retail and logistical services segments. We also lease tractors and trailers used in our logistical services segment and local delivery trucks and service vans used in our retail segment. Our real estate lease terms range from one to 15 years and generally have renewal options of between five and 15 years. Some store leases contain contingent rental provisions based upon sales volume. Our transportation equipment leases have terms ranging from two to seven years with fixed monthly rental payments plus variable charges based upon mileage. The following schedule shows future minimum lease payments under non-cancellable operating leases with terms in excess of one year as of November 30, 2019:

	<u>Retail Stores</u>	<u>Warehousing & Distribution Centers</u>	<u>Transportation Equipment</u>	<u>All Other</u>	<u>Total</u>
Fiscal 2020	\$ 24,524	\$ 5,745	\$ 4,938	\$ 1,824	\$ 37,031
Fiscal 2021	22,596	5,012	3,761	1,109	32,478
Fiscal 2022	20,067	4,742	2,618	502	27,929
Fiscal 2023	18,243	3,302	1,311	57	22,913
Fiscal 2024	14,385	1,396	1,049	5	16,835
Thereafter	46,759	368	391	-	47,518
Total future minimum lease payments	<u>\$ 146,574</u>	<u>\$ 20,565</u>	<u>\$ 14,068</u>	<u>\$ 3,497</u>	<u>\$ 184,704</u>

Lease expense was \$41,809, \$38,970 and \$34,372 for 2019, 2018, and 2017, respectively. Improvement allowances received from lessors at the inception of a lease are deferred and amortized over the term of the lease. The unamortized balance of such amounts was \$8,050 and \$6,716 at November 30, 2019 and November 24, 2018, respectively, with the non-current portion of \$6,799 and \$5,715, respectively, included in other liabilities in our consolidated balance sheets and the remaining current portion included in other accrued liabilities.

In addition to subleasing certain of these properties, we own retail real estate which we in turn lease to licensee operators of BHF stores. We also own real estate for closed stores which we lease to non-licensees. 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.

Fiscal 2020	\$ 1,533
Fiscal 2021	948
Fiscal 2022	602
Fiscal 2023	285
Fiscal 2024	180
Thereafter	120
Total minimum future rental income	<u>\$ 3,668</u>

Real estate rental net loss (rental income less lease costs, depreciation, insurance, and taxes), related to licensee stores and other investment real estate, was \$156, \$23 and \$48 in 2019, 2018 and 2017, respectively, and is reflected in other loss, net in the accompanying consolidated statements of operations.

Guarantees

As part of the strategy for our store program, we have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to three years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,776 and \$2,021 at November 30, 2019 and November 24, 2018, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral, and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are estimated to cover the maximum amount of our future payments under the guarantee obligations, net of reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at November 30, 2019 and November 24, 2018, were not material.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

17. Contingencies

We are involved in various claims and actions which arise in the normal course of business. Although the final outcome of these matters cannot be determined, based on the facts presently known, it is our opinion that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations. See Note 15 regarding litigation arising from certain wage and hour violations which have been asserted against the Company.

18. Earnings (Loss) Per Share

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	2019	2018	2017
Numerator:			
Net income (loss)	\$ (1,928)	\$ 8,218	\$ 18,256
Denominator:			
Denominator for basic income per share - weighted average shares	10,285,511	10,651,351	10,649,225
Effect of dilutive securities	-	40,424	82,850
Denominator for diluted income per share — weighted average shares and assumed conversions	10,285,511	10,691,775	10,732,075
Basic income (loss) per share:			
Net income (loss) per share — basic	\$ (0.19)	\$ 0.77	\$ 1.71
Diluted income (loss) per share:			
Net income (loss) per share — diluted	\$ (0.19)	\$ 0.77	\$ 1.70

For fiscal 2019, 2018 and 2017, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

	2019	2018	2017
Unvested restricted shares	90,153	45,036	-
Stock options	5,250	-	-

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

19. Segment Information

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

- **Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned stores retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our consolidated statements of operations.
- **Retail – Company-owned stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities and capital expenditures directly related to these stores and the Company-owned distribution network utilized to deliver products to our retail customers.
- **Logistical services.** With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our consolidated statement of operations. Zenith's operating costs are included in selling, general and administrative expenses and total \$78,220, \$81,468 and \$80,068 for fiscal 2019, 2018 and 2017, respectively.

During the fourth quarter of fiscal 2018, we substantially completed transferring operational control of home delivery services for BHF stores from Zenith to our retail segment, including the transfer of the assets and many of the employees used in providing that service. Accordingly, the results for the retail and logistical services segments for all periods prior to fiscal 2019 have been restated to present the depreciation and amortization, capital expenditures and identifiable assets associated with home delivery services formerly provided by Zenith to the Bassett retail segment as though they had been incurred within the retail segment, and intercompany revenues for those services are no longer included in the logistical services segment. The impact of the restatement upon the income (loss) from operations for both the logistical services and retail segments was not material. Concurrently with the transfer of home delivery operations to retail, Zenith also ceased providing such services to third party customers. Revenues from Zenith's home delivery services formerly provided to third party customers and the associated costs thereof continue to be reported in the logistical services segment. Zenith continues to provide other intercompany shipping and warehousing services to Bassett which are eliminated in consolidation.

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

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

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

	2019	2018	2017
Net Sales			
Wholesale	\$ 261,105	\$ 255,958	\$ 249,193
Retail	268,693	268,883	268,264
Logistical services	80,074	82,866	83,030
Inter-company eliminations:			
Furniture and accessories	(125,933)	(122,372)	(119,360)
Logistical services	(31,852)	(28,480)	(28,624)
Consolidated	<u>\$ 452,087</u>	<u>\$ 456,855</u>	<u>\$ 452,503</u>
Income (loss) from Operations			
Wholesale	\$ 11,456	\$ 12,274	\$ 19,121
Retail	(7,009)	(312)	3,490
Logistical services	1,855	1,398	2,962
Inter-company elimination	1,144	1,494	1,445
Asset impairment charges	(4,431)	(469)	-
Goodwill impairment charge	(1,926)	-	-
Early retirement program	(835)	-	-
Litigation expense	(700)	-	-
Lease exit costs	(149)	(301)	-
Consolidated income from operations	<u>\$ (595)</u>	<u>\$ 14,084</u>	<u>\$ 27,018</u>
Depreciation and Amortization			
Wholesale	\$ 3,178	\$ 3,038	\$ 2,648
Retail	6,303	6,096	6,355
Logistical services	4,019	4,069	4,309
Consolidated	<u>\$ 13,500</u>	<u>\$ 13,203</u>	<u>\$ 13,312</u>
Capital Expenditures			
Wholesale	\$ 5,650	\$ 4,194	\$ 4,875
Retail	8,473	12,769	8,108
Logistical services	3,627	1,338	2,517
Consolidated	<u>\$ 17,750</u>	<u>\$ 18,301</u>	<u>\$ 15,500</u>
Identifiable Assets			
Wholesale	\$ 144,392	\$ 144,209	\$ 152,181
Retail	91,997	96,241	90,186
Logistical services	39,377	51,191	51,381
Consolidated	<u>\$ 275,766</u>	<u>\$ 291,641</u>	<u>\$ 293,748</u>

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

	2019		2018		2017	
Bassett Custom Upholstery	\$ 152,415	58.4%	\$ 141,321	55.2%	\$ 136,366	54.7%
Bassett Leather	19,220	7.4%	21,589	8.4%	22,528	9.0%
Bassett Custom Wood	46,082	17.6%	46,074	18.0%	43,793	17.6%
Bassett Casegoods	40,920	15.7%	42,875	16.8%	42,874	17.2%
Accessories (1)	2,468	0.9%	4,099	1.6%	3,632	1.5%
Total	<u>\$ 261,105</u>	<u>100.0%</u>	<u>\$ 255,958</u>	<u>100.0%</u>	<u>\$ 249,193</u>	<u>100.0%</u>

- (1) Beginning with the third quarter of fiscal 2019, our wholesale segment no longer purchases accessory items for resale to our retail segment or to third party customers such as licensees or independent furniture retailers. Our retail segment and third party customers now source their accessory items directly from the accessory vendors.

Notes to Consolidated Financial Statements – Continued

(In thousands, except share and per share data)

20. Quarterly Results of Operations

	2019			
	First Quarter (1)	Second Quarter	Third Quarter	Fourth Quarter (2)
Sales revenue:				
Furniture and accessories	\$ 107,357	\$ 95,824	\$ 98,369	\$ 102,315
Logistics	13,484	12,366	11,050	11,322
Total sales revenue	120,841	108,190	109,419	113,637
Cost of furniture and accessories sold	49,177	42,530	42,246	45,291
Income (loss) from operations	949	701	3,400	(5,645)
Net income (loss)	608	445	2,157	(5,138)
Basic earnings (loss) per share	0.06	0.04	0.21	(0.50)
Diluted earnings (loss) per share	0.06	0.04	0.21	(0.50)
	2018			
	First Quarter (3)	Second Quarter (4)	Third Quarter	Fourth Quarter (5)
Sales revenue:				
Furniture and accessories	\$ 96,123	\$ 102,675	\$ 99,807	\$ 103,864
Logistics	14,149	14,305	13,149	12,783
Total sales revenue	110,272	116,980	112,956	116,647
Cost of furniture and accessories sold	43,269	45,660	44,821	45,831
Income from operations	2,050	5,663	4,324	2,047
Net income	(913)	4,289	2,945	1,897
Basic earnings per share	(0.09)	0.40	0.28	0.18
Diluted earnings per share	(0.09)	0.40	0.28	0.18

The first quarter of fiscal 2019 included 14 weeks. All other quarters shown above for fiscal 2019 and 2018 consist of 13 week fiscal periods.

- (1) Income from operations includes a charge of \$835 arising from certain eligible employees' acceptance of voluntary early retirement package (see Note 15).
- (2) Loss from operations includes a charge for the impairment of goodwill of \$1,926 (see Note 8) and charges of \$4,431, \$700 and \$149 for impairment of long-lived assets, litigation costs and lease termination costs, respectively (see Note 15).
- (3) Net loss includes a \$2,157 charge to income tax expense arising from the remeasurement of our deferred tax assets due to the reduction in the Federal statutory income tax rate included in the Tax Cuts and Jobs Act (see Note 14).
- (4) Income from operations includes a gain of \$165 from the sale of our Spring, Texas retail store (see Note 15). Net income includes a benefit of \$155 in income tax expense arising from additional adjustments to the remeasurement of our deferred tax assets resulting from the Act (see Note 14).
- (5) Income from operations includes a \$469 asset impairment charge related to our Torrance, California retail store and a \$301 charge for lease exit costs related to the closing of a store in San Antonio, Texas (see Note 15). Net income includes a \$704 tax benefit arising from the final adjustment to our interim estimates of the impact of reduced federal income tax rates on the valuation of our deferred tax assets (see Note 14).

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

We are responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15. With the participation of our CEO and CFO, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of November 30, 2019 based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 30, 2019, based on those criteria. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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

Changes in internal control over financial reporting.

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

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Bassett Furniture Industries, Incorporated and Subsidiaries’ internal control over financial reporting as of November 30, 2019, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Bassett Furniture Industries, Incorporated and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of November 30, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of November 30, 2019 and November 24, 2018, and the related consolidated statements of income, comprehensive income, stockholders’ equity and cash flows for each of the three years in the period ended November 30, 2019, and the related notes and schedule and our report dated January 23, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Richmond, Virginia
January 23, 2020

65

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information to be contained in the Proxy Statement under the captions "Election of Directors," "Board and Board Committee Information," and "Delinquent Section 16(a) Reports" is incorporated herein by reference thereto. Please see section entitled "Information about our Executive Officers" in Item 4B of Part I of this report for information concerning executive officers.

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

The information to be contained in the Proxy Statement under the headings "Principal Stockholders and Holdings of Management" and "Equity Compensation Plan Information" is incorporated herein by reference thereto.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information to be contained in the Proxy Statement under the captions "Board and Board Committee Information" and "Other Transactions" is incorporated herein by reference thereto.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

66

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

- (a) (1) Bassett Furniture Industries, Incorporated and Subsidiaries Audited Consolidated Financial Statements for the years ended November 30, 2019, November 24, 2018 and November 27, 2017.
- (2) Financial Statement Schedule:

(3) Listing of Exhibits

- 3A. Articles of Incorporation as amended are incorporated herein by reference to Form 10-Q for the fiscal quarter ended February 28, 1994.
- 3B. [By-laws as amended to date are incorporated herein by reference to Exhibit 3 to Form 8-K filed with the SEC on January 17, 2020.](#)
- 4A. [Fifth Amended and Restated Credit Agreement with BB&T dated December 5, 2015 is incorporated herein by reference to Form 10-Q for the fiscal quarter ended February 27, 2016, filed March 31, 2016. Registrant hereby agrees to furnish the SEC, upon request, other instruments defining the rights of holders of long-term debt of the Registrant.](#)
- 4B. [First Amendment to Fifth Amended and Restated Credit Agreement with BB&T dated November 15, 2018 is incorporated herein by reference to Form 10-K for the fiscal year ended November 24, 2018, filed January 17, 2019.](#)
- 4C. [Description of Capital Stock \(filed herewith\)](#)
- *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.](#)
- *10H. [Bassett Furniture Directors Compensation is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.](#)
- *10K. [Bassett Furniture Industries, Inc. Amended and Restated 2010 Stock Incentive Plan is incorporated herein by reference to Schedule 14A, Exhibit A, filed on February 8, 2016.](#)
- *10L. [Form of Performance Share Award Agreement, Restricted Stock Award Agreement and Stock Option Award Agreement under the Bassett Furniture Industries, Inc. 2010 Stock Incentive Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 2013.](#)
- *10M. [Schedule of Terms for Employment Continuity Agreements with Certain Executive Officers is incorporated herein by reference to Form 10-Q for the quarterly period ended March 1, 2014.](#)
- *10N. [Restated Supplemental Retirement Income Plan, effective May 1, 2014, is incorporated herein by reference to Form 10-Q for the quarterly period ended May 31, 2014.](#)
- *10O. [Bassett Furniture Industries, Incorporated Management Savings Plan incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on May 5, 2017.](#)
- *10P. [Form of Long Term Cash Award under Bassett Furniture Industries, Incorporated Management Savings Plan incorporated by reference to Exhibit 10.2 to Form 8-K filed with the SEC on May 5, 2017.](#)
- 21. [List of subsidiaries of the Registrant](#)
- 23A. [Consent of Independent Registered Public Accounting Firm](#)

- 31A. [Certification of Robert H. Spilman, Jr., President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31B. [Certification of J. Michael Daniel, Senior 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 J. Michael Daniel, Senior 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.](#)
- 101.INS XBRL Instance
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation
- 101.DEF XBRL Taxonomy Extension Definition

101.LAB XBRL Taxonomy Extension Labels

101.PRE XBRL Taxonomy Extension Presentation

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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

ITEM 16. FORM 10-K SUMMARY

None.

68

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 23, 2020
Robert H. Spilman, Jr.
President and Chief Executive Officer
Chairman of the Board of Directors

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/ John R. Belk Date: January 23, 2020
John R. Belk
Director

By: /s/ Kristina K. Cashman Date: January 23, 2020
Kristina K. Cashman
Director

By: /s/ Virginia W. Hamlet Date: January 23, 2020
Virginia W. Hamlet
Director

By: /s/ J. Walter McDowell Date: January 23, 2020
J. Walter McDowell
Director

By: /s/ William C. Wampler, Jr. Date: January 23, 2020
William C. Wampler, Jr.
Director

By: /s/ William C. Warden, Jr. Date: January 23, 2020
William C. Warden, Jr.
Director, Lead Independent Director

By: /s/ J. Michael Daniel Date: January 23, 2020
J. Michael Daniel
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

69

Bassett Furniture Industries, Incorporated

Schedule II

Analysis of Valuation and Qualifying Accounts
For the Years Ended November 30, 2019, November 24, 2018 and November 25, 2017
(amounts in thousands)

	Balance Beginning of Period	Additions Charged to Cost and Expenses	Deductions (1)	Other	Balance End of Period
For the Year Ended November 25, 2017:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 799	\$ (59)	\$ (123)	\$ -	\$ 617
Notes receivable valuation reserves	\$ 1,454	\$ -	\$ -	\$ -	\$ 1,454
For the Year Ended November 24, 2018:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 617	\$ 339	\$ (252)	\$ 50 (2)	\$ 754
Notes receivable valuation reserves	\$ 1,454	\$ -	\$ (1,077)	\$ -	\$ 377
For the Year Ended November 30, 2019:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 754	\$ 61	\$ -	\$ -	\$ 815
Notes receivable valuation reserves	\$ 377	\$ -	\$ (18)	\$ -	\$ 359

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

(2) Represents reserves of acquired business at date of acquisition.

DESCRIPTION OF COMMON STOCK

The following summary description of the securities is not complete and is qualified in its entirety by reference to our Articles of Incorporation, as amended, our Bylaws, as amended, and applicable provisions of the Virginia Stock Corporation Act

General

Our outstanding shares of common stock are listed on the NASDAQ Global Select Market under the symbol "BSET." The transfer agent for the Common Stock is American Stock Transfer & Trust Company. The authorized capital stock of the Company consists of 50,000,000 shares of Common Stock, \$5.00 par value.

Rights of Our Common Stock

All outstanding shares of Common Stock are of the same class and have equal rights and attributes. Each holder of Common Stock is entitled to one vote for each share held of record on each matter submitted to a vote of shareholders. Cumulative voting in the election of directors is not permitted. As a result, the holders of more than 50% of the outstanding shares have the power to elect all directors. The quorum required at a shareholders' meeting for consideration of any matter is a majority of the shares entitled to vote on that matter, represented in person or by proxy. If a quorum is present, the affirmative vote of a majority of shares represented at the meeting and entitled to vote on the matter is required for shareholder approval, except in the case of certain major corporate actions, such as the merger or liquidation of the Company, an amendment to the Company's articles of incorporation, or the sale of all or substantially all of the Company's assets, with respect to which, pursuant to Article (j) of the Company's Articles of Incorporation, approval is required by the affirmative vote of eighty-five percent of all shares entitled to vote on the matter, whether or not represented at the meeting.

The holders of shares of Common Stock are entitled to receive dividends when, as and if declared by the Board of Directors in the manner and upon the terms and conditions provided under Virginia law and the Company's Articles of Incorporation. There are no conversion rights or sinking fund provisions with respect to shares of Common Stock. As described in Section 13.1-651 of the Virginia Code, the stockholders of a corporation incorporated on or before December 31, 2005 have preemptive rights to acquire proportional amounts of a corporation's unissued shares upon the decision of the board of directors to issue them, unless such rights are limited or denied in the corporation's articles of incorporation. There are no preemptive rights with respect to (i) shares issued to officers or employees of a corporation or of its subsidiaries pursuant to a plan approved by the stockholders or (ii) shares sold other than for money, unless preemptive rights are expressly conferred in the articles of incorporation. The Company's Articles of Incorporation contain no limitation or denial of preemptive rights except with respect to shares of common stock that were issued under a now-expired stock plan for non-employee directors. There are no preemptive rights expressly conferred in the Company's Articles of Incorporation.

Pursuant to Article (i) of the Company's Articles of Incorporation, in the event that any person ("Acquiring Person") who is the beneficial owner (directly or indirectly), of more than fifty percent of the shares of Common Stock outstanding becomes the beneficial owner of any additional shares pursuant to a tender offer or becomes the beneficial owner of more than fifty percent of the shares of Common Stock and any of such shares were acquired pursuant to a tender offer, each holder of shares of Common Stock, other than the Acquiring Person, shall have the right to have such shares redeemed by the Company at the redemption price as further specified in Article (i) Section 5 of the Company's Articles of Incorporation. No holder of Common Stock shall have the right for the Company to redeem shares if the Company acting through a majority of its Board of Directors shall, within ten days following the announcement, publication or amendment to such tender offer, recommends to the holders of Common Stock that such tender offer be accepted by the holders of Common Stock.

Director Vacancies

Our Bylaws provide that any vacancies on our Board of Directors, including a vacancy resulting from the removal of a director or an increase in the number of directors, shall be filled at any meeting of our Board of Directors or any meeting of our shareholders.

Advance Notice for Shareholder Proposals and Nominations

Our Bylaws contain provisions requiring advance notice be delivered to the Company of any business to be brought by a shareholder before an annual meeting and providing for procedures to be followed by shareholders in nominating persons for election to our Board of Directors. For business to be brought by a shareholder before an annual meeting, a shareholder must give notice no later than 160 days prior to the one-year anniversary of the date of the preceding year's annual meeting. For nominations for election to the Board of Directors, shareholders must give notice no later than 90 days prior to the one-year anniversary of the date of the preceding year's annual meeting. The notice must contain the information required by our Bylaws, and the shareholder(s) and nominee(s) must comply with the information and other requirements required by our Bylaws.

Special Meetings of Shareholders

Our Bylaws state that special meetings of shareholders, for any purpose or purposes, unless prescribed by statute, may be called by the Chairman of the Board of Directors, the President or the Board of Directors.

Bylaw Amendment

Our Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Board of Directors. Bylaws adopted by the Board of Directors may be repealed or changed or new bylaws adopted 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.

EXHIBIT 21 - LIST OF SUBSIDIARIES*

- (a) Bassett Furniture Industries of North Carolina, LLC (North Carolina limited liability company)
- (b) The E.B. Malone Corporation (Delaware corporation)
- (c) Bassett Direct Stores, LLC (Virginia limited liability company)
- (d) Bassett Direct NC, LLC (Virginia limited liability company)
- (e) Bassett Direct SC, LLC (Virginia limited liability company)
- (f) LRG Furniture, LLC (Virginia limited liability company)
- (g) BDP, LC (Texas limited liability company)
- (h) BFD-Atlanta, LLC (Virginia limited liability company)
- (i) BD Boston, LLC (Virginia limited liability company)
- (j) BDU NY, LLC (Virginia limited liability company)
- (k) Zenith Freight Lines, LLC (North Carolina limited liability company)
- (l) Zenith, Inc. (North Carolina corporation)
- (m) Western States Distribution, LLC (California limited liability company)

*All subsidiaries are wholly-owned unless otherwise noted.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-175531) pertaining to the Bassett Furniture Industries, Incorporated 2010 Stock Incentive Plan, and
- (2) Registration Statement (Form S-8 No 333-217072) pertaining to the Bassett Furniture Industries, Incorporated 2017 Employee Stock Plan

of our reports dated January 23, 2020 with respect to the consolidated financial statements and schedule of Bassett Furniture Industries, Incorporated and Subsidiaries and the effectiveness of internal control over financial reporting of Bassett Furniture Industries, Incorporated and Subsidiaries included in this Annual Report (Form 10-K) of Bassett Furniture Industries, Incorporated and Subsidiaries for the year ended November 30, 2019.

/s/ Ernst & Young LLP
Richmond, Virginia
January 23, 2020

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of Bassett Furniture Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 23, 2020

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

CERTIFICATIONS

I, J. Michael Daniel, certify that:

1. I have reviewed this annual report on Form 10-K of Bassett Furniture Industries, Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth 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 the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 23, 2020

/s/ J. Michael Daniel

J. Michael Daniel

Senior Vice President and Chief Financial Officer

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

In connection with the Annual Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-K for the period ended November 30, 2019, 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.

January 23, 2020

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

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

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

In connection with the Annual Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-K for the period ended November 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Michael Daniel, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

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

January 23, 2020

/s/ J. Michael Daniel

J. Michael Daniel

Senior Vice President and Chief Financial Officer

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