

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A  
AMENDMENT NO. 2[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the fiscal year ended November 27, 1999 Commission File No. 0-209

## BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

VIRGINIA

54-0135270

(State or other jurisdiction of  
incorporation or organization)(I.R.S. Employer  
Identification No.)3525 FAIRYSTONE PARK HIGHWAY  
BASSETT, VIRGINIA

24055

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code 540/629-6000

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

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

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

[ ] Yes [X] No

This Form 10-K/A Amendment No. 2 was filed April 11, 2000, subsequent to the March 31, 2000 required filing date.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of February 22, 2000 was \$144,179,431.

The number of shares of the Registrant's common stock outstanding on February 22, 2000 was 11,906,732.

## DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 27, 1999 (the "Annual Report") are incorporated by reference into Parts I and II of this Form 10-K.
- (2) Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2000 Annual Meeting of Stockholders to be held March 28, 2000, 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.

## Explanatory Comment:

Amendment No. 1 on Form 10-K/A was filed to correct printer typesetting mistakes in the Report of Independent Public Accountants dated January 17, 2000, which appears on page 17 of the Registrant's Annual Report to Stockholders for the year ended November 27, 1999. No other changes were made to the Annual Report on Form 10-K by Amendment No. 1.

This Amendment No. 2 on Form 10-K/A is being filed to file the Financial Statements of a significant affiliate of the Company. The Financial Statements of the Bassett Industries Alternative Asset Fund, L.P. which has a fiscal year end of December 31, which is different than the Company's fiscal year end, are included herein on pages F-16 to F-25. No other changes are being made to the Annual Report on Form 10-K by this Amendment No. 2.

## PART IV

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

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

Consolidated Balance Sheets--November 27, 1999 and November 28, 1998

Consolidated Statements of Operations--Years Ended November 27, 1999, November 28, 1998 and November 30, 1997

Consolidated Statements of Comprehensive Income--Years ended November 27, 1999, November 28, 1998, and November 30, 1997

Consolidated Statements of Stockholders' Equity--Years Ended November 27, 1999, November 28, 1998 and November 30, 1997

Consolidated Statements of Cash Flows-- Years Ended November 27, 1999, November 28, 1998 and November 30, 1997

Notes to Consolidated Financial Statements

Report of Independent Public Accountants

International Home Furnishings Center, Inc. Financial Statements are included herein on pages F-1 to F-13.

Bassett Industries Alternative Asset Fund, L.P. Financial Statements as of December 31, 1999 and 1998, and November 30, 1998 are included herein on pages F-16 to F-25.

- (2) Financial Statement Schedule:  
Schedule II - Analysis of Valuation and Qualifying Accounts for the years ended November 27, 1999, November 28, 1998, and November 30, 1997
- (3) Listing of Exhibits
- 3A. Articles of Incorporation as amended are incorporated herein by reference to Form 10-Q for the fiscal quarter ended February 28, 1994.
- 3B. Amendment to the By-laws dated January 18, 2000, including the By-laws as amended are filed herewith.
4. \$50 million Credit Agreement dated October 19, 1999 with First Union National Bank, is filed herewith.

- \*\* 10A. Bassett 1993 Long Term Incentive Stock Option Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 (no.33-52405) filed on February 25, 1994.
- \*\* 10B. Bassett Executive Deferred Compensation Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 1997.
- \*\* 10C. Bassett Supplemental Retirement Income Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 1997.
- \*\* 10D. Bassett 1993 Stock Plan for Non-Employee Directors as amended is incorporated herein by reference to Form 10-K for the fiscal year ended November 28, 1998.
- \*\* 10E. Bassett 1997 Employee Stock Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 ( no. 333-60327) filed on July 31, 1998.
- 10F. Severance Agreement and General Release dated January 31, 1999 between Registrant and Douglas W. Miller is filed herewith.
- 10G. Severance Agreement and General Release dated November 27, 1999 between Registrant and John S. Lupo is filed herewith.
- 13. Portions of the Registrant's Annual Report to Stockholders for the year ended November 27, 1999.
- 21. List of subsidiaries of the Registrant is filed herewith.
- 23A. Consent of Arthur Andersen LLP is filed herewith.
- 23B. Consent of Dixon Odom PLLC is filed herewith.
- 27. Financial Data Schedule (EDGAR filing only)

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

- (b) No reports on Form 8-K were filed during the last quarter of the Registrant's 1999 fiscal year.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 2 on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ BARRY C. SAFRIT

Date: 4-11-00

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

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

CERTAIN EXHIBITS

YEAR ENDED NOVEMBER 27, 1999

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

BASSETT, VIRGINIA

INTERNATIONAL HOME FURNISHINGS CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

## INTERNATIONAL HOME FURNISHINGS CENTER, INC.

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[DIXON ODOM PLLC LETTERHEAD]

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of International Home Furnishings Center, Inc. as of October 31, 1999 and 1998 and the related statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended October 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Home Furnishings Center, Inc. at October 31, 1999 and 1998 and the results of its operations and its cash flows for each of the three years in the period ended October 31, 1999 in conformity with generally accepted accounting principles.

/s/ Dixon Odom PLLC

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Dixon Odom PLLC

High Point, North Carolina  
November 22, 1999

INTERNATIONAL HOME FURNISHINGS CENTER, INC.

BALANCE SHEETS

OCTOBER 31, 1999 AND 1998

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ASSETS	1999	1998
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,004,521	\$ 16,396,705
Restricted cash (Note C)	2,275,974	2,275,974
Short-term investments	90,778	83,643
Receivables		
Trade	2,253,583	2,163,950
Interest	14,627	36,892
Deferred income tax asset	610,000	592,000
Prepaid expenses	806,229	55,965
	-----	-----
TOTAL CURRENT ASSETS	14,055,712	21,605,129
	-----	-----
PROPERTY AND EQUIPMENT, at cost		
Land and land improvements	3,293,772	3,293,772
Buildings, exclusive of theater complex	75,439,170	75,196,472
Furniture and equipment	3,631,421	3,536,662
	-----	-----
	82,364,363	82,026,906
	(43,926,570)	(41,727,981)
	-----	-----
Accumulated depreciation	38,437,793	40,298,925
	-----	-----
OTHER ASSETS		
Theater complex, at cost less amortization (Note G)	976,854	1,020,109
Deferred financing costs, net of accumulated amortization of \$104,413 in 1999 and \$20,883 in 1998	480,296	563,826
	-----	-----
	1,457,150	1,583,935
	-----	-----
TOTAL ASSETS	\$ 53,950,655	\$ 63,487,989
	=====	=====
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 780,010	\$ 793,617
Accrued property taxes	1,667,283	1,668,201
Other accrued expenses	811,121	935,796
Rents received in advance	1,613,689	1,478,883
Current maturities of long-term debt	9,295,564	8,667,074
	-----	-----
TOTAL CURRENT LIABILITIES	14,167,667	13,543,571
	-----	-----
LONG-TERM DEBT		
	55,654,584	64,950,148
	-----	-----
OTHER LONG-TERM LIABILITIES		
Supplemental retirement benefits	1,504,227	963,091
Deferred income tax liability	1,454,000	1,936,000
	-----	-----
	2,958,227	2,899,091
	-----	-----
COMMITMENT (Note G)		
STOCKHOLDERS' DEFICIT		
Common stock, \$5 par value, 1,000,000 shares authorized, 527,638 shares issued and outstanding in 1999 and 1998	2,638,190	2,638,190
Additional paid-in capital	169,360	169,360
Accumulated deficit	(21,637,373)	(20,712,371)
	-----	-----
	(18,829,823)	(17,904,821)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 53,950,655	\$ 63,487,989
	=====	=====

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 STATEMENTS OF INCOME  
 YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

	1999	1998	1997
=====			
OPERATING REVENUES			
Rental income	\$ 31,684,174	\$ 31,046,712	\$ 31,099,737
Other revenues	6,472,825	6,333,233	5,907,086
	-----		
TOTAL OPERATING REVENUES	38,156,999	37,379,945	37,006,823
	-----		
OPERATING EXPENSES			
Compensation and benefits	4,084,283	3,648,331	3,503,952
Market and promotional	2,558,772	2,554,960	2,705,908
Maintenance and building costs	862,804	743,347	1,188,784
Depreciation expense	2,202,723	2,187,359	2,191,755
Rent	152,234	138,835	138,835
Property taxes and insurance	1,987,898	2,012,249	2,061,772
Utilities	1,652,068	1,769,612	1,685,299
Other operating costs	617,201	472,929	439,691
	-----		
TOTAL OPERATING EXPENSES	14,117,983	13,527,622	13,915,996
	-----		
INCOME FROM OPERATIONS	24,039,016	23,852,323	23,090,827
	-----		
NONOPERATING INCOME			
Interest income	929,317	802,224	1,552,708
Dividend income	3,692	4,188	3,874
	-----		
TOTAL NONOPERATING INCOME	933,009	806,412	1,556,582
	-----		
NONOPERATING EXPENSES			
Interest expense	4,936,077	1,517,248	-
	-----		
TOTAL NONOPERATING EXPENSES	4,936,077	1,517,248	-
	-----		
INCOME BEFORE INCOME TAXES	20,035,948	23,141,487	24,647,409
	-----		
PROVISION FOR INCOME TAXES	7,770,000	9,103,000	9,542,000
	-----		
NET INCOME	\$ 12,265,948	\$ 14,038,487	\$ 15,105,409
	=====		
BASIC EARNINGS PER COMMON SHARE	\$ 23.25	\$ 26.61	\$ 28.63
	=====		
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	527,638	527,638	527,638
	=====		

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 See accompanying notes to financial statements.

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INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
 YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
	-----	-----	-----	-----
BALANCE, OCTOBER 31, 1996	\$ 2,638,190	\$ 169,360	\$ 77,905,998	\$ 80,713,548
Net income	-	-	15,105,409	15,105,409
Dividends paid (\$97.50 per common share)	-	-	(51,444,705)	(51,444,705)
	-----	-----	-----	-----
BALANCE, OCTOBER 31, 1997	2,638,190	169,360	41,566,702	44,374,252
Net income	-	-	14,038,487	14,038,487
Dividends paid (\$144.64 per common share)	-	-	(76,317,560)	(76,317,560)
	-----	-----	-----	-----
BALANCE (DEFICIT), OCTOBER 31, 1998	2,638,190	169,360	(20,712,371)	(17,904,821)
Net income	-	-	12,265,948	12,265,948
Dividends paid (\$25.00 per common share)	-	-	(13,190,950)	(13,190,950)
	-----	-----	-----	-----
BALANCE (DEFICIT), OCTOBER 31, 1999	\$ 2,638,190	\$ 169,360	\$ (21,637,373)	\$ (18,829,823)
	=====	=====	=====	=====

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 See accompanying notes to financial statements.

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INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 STATEMENTS OF CASH FLOWS  
 YEARS ENDED OCTOBER 31, 1999, 1998 AND 1997

	1999	1998	1997
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 12,265,948	\$ 14,038,487	\$ 15,105,409
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,325,374	2,247,363	2,230,876
Provision for losses on accounts receivable	1,360	5,286	1,963
(Gain) loss on disposal of assets	-	(1,000)	2,000
Deferred income taxes	(500,000)	(77,000)	(138,000)
Change in assets and liabilities			
(Increase) decrease in trade and interest receivables	(68,728)	(290,003)	330,334
(Increase) decrease in prepaid expenses	(750,264)	227,098	(35,698)
Increase (decrease) in accounts payable and accrued expenses	(139,200)	582,272	(267,282)
Increase (decrease) in rents received in advance	134,806	(19,689)	120,952
Increase in supplemental retirement benefits	541,136	159,350	147,547
	-----	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,810,432	16,872,164	17,498,101
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in restricted cash	-	(2,275,974)	-
Purchase and construction of property and equipment	(337,457)	(484,257)	(146,092)
Proceeds from sale of property and equipment	-	1,000	2,000
Purchase of short-term investments	(7,135)	(5,199)	(4,585)
Proceeds from maturity of short-term investments	-	-	150,000
	-----	-----	-----
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(344,592)	(2,764,430)	1,323
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long-term debt	-	75,000,000	-
Principal payments on long-term debt	(8,667,074)	(1,382,778)	-
Payment of deferred financing costs	-	(584,709)	-
Dividends paid	(13,190,950)	(76,317,560)	(51,444,705)
	-----	-----	-----
NET CASH USED BY FINANCING ACTIVITIES	(21,858,024)	(3,285,047)	(51,444,705)
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,392,184)	10,822,687	(33,945,281)
	-----	-----	-----
CASH AND CASH EQUIVALENTS, BEGINNING	16,396,705	5,574,018	39,519,299
	-----	-----	-----
CASH AND CASH EQUIVALENTS, ENDING	\$ 8,004,521	\$ 16,396,705	\$ 5,574,018
	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid during the year for:			
Income taxes	\$ 9,049,420	\$ 8,965,827	\$ 9,707,600
Interest expense	4,988,768	1,069,696	-

See accompanying notes to financial statements.

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INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 1999, 1998 AND 1997

NOTE A - DESCRIPTION OF BUSINESS

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies relative to the carrying values of property and equipment and theater complex are indicated in the captions on the balance sheets. Other significant accounting policies are as follows:

Rental Income

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

Cash and Cash Equivalents

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

Investment Securities

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

Management determines the appropriate classification of securities at the date individual investment securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date. Since the Company neither buys investment securities in anticipation of short-term fluctuations in market prices or commits to holding debt securities to their maturities, investments in debt and marketable equity securities have been classified as available-for-sale. Available-for-sale securities are stated at fair value, and unrealized holding gains and losses, if significant, net of the related deferred tax effect, are reported as a separate component of accumulated other comprehensive income in stockholders' equity. Premiums and discounts on investments in debt securities are amortized over their contractual lives. Interest on debt securities is recognized in income as accrued, and dividends on marketable equity securities are recognized in income when declared. Realized gains and losses are included in income and are determined on the basis of the specific securities sold.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 1999, 1998 AND 1997

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment and Depreciation

Additions and major improvements to property and equipment are recorded at cost. Expenditures for maintenance, repairs, and minor renewals are charged to expense as incurred. Depreciation is provided primarily on the straight-line method over the following estimated useful lives:

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

In accordance with the provisions of Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company periodically reviews long-lived assets when indicators of impairment exist, and if the value of the assets is impaired, an impairment loss would be recognized.

Deferred Financing Costs

Costs associated with obtaining the term loan disclosed in Note E have been deferred and are being amortized on the straight-line method over the term of the related debt. Amortization expense charged to operations during the years ended October 31, 1999 and 1998 was \$83,530 and \$20,883, respectively.

Income Taxes

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

Earnings Per Common Share

During the year ended October 31, 1998, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," which specifies the computation, presentation and disclosure requirements for earnings per share ("EPS"). It replaces the presentation of primary and fully diluted EPS with basic and diluted EPS. Basic EPS excludes all dilution and has been computed using the weighted average number of common shares outstanding during the year. Diluted EPS would reflect the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company has no dilutive potential common shares.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 1999, 1998 AND 1997

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plans

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

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

Use of Estimates

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

NOTE C - RESTRICTED CASH

Restricted cash consists of an interest-bearing debt service account. The Company makes semi-annual escrow deposits each May and November in amounts sufficient to provide interest and principal payments on the Company's term debt for the ensuing six months.

NOTE D - INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale securities as of October 31, 1999 and 1998:

	1999			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
State and local governments	\$ 5,103,547	\$ -	\$ -	\$ 5,103,547
U. S. corporations	1,000,000	-	-	1,000,000
Equity securities	90,778	-	-	90,778
	\$ 6,194,325	\$ -	\$ -	\$ 6,194,325



INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 1999, 1998 AND 1997

NOTE D - INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES (CONTINUED)

	1998			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
State and local governments	\$ 10,528,478	\$ -	\$ -	\$ 10,528,478
U. S. corporations	3,000,000	-	-	3,000,000
Equity securities	83,643	-	-	83,643
	\$ 13,612,121	\$ -	\$ -	\$ 13,612,121

Available-for-sale securities are classified in the following balance sheet captions as of October 31, 1999 and 1998:

	1999	1998
Cash and cash equivalents	\$ 6,103,547	\$ 13,528,478
Short-term investments	90,778	83,643
	\$ 6,194,325	\$ 13,612,121

All the Company's debt securities mature within one year.

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following at October 31, 1999 and 1998:

	1999	1998
Term note payable, principal and interest are due in monthly installments of \$1,137,987 through August 1, 2005, with interest included at 7.06%, collateralized by land and buildings with a carrying value of \$37,870,349 at October 31, 1999	\$ 64,950,148	\$ 73,617,222
Less current maturities	9,295,564	8,667,074
	\$ 55,654,584	\$ 64,950,148

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 1999, 1998 AND 1997

NOTE E - LONG-TERM DEBT (CONTINUED)

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

Year Ending October 31,

2000	\$	9,295,564
2001		9,995,880
2002		10,735,336
2003		11,529,494
2004		12,378,440
2005		11,015,434
		-----
	\$	64,950,148
		=====

Under the provisions of the loan agreement, the Company is required, among other things, to comply with restrictive loan covenants including maintaining certain financial ratios and minimum levels of net worth and working capital. The Company was in compliance with the terms of the loan agreement at October 31, 1999.

NOTE F - INCOME TAXES

The provision for income taxes consisted of the following for the years ended October 31, 1999, 1998 and 1997:

	1999	1998	1997
	-----	-----	-----
Federal:			
Current	\$ 6,765,000	\$ 7,450,000	\$ 7,785,000
Deferred	(395,000)	(62,000)	(109,000)
	-----	-----	-----
	6,370,000	7,388,000	7,676,000
	-----	-----	-----
State:			
Current	1,505,000	1,730,000	1,895,000
Deferred	(105,000)	(15,000)	(29,000)
	-----	-----	-----
	1,400,000	1,715,000	1,866,000
	-----	-----	-----
TOTAL	\$ 7,770,000	\$ 9,103,000	\$ 9,542,000
	=====	=====	=====

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 1999, 1998 AND 1997  
 =====

NOTE F - INCOME TAXES (CONTINUED)

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

	1999	1998	1997
	-----	-----	-----
Income taxes computed at the federal statutory rate	\$ 7,013,000	\$ 8,100,000	\$ 8,627,000
State taxes, net of federal benefit	910,000	1,115,000	1,232,000
Nontaxable investment income	(180,000)	(196,000)	(414,000)
Other, net	27,000	84,000	97,000
	-----	-----	-----
	\$ 7,770,000	\$ 9,103,000	\$ 9,542,000
	=====	=====	=====

The components of deferred income taxes consist of the following:

	1999	1998	1997
	-----	-----	-----
Deferred income tax assets:			
Rents received in advance	\$ 610,000	\$ 592,000	\$ 599,000
Supplemental retirement benefits	602,000	384,000	321,000
	-----	-----	-----
TOTAL DEFERRED TAX ASSETS	1,212,000	976,000	920,000
Deferred income tax liabilities:			
Depreciation	(2,056,000)	(2,320,000)	(2,341,000)
	-----	-----	-----
TOTAL NET DEFERRED TAX LIABILITIES	\$ (844,000)	\$ (1,344,000)	\$ (1,421,000)
	=====	=====	=====

NOTE G - LAND LEASE COMMITMENT

During 1975, the Company completed construction of an eleven-story exhibition building. The building is constructed on land leased from the City of High Point, North Carolina under a noncancelable lease. The lease is for an initial term of fifty years with three options to renew for periods of ten years each and a final renewal option for nineteen years. Annual rental under the lease is \$152,234 as of October 31, 1999 and is subject to adjustment at the end of each five-year period, such adjustment being computed as defined in the lease agreement. As part of the lease agreement, the Company constructed a theater complex for public use and office space for use by the City of High Point on the lower levels of the building. Annual rental cash payments over the initial fifty-year lease term are being reduced by \$39,121 which represents amortization of the cost of the theater and office complex constructed for the City of High Point. At the termination of the lease, the building becomes the property of the City of High Point. Under the terms of the lease, the Company is responsible for all expenses applicable to the exhibition portion of the building. The City of High Point is responsible for all expenses applicable to the theater complex and office space constructed for use by the City.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 1999, 1998 AND 1997

NOTE H - RETIREMENT EXPENSE

Amounts expensed under the Company's retirement plans amounted to \$691,698, \$268,856 and \$293,974 for the years ended October 31, 1999, 1998 and 1997, respectively, including \$541,136, \$159,350 and \$147,547 under the supplemental retirement benefits plan for the years ended October 31, 1999, 1998 and 1997, respectively.

NOTE I - RENTALS UNDER OPERATING LEASES

The Company's leasing operations consist principally of leasing exhibition space. Property on operating leases consists of substantially all of the asset "buildings, exclusive of theater complex" included on the balance sheets. Accumulated depreciation on this property amounted to \$40,937,431 and \$38,909,532 at October 31, 1999 and 1998, respectively. Leases are typically for five-year periods and contain provisions to escalate rentals based upon either the increase in the consumer price index or increases in ad valorem taxes, utility rates and charges, minimum wage imposed by federal and state governments, maintenance contracts for elevators and air conditioning, maintenance of common areas, social security payments, increases resulting from collective bargaining contracts, if any, and such other similar charges and rates required in operating the Company. Tenants normally renew their leases.

The following is a schedule of minimum future rentals under noncancelable operating leases as of October 31, 1999, exclusive of amounts due under escalation provisions of lease agreements:

Year Ending October 31,		
2000		\$ 20,148,486
2001		15,420,350
2002		11,530,905
2003		6,363,437
2004		1,245,236
Thereafter		74,639
		-----
Total minimum future rentals		\$ 54,783,053
		=====

Rental income includes contingent rentals under escalation provisions of leases of \$1,322,521, \$1,401,867 and \$1,534,413 for the years ended October 31, 1999, 1998 and 1997, respectively.

NOTE J - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits and trade accounts receivable from customers predominantly in the Home Furnishings Industry. As of October 31, 1999, the Company's bank balances exceeded federally insured limits by \$2,110,209. The Company's trade accounts receivable are generally collateralized by merchandise in leased exhibition spaces which is in the Company's possession.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 1999, 1998 AND 1997

NOTE K - STOCKHOLDERS' DEFICIT

During the year ended October 31, 1998, the Company paid dividends of \$76,317,560 resulting in a deficit in stockholders' equity of \$17,904,821 at October 31, 1998. During the year ended October 31, 1999, the deficit was increased because of the payment of dividends in excess of net income for the year. The 1998 dividends were financed, in part, with the proceeds of a \$75,000,000 term loan. Although interest on this debt will negatively impact future earnings, management believes future earnings will provide adequate equity capital for the Company and that operating cash flows will be sufficient to provide for debt service and for the Company's other financing and investing needs.

NOTE L - CONSTRUCTION PLANS

The Company's Board of Directors has approved a project to add additional exhibition space to the existing facilities. Although contractual commitments have not been finalized, construction is expected to begin in January 2000 and to be completed in time for tenants to utilize the additional exhibition space for the April 2001 International Home Furnishings Market. The cost of the construction is estimated to approximate \$13,250,000 and plans are to fund the cost with operating cash flows. The assessment of the cost and the timetable for completion are management's estimates, and it is reasonably possible that actual and estimated results will differ materially.

Exhibit No.

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- F - 14      Report of Independent Public Accountants
- F - 15      Bassett Furniture Industries, Incorporated. Schedule II -  
Analysis of Valuation and Qualifying Accounts for the years  
ended November 27, 1999, November 28, 1998 and November 30,  
1997.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited in accordance with generally accepted auditing standards, the financial statements included in the Bassett Furniture Industries, Incorporated Annual Report to Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 17, 2000. Our audit was made for the purpose of forming an opinion on those statements taken as a whole. The schedule on page F-15 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Greensboro, North Carolina,  
January 17, 2000.

BASSETT FURNITURE INDUSTRIES, INCORPORATED  
Schedule II

Analysis of Valuation and Qualifying Accounts

For the Years Ended November 27, 1999, November 28, 1998 and November 30, 1997

	Balance Beginning Of Period	Additions Charged to Cost and Expenses	Deductions	Other	Balance End Of Period
-----					
(1)					
For the Year Ended November 30, 1997:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	\$1,355	\$7,706	\$(7,077)	---	\$1,984
=====					
Restructuring reserve	---	\$20,646	\$(14,397)	---	\$6,249
=====					
For the Year Ended November 28, 1998:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	\$1,984	\$692	\$(476)	---	\$2,200
=====					
Restructuring reserve	\$6,249	---	\$(3,760)	---	\$2,489
=====					
For the Year Ended November 27, 1999:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	\$2,200	\$680	\$(322)	---	\$2,558
=====					
Restructuring reserve	\$2,489	---	\$(1,173)	---	\$1,316
=====					

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



BASSETT INDUSTRIES ALTERNATIVE ASSET FUND, L.P.

FINANCIAL STATEMENTS

AS OF DECEMBER 31, 1999 AND 1998, AND  
NOVEMBER 30, 1998

TOGETHER WITH AUDITORS' REPORT

## BASSETT INDUSTRIES ALTERNATIVE ASSET FUND, L.P.

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Partners of  
Bassett Industries Alternative Asset Fund, L.P.:

We have audited the accompanying statements of financial condition of the Bassett Industries Alternative Asset Fund, L.P. (a Delaware limited partnership) as of December 31, 1999 and 1998, and November 30, 1998, and the related statements of operations, changes in partners' capital and cash flows for the year ended December 31, 1999, the one month period ended December 31, 1998, and the period from inception (July 1, 1998) to November 30, 1998. These financial statements are the responsibility of the general partner. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bassett Industries Alternative Asset Fund, L.P. as of December 31, 1999 and 1998, and November 30, 1998, and the results of its operations and its cash flows for the year ended December 31, 1999, the one month period ended December 31, 1998, and the period from inception (July 1, 1998) to December 31, 1998, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Richmond, Virginia  
February 25, 2000

## BASSETT INDUSTRIES ALTERNATIVE ASSET FUND, L.P.

STATEMENTS OF FINANCIAL CONDITION  
AS OF DECEMBER 31, 1999 AND 1998, AND NOVEMBER 30, 1998

## ASSETS

	DECEMBER 31, 1999	DECEMBER 31, 1998	NOVEMBER 30, 1998
	-----	-----	-----
CASH AND CASH EQUIVALENTS	\$ 2,267	\$ 5,562	\$ 131,520
FUND INVESTMENTS (NOTE 4)	59,295,005	51,218,854	50,629,098
	-----	-----	-----
Total assets	\$59,297,272	\$51,224,416	\$50,760,618
	=====	=====	=====

## LIABILITIES AND PARTNERS' CAPITAL

LIABILITIES:			
Accrued expenses	\$ 10,107	\$ 16,950	\$ 18,100
Payable to General Partner	--	--	82,420
	-----	-----	-----
Total liabilities	10,107	16,950	100,520
	-----	-----	-----
PARTNERS' CAPITAL:			
General Partner	11,855	10,239	10,130
Limited Partner	59,275,310	51,197,227	50,649,968
	-----	-----	-----
Total partners' capital	59,287,165	51,207,466	50,660,098
	-----	-----	-----
Total liabilities and partners' capital	\$59,297,272	\$51,224,416	\$50,760,618
	=====	=====	=====

The accompanying notes are an integral part of these statements.

## BASSETT INDUSTRIES ALTERNATIVE ASSET FUND, L.P.

STATEMENTS OF OPERATIONS  
 FOR THE YEAR ENDED DECEMBER 31, 1999,  
 THE ONE MONTH PERIOD ENDED DECEMBER 31, 1998, AND  
 THE PERIOD FROM INCEPTION (JULY 1, 1998) TO NOVEMBER 30, 1998

	YEAR ENDED DECEMBER 31, 1999	ONE MONTH PERIOD ENDED DECEMBER 31, 1998	PERIOD FROM INCEPTION (JULY 1, 1998) TO NOVEMBER 30, 1998
	-----	-----	-----
REVENUES:			
Net gain on fund investments	\$8,631,151	\$ 589,756	\$ 879,098
Interest income	6,308	340	2,271
	-----	-----	-----
Total revenues	8,637,459	590,096	881,369
	-----	-----	-----
EXPENSES:			
Management fee	541,176	41,210	207,445
Other	16,584	1,518	23,826
	-----	-----	-----
Total expenses	557,760	42,728	231,271
	-----	-----	-----
NET INCOME	\$8,079,699	\$ 547,368	\$ 650,098
	=====	=====	=====

The accompanying notes are an integral part of these statements.

## BASSETT INDUSTRIES ALTERNATIVE ASSET FUND, L.P.

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL  
 FOR THE YEAR ENDED DECEMBER 31, 1999,  
 THE ONE MONTH PERIOD ENDED DECEMBER 31, 1998, AND  
 THE PERIOD FROM INCEPTION (JULY 1, 1998) TO NOVEMBER 30, 1998

	LIMITED PARTNER -----	GENERAL PARTNER -----	TOTAL -----
BALANCE, JULY 1, 1998 (INITIAL CAPITALIZATION)	\$50,000,000	\$10,000	\$50,010,000
Net income	649,968	130	650,098
	-----	-----	-----
BALANCE, NOVEMBER 30, 1998	50,649,968	10,130	50,660,098
Net income	547,259	109	547,368
	-----	-----	-----
BALANCE, DECEMBER 31, 1998	51,197,227	10,239	51,207,466
Net income	8,078,083	1,616	8,079,699
	-----	-----	-----
BALANCE, DECEMBER 31, 1999	\$59,275,310	\$11,855	\$59,287,165
	=====	=====	=====

The accompanying notes are an integral part of these statements.

## BASSETT INDUSTRIES ALTERNATIVE ASSET FUND, L.P.

STATEMENTS OF CASH FLOWS  
 FOR THE YEAR ENDED DECEMBER 31, 1999,  
 THE ONE MONTH PERIOD ENDED DECEMBER 31, 1998, AND  
 THE PERIOD FROM INCEPTION (JULY 1, 1998) TO NOVEMBER 30, 1998

	YEAR ENDED DECEMBER 31, 1999	ONE MONTH PERIOD ENDED DECEMBER 31, 1998	PERIOD FROM INCEPTION (JULY 1, 1998) TO NOVEMBER 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 8,079,699	\$ 547,368	\$ 650,098
Adjustment to reconcile net income to net cash used in operating activities-			
Net gain on fund investments	(8,631,151)	(589,756)	(879,098)
Increase (decrease) in operating liabilities-			
Payable to General Partner	--	(82,420)	82,420
Accrued expenses	(6,843)	(1,150)	18,100
Net cash used in operating activities	(558,295)	(125,958)	(128,480)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of fund investments	--	--	(49,750,000)
Sales of fund investments	555,000	--	--
Net cash provided by (used in) investing activities	555,000	--	(49,750,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Initial capitalization	--	--	50,010,000
Net (decrease) increase in cash and cash equivalents	(3,295)	(125,958)	131,520
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,562	131,520	--
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,267	\$ 5,562	\$ 131,520

The accompanying notes are an integral part of these statements.

## BASSETT INDUSTRIES ALTERNATIVE ASSET FUND, L.P.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 1999 AND 1998, AND NOVEMBER 30, 1998

## 1. ORGANIZATION:

The Bassett Industries Alternative Asset Fund, L.P. (the "Partnership") was organized under the Delaware Revised Uniform Limited Partnership Act and commenced operations on July 1, 1998. Private Advisors, L.L.C. is the general partner (the "General Partner") of the Partnership. Harris Trust & Savings Bank is the asset custodian (the "Custodian") for the Partnership. Bassett Furniture Industries, Inc. (the "Limited Partner") and the General Partner are currently the only partners.

On February 23, 2000, the terms of the limited partnership agreement (the "Agreement") were amended to change the Partnership's fiscal year end to December 31. In association with this amendment, financial statements have been prepared for the one month period from the previous fiscal year end (November 30, 1998) to December 31, 1998, and for the year ended December 31, 1999.

The objective of the Partnership is to invest with hedge funds and other experienced portfolio managers or otherwise utilize the services of investment advisers or investment managers in order to make investments in and to purchase, hold, trade and sell securities. The General Partner has discretion to make all investment and trading decisions, including the selection of investment managers.

## 2. PARTNERSHIP AGREEMENT:

The Partnership is governed by the terms of the Agreement. A general summary of salient points of the Agreement is provided below. Reference should be made to the Agreement to obtain a complete understanding of all pertinent information.

MANAGEMENT OF PARTNERSHIP AFFAIRS - Responsibility for managing the Partnership is vested solely with the General Partner. The General Partner's duties include the selection of investment managers, monitoring of the Partnership's investments, which includes the allocation of the Partnership's assets among the selected investment managers on an ongoing basis, and various administrative functions necessary to support the Partnership.

GENERAL PARTNER FEE - The General Partner receives a management fee from the Partnership, payable quarterly, based on an annual rate of 1 percent as applied to quarterly net assets, as defined.

CONTRIBUTION OF LIMITED PARTNER - The Limited Partner is required to make and maintain an investment in the Partnership of not less than \$1,000,000. The Limited Partner may make a partial withdrawal of its investment as of the end of any fiscal year, as defined, but at all times its capital account must not be less than \$1,000,000. The General Partner may, at its discretion, waive these minimum requirements. Additional investments are permitted at the discretion of the General Partner.



REDEMPTIONS - The Limited Partner may redeem part or all of its capital account as of any calendar year-end upon 90 days written notice to the General Partner (or such lesser notice as may be acceptable to the General Partner). The General Partner may redeem part or all of its capital account as of any calendar year-end, as defined, upon 45 days notice to the Limited Partner. Redemptions shall be at net asset value, as defined.

ALLOCATIONS - Each partner has a capital account with an initial balance equal to the amount each individual partner contributed to the Partnership. At the end of each month and at the time of any event causing the capital account of any partner to change, profits and losses are allocated to the accounts of the partners in the ratio that each partner's capital account bears to the balance of all partners' accounts. A separate allocation is performed for Federal income tax purposes.

TERMINATION OF PARTNERSHIP - The Partnership shall terminate and be dissolved upon the occurrence of any of the following events:

- - December 31, 2025;
- - the withdrawal, dissolution, insolvency, or removal of the General Partner;
- - the written consent of the General Partner and a majority-in-interest of the Limited Partners; or
- - the election of a majority-in-interest of the Limited Partners, if the Limited Partners determine that the General Partner has materially breached any provision of the Agreement.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

CASH AND CASH EQUIVALENTS - The Partnership considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

INTEREST INCOME - The Partnership receives interest monthly from the Custodian based on prevailing short-term money market rates applied to 100 percent of the Partnership's average daily cash balance above a specified reserve, as defined. Interest income is accrued when earned.

INCOME TAXES - Income taxes have not been provided, as partners are individually liable for taxes, if any, on their share of the Partnership's net income or loss.

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

### 4. FUND INVESTMENTS:

The funds in which the Partnership invests engage primarily in speculative trading of security interests and have the discretion to invest in any type of security interest. Risks to these funds arise from the possible adverse changes in the market value of such interests and the potential inability of counterparties to perform under the terms of the contracts. However, the risk to the Partnership is limited to the amount of the Partnership's investment in each of these funds. In general, the Partnership may redeem part or all of its investment in each of the funds as of the end of each quarter or calendar year, upon 45 to 180 days prior written notice, as specified in the various fund agreements.

Fund investments are valued on the basis of net asset value, with the resultant difference from the prior valuation included in the accompanying statements of operations. The net asset value is determined by the investee fund based on its underlying financial instruments. The Partnership's share of the revenues and expenses of each fund is based on the Partnership's proportionate share of amounts invested during the period and is included as net gain (loss) on fund investments in the accompanying statements of operations. The Partnership's proportionate share of the investee funds' operating expenses, including brokerage commissions and management and incentive fees, incurred directly by the funds is reflected as a component of the net gain (loss) on fund investments within the accompanying statements of operations.

The following schedule shows the cost (adjusted for purchases and sales) and fair value of the Partnership's fund investments at December 31, 1999 and 1998, and November 30, 1998, (the Partnership's percentage of ownership, or number of shares, of each fund investment at December 31, 1999, is included in parentheses):

	DECEMBER 31, 1999		DECEMBER 31, 1998	
	ADJUSTED COST	FAIR VALUE	ADJUSTED COST	FAIR VALUE
Styx Partners, L.P. (6.60%)	\$10,487,307	\$12,130,328	\$10,750,000	\$11,253,650
Palladin Enhanced Return Partners, L.P. (34.34%)	8,501,052	10,263,618	8,750,000	9,467,933
Oz Domestic Partners, L.P. (1.91%)	8,750,000	10,763,893	8,750,000	8,999,709
Farallon Capital Offshore Investors, Inc.				
(1,912,530 Class A, Series A shares)	7,500,000	8,937,530	7,500,000	7,551,052
Double Black Diamond, L.P. (4.65%)	7,000,000	8,278,636	7,000,000	7,165,510
HBK Fund, L.P. (1.31%)	7,000,000	8,921,000	7,000,000	6,781,000
	=====	=====	=====	=====
	\$49,238,359	\$59,295,005	\$49,750,000	\$51,218,854
	=====	=====	=====	=====
	NOVEMBER 30, 1998			
	ADJUSTED COST	FAIR VALUE		
Styx Partners, L.P. (6.60%)	\$10,750,000	\$11,214,142		
Palladin Enhanced Return Partners, L.P. (34.34%)	8,750,000	9,321,290		
Oz Domestic Partners, L.P. (1.91%)	8,750,000	8,854,787		
Farallon Capital Offshore Investors, Inc.				
(1,912,530 Class A, Series A shares)	7,500,000	7,412,832		
Double Black Diamond, L.P. (4.65%)	7,000,000	7,161,047		
HBK Fund, L.P. (1.31%)	7,000,000	6,665,000		
	=====	=====		
	\$49,750,000	\$50,629,098		
	=====	=====		

#### 5. OPERATING EXPENSES:

The Partnership pays its routine legal, accounting, audit, computer and other operating costs. The net assets of the Partnership reflect an accrual for such expenses incurred but not yet paid.

#### 6. FINANCIAL INSTRUMENTS WITH MARKET AND CREDIT RISKS AND CONCENTRATIONS OF CREDIT RISK:

In the normal course of operations, the Partnership enters into various contractual commitments with elements of market risk in excess of the amounts recognized in the statement of financial condition. Contractual commitments that involve future settlement give rise to both market and credit risk. Market risk represents the potential loss that can be caused by a change in the market value of a particular financial instrument. The Partnership's exposure to market risk is determined by a number of factors, including the size, composition and diversification of positions held, volatility of interest, market currency rates and liquidity. With reference to the Partnership's credit and concentration of credit risks for investments in other security funds, the risk to the Partnership is limited to the Partnership's investment.

## INDEX TO EXHIBITS

## Exhibit No.

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3 B	Amendment to the By-laws dated January 18, 2000, including the By-laws as amended.
4	\$50 million Credit Agreement dated October 19, 1999 with First Union National Bank
10F	Severance Agreement and General Release dated January 31, 1999 between Registrant and Douglas N. Miller
10G	Severance Agreement and General Release dated November 27, 1999 between Registrant and John S. Lupo
13	Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 27, 1999
21	List of subsidiaries of registrant
23A	Consent of Independent Public Accountants
23B	Consent of Independent Auditors
27	Financial Data Schedule (EDGAR filing only)

BASSET FURNITURE INDUSTRIES, INCORPORATED  
RESOLUTIONS OF THE BOARD OF DIRECTORS

January 18, 2000

AMENDMENT TO BY-LAWS

RESOLVED, that, effective as of the 2000 Annual Shareholders Meeting, Article III, Section 2 of the By-laws of the Company be amended to provide that the number of Directors shall be nine (9).

BY-LAWS  
OF  
BASSETT FURNITURE INDUSTRIES, INC.

ARTICLE I. OFFICES

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

ARTICLE II. SHAREHOLDERS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the meeting and, if he shall so declare, such business shall not be transacted.

#### ARTICLE III. BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

SECTION 10. PRESUMPTION OF ASSENT. A Director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such

right to dissent shall not apply to a Director who voted in favor of such action.

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

#### ARTICLE IV. OFFICERS

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

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

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

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

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

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

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

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



on behalf of the Corporation under its Seal is duly authorized; (d) keep a register of the post office address of each Shareholder which shall be furnished to the Secretary by such Shareholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

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

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

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

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

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

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

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

#### ARTICLE VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

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

SECTION 2. TRANSFER OF SHARES. The Board of Directors may make rules and regulations concerning the issue, registration and transfer of certificates representing the shares of the Corporation. Transfers of shares and of the certificates representing such shares shall be made upon the books of the Corporation by surrender of the certificates

representing such shares accompanied by written assignments given by the owners or their attorneys-in-fact.

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

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

#### ARTICLE VII. FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of December and end on the 30th day of November of each year.

#### ARTICLE VIII. DIVIDENDS

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

#### ARTICLE IX. SEAL

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

#### ARTICLE X. WAIVER OF NOTICE

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

#### ARTICLE XI. AMENDMENTS

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

## ARTICLE XII. INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

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\$50,000,000

CREDIT AGREEMENT

among

BASSETT FURNITURE INDUSTRIES, INCORPORATED,  
as Borrower,

THE DOMESTIC SUBSIDIARIES  
OF THE BORROWER  
FROM TIME TO TIME PARTIES HERETO  
as Guarantors,

THE LENDERS PARTIES HERETO

and

FIRST UNION NATIONAL BANK,  
as Administrative Agent

Dated as of October 19, 1999

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CREDIT AGREEMENT, dated as of October 19, 1999, among BASSETT FURNITURE INDUSTRIES, INCORPORATED, a Virginia corporation (the "Borrower"), those Domestic Subsidiaries of the Borrower identified as a "Guarantor" on the signature pages hereto and such other Domestic Subsidiaries of the Borrower as may from time to time become a party hereto (collectively, the "Guarantors"), the several banks and other financial institutions as may from time to time become parties to this Agreement (collectively, the "Lenders"; and individually, a "Lender"), and FIRST UNION NATIONAL BANK, a national banking association, as administrative agent for the Lenders hereunder (in such capacity, the "Administrative Agent").

W I T N E S S E T H:

WHEREAS, the Borrower has requested that the Lenders make loans and other financial accommodations to the Borrower in the amount of up to \$50,000,000, as more particularly described herein;

WHEREAS, the Lenders have agreed to make such loans and other financial accommodations to the Borrower on the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 DEFINED TERMS.

As used in this Agreement, terms defined in the first paragraph of this Agreement have the meanings therein indicated, and the following terms have the following meanings:

"Account Designation Letter" shall mean the Notice of Account Designation Letter dated the Closing Date from the Borrower to the Administrative Agent substantially in the form attached hereto as Schedule 1.1(a).

"Additional Credit Party" shall mean each Person that becomes a Guarantor by execution of a Joinder Agreement in accordance with Section 5.10.

"Administrative Agent" shall have the meaning set forth in the first paragraph of this Agreement and any successors in such capacity.

"Affiliate" shall mean as to any Person, any other Person (excluding any Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, a Person shall be deemed to be "controlled by" a Person if such Person possesses, directly or indirectly, power either (a) to vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (b) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agreement" shall mean this Credit Agreement, as amended, modified or supplemented from time to time in accordance with its terms.

"Alternate Base Rate" shall mean, for any day, a rate per annum equal to the greater of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. For purposes hereof: "Prime Rate" shall mean, at any time, the rate of interest per annum publicly announced from time to time by First Union at its principal office in Charlotte, North Carolina as its prime rate. Each change in the Prime Rate shall be effective as of the opening of business on the day such change in the Prime Rate occurs. The parties hereto acknowledge that the rate announced publicly by First Union as its Prime Rate is an index or base rate and shall not necessarily be its lowest or best rate charged to its customers or other banks; and "Federal Funds Effective Rate" shall mean, for any day, the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published on the next succeeding Business Day, the average of the quotations for the day of such transactions received by the Administrative Agent from three federal funds brokers of recognized standing selected by it. If the Administrative Agent shall have determined in good faith (which determination shall be conclusive in the absence of manifest error) that it is unable to ascertain the Federal Funds Effective Rate, for any reason, including the inability of the Administrative Agent to obtain sufficient quotations in accordance with the terms thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the first sentence of this definition until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective on the opening of business on the date of such change.

"Alternate Base Rate Loans" shall mean Loans that bear interest at an interest rate based on the Alternate Base Rate.

"Applicable Percentage" shall mean, for any day, the rate per annum set forth below opposite the applicable Level then in effect, it being understood that the Applicable Percentage for (i) Loans which are Alternate Base Rate Loans shall be the percentage set forth under the column "Alternate Base Rate Margin", (ii) Loans which are LIBOR Rate Loans shall be the percentage set forth under the column "LIBOR Rate Margin for Loans and Letter of Credit Fee", (iii) the Letter of Credit Fee shall be the percentage set forth under the column "LIBOR Rate Margin for Loans and Letter of Credit Fee"; and (iv) the Commitment Fee shall be the percentage set forth under the column "Commitment Fee":

Level	Leverage Ratio	Alternate Base Rate Margin	LIBOR Rate Margin for Loans and Letter of Credit Fee	Commitment Fee
I	< 0.75 to 1.0	0%	0.50%	0.15%
II	> 0.75 to 1.0 - but < 1.25 to 1.0	0%	0.625%	0.175%
III	> 1.25 to 1.0 - but < 1.75 to 1.0	0%	0.75%	0.20%
IV	> 1.75 to 1.0 - but < 2.50 to 1.0	0%	1.00%	0.25%
V	> 2.50 to 1.0 -	0%	1.25%	0.30%

The Applicable Percentage shall, in each case, be determined and adjusted on the date five (5) Business Days after the date on which the Administrative Agent has received from the Borrower the quarterly financial information and certifications required to be delivered to the Administrative Agent and the Lenders in accordance with the provisions of Sections 5.1(a), 5.1(b) and 5.2(b) (each an "Interest Determination Date"). Such Applicable Percentage shall be effective from such Interest Determination Date until the next such Interest Determination Date. The initial Applicable Percentages shall be based on Level I until the first Interest Determination Date occurring after August 31, 1999. After the Closing Date, if the Borrower shall fail to provide the financial information and certifications in accordance with the provisions of Sections 5.1(a), 5.1(b) and 5.2(b), the Applicable Percentage from such Interest Determination Date shall, on the date five (5) Business Days after the date by which the Borrower was so required to provide such financial information and certifications to the Administrative Agent and the Lenders, be based on Level V until such time as such information and certifications are provided, whereupon the Level shall be determined by the then current Leverage Ratio.

"Bankruptcy Code" shall mean the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded or replaced from time to time.

"BFD Financing Policy" shall mean the policy of the Borrower or any Subsidiary to allow a BFD Licensee up to one year to pay for such BFD Licensee's initial stock of inventory purchased from the Borrower or a Subsidiary.

"BFD Licensee" shall mean any Person who is party to a license agreement with the Borrower or any of its Subsidiaries which entitles such Person to engage in the retail sale of

merchandise purchased from the Borrower or any of its Subsidiaries using the tradename "Bassett Furniture Direct" or any other name approved by the Borrower or such Subsidiary.

"Borrower" shall have the meaning set forth in the first paragraph of this Agreement.

"Borrowing Date" shall mean, in respect of any Loan, the date such Loan is made.

"Business" shall have the meaning set forth in Section 3.10.

"Business Day" shall mean a day other than a Saturday, Sunday or other day on which commercial banks in Charlotte, North Carolina or New York, New York are authorized or required by law to close; provided, however, that when used in connection with a rate determination, borrowing or payment in respect of a LIBOR Rate Loan, the term "Business Day" shall also exclude any day on which banks in London, England are not open for dealings in Dollar deposits in the London interbank market.

"Capital Lease" shall mean any lease of property, real or personal, the obligations with respect to which are required to be capitalized on a balance sheet of the lessee in accordance with GAAP.

"Capital Lease Obligations" shall mean the capitalized lease obligations relating to a Capital Lease determined in accordance with GAAP.

"Capital Stock" shall mean (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Cash Equivalents" shall mean (i) securities issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof) having maturities of not more than twelve months from the date of acquisition ("Government Obligations"), (ii) U.S. dollar denominated (or foreign currency fully hedged) time deposits, certificates of deposit, Eurodollar time deposits and Eurodollar certificates of deposit of (y) any domestic commercial bank of recognized standing having capital and surplus in excess of \$250,000,000 or (z) any bank whose short-term commercial paper rating from S&P is at least A-1 or the equivalent thereof or from Moody's is at least P-1 or the equivalent thereof (any such bank being an "Approved Bank"), in each case with maturities of not more than 364 days from the date of acquisition, (iii) commercial paper and variable or fixed rate notes issued by any Approved Bank (or by the parent company thereof) or any variable rate notes issued by, or guaranteed by any domestic corporation rated A-1 (or the equivalent thereof) or better by S&P or P-1 (or the equivalent thereof) or better by Moody's and maturing within six months of the date of acquisition, (iv) repurchase agreements with a bank or trust company (including a Lender) or a

recognized securities dealer having capital and surplus in excess of \$500,000,000 for direct obligations issued by or fully guaranteed by the United States of America, (v) obligations of any state of the United States or any political subdivision thereof for the payment of the principal and redemption price of and interest on which there shall have been irrevocably deposited Government Obligations maturing as to principal and interest at times and in amounts sufficient to provide such payment, and (vi) auction preferred stock rated in the highest short-term credit rating category by S&P or Moody's.

"Change of Control" shall mean either (i) any Person or two or more Persons acting in concert shall have acquired "beneficial ownership," directly or indirectly, of, or shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation, will result in its or their acquisition of, control over, Voting Stock of the Borrower (or other securities convertible into such Voting Stock) representing 35% or more of the combined voting power of all Voting Stock of the Borrower, or (ii) during any period of up to 24 consecutive months, commencing after the Closing Date, individuals who at the beginning of such 24 month period were directors of the Borrower (together with any new director whose election by the Borrower's Board of Directors or whose nomination for election by the Borrower's shareholders was approved by a vote of at least a majority of the directors then still in office who either were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the directors of the Borrower then in office. As used herein, "beneficial ownership" shall have the meaning provided in Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934.

"Closing Date" shall mean the date of this Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Commitment" shall mean the Revolving Commitment and the LOC Commitment, individually or collectively, as appropriate.

"Commitment Fee" shall have the meaning set forth in Section 2.3(a).

"Commitment Letter" shall mean the letter agreement dated June 24, 1999 addressed to the Borrower from the Administrative Agent, as amended, modified or otherwise supplemented.

"Commitment Percentage" shall mean the Revolving Commitment Percentage and/or the LOC Commitment Percentage, as appropriate.

"Commitment Period" shall mean the period from and including the Closing Date to but not including the Maturity Date.

"Commitment Transfer Supplement" shall mean a Commitment Transfer Supplement, substantially in the form of Schedule 9.6(c).

"Commonly Controlled Entity" shall mean an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is

part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"Consolidated Capital Expenditures" shall mean, for any period, all capital expenditures of the Borrower and its consolidated Subsidiaries for such period, as determined in accordance with GAAP. The term "Consolidated Capital Expenditures" shall not include capital expenditures in respect of the reinvestment of proceeds derived from Recovery Events received by the Credit Parties to the extent that such reinvestment is permitted under the Credit Documents.

"Consolidated EBLIT" shall mean, for any period, the sum of (i) Consolidated Net Income for such period, plus (ii) the amount which, in the determination of Consolidated Net Income for such period, has been deducted for (A) Consolidated Interest Expense, (B) total federal, state, local and foreign income, value added and similar taxes and (C) Consolidated Lease Expense, all as determined in accordance with GAAP.

"Consolidated EBLITDA" shall mean, for any period, the sum of (i) Consolidated Net Income for such period, plus (ii) the amount which, in the determination of Consolidated Net Income for such period, has been deducted for (A) Consolidated Interest Expense, (B) total federal, state, local and foreign income, value added and similar taxes, (C) Consolidated Lease Expense and (D) depreciation, amortization expense and other non-cash charges, all as determined in accordance with GAAP.

"Consolidated Interest Expense" shall mean, for any period, all interest expense of the Borrower and its consolidated Subsidiaries for such period including the interest component under Capital Leases, as determined in accordance with GAAP.

"Consolidated Lease Expense" shall mean, for any period, all rental expense of the Borrower and its consolidated Subsidiaries for such period under operating leases, as determined in accordance with GAAP.

"Consolidated Net Income" shall mean, for any period, net income (excluding (i) extraordinary items and (ii) to the extent not distributed to a Credit Party in cash, equity and net income attributable to such Credit Party's ownership of Minority Interests) after taxes for such period of the Borrower and its consolidated Subsidiaries, as determined in accordance with GAAP.

"Consolidated Working Capital" shall mean, at any time, the excess of (i) current assets of the Borrower and its consolidated Subsidiaries at such time less (ii) current liabilities (including the Credit Party Obligations and excluding current maturities of long-term Indebtedness) of the Borrower and its consolidated Subsidiaries at such time, all as determined in accordance with GAAP.

"Contractual Obligation" shall mean, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.



"Credit Documents" shall mean this Agreement, each of the Notes, any Joinder Agreement, the Letters of Credit and the LOC Documents.

"Credit Party" shall mean any of the Borrower or the Guarantors.

"Credit Party Obligations" shall mean, without duplication, (i) all of the obligations of the Credit Parties to the Lenders (including the Issuing Lender) and the Administrative Agent, whenever arising, under this Agreement, the Notes or any of the other Credit Documents (including, but not limited to, any interest accruing after the occurrence of a filing of a petition of bankruptcy under the Bankruptcy Code with respect to any Credit Party, regardless of whether such interest is an allowed claim under the Bankruptcy Code) and (ii) all liabilities and obligations, whenever arising, owing from any Credit Party to any Lender, or any Affiliate of a Lender, arising under any Hedging Agreement.

"Default" shall mean any of the events specified in Section 7.1, whether or not any requirement for the giving of notice or the lapse of time, or both, or any other condition, has been satisfied.

"Defaulting Lender" shall mean, at any time, any Lender that, at such time (a) has failed to make a Loan required pursuant to the term of this Credit Agreement, including the funding of a Participation Interest in accordance with the terms hereof, (b) has failed to pay to the Administrative Agent or any Lender an amount owed by such Lender pursuant to the terms of this Credit Agreement, or (c) has been deemed insolvent or has become subject to a bankruptcy or insolvency proceeding or to a receiver, trustee or similar official.

"Dollars" and "\$" shall mean dollars in lawful currency of the United States of America.

"Domestic Lending Office" shall mean, initially, the office of each Lender designated as such Lender's Domestic Lending Office shown on Schedule 9.2; and thereafter, such other office of such Lender as such Lender may from time to time specify to the Administrative Agent and the Borrower as the office of such Lender at which Alternate Base Rate Loans of such Lender are to be made.

"Domestic Subsidiary" shall mean any Subsidiary that is organized and existing under the laws of the United States or any state or commonwealth thereof or under the laws of the District of Columbia.

"Environmental Laws" shall mean any and all lawful and applicable Federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurodollar Reserve Percentage" shall mean for any day, the percentage (expressed as a decimal and rounded upwards, if necessary, to the next higher 1/100th of 1%) which is in effect for such day as prescribed by the Federal Reserve Board (or any successor) for determining the maximum reserve requirement (including without limitation any basic, supplemental or emergency reserves) in respect of Eurocurrency liabilities, as defined in Regulation D of such Board as in effect from time to time, or any similar category of liabilities for a member bank of the Federal Reserve System in New York City.

"Event of Default" shall mean any of the events specified in Section 7.1; provided, however, that any requirement for the giving of notice or the lapse of time, or both, or any other condition, has been satisfied.

"Extension of Credit" shall mean, as to any Lender, the making of a Loan by such Lender or the issuance of, or participation in, a Letter of Credit by such Lender.

"Federal Funds Effective Rate" shall have the meaning set forth in the definition of "Alternate Base Rate".

"First Union" shall mean First Union National Bank, a national banking association.

"Foreign Subsidiary" shall mean any Subsidiary that is not a Domestic Subsidiary.

"Funded Debt" shall mean, with respect to any Person, without duplication, (a) all Indebtedness of such Person other than Indebtedness of the types referred to in clauses (e), (f), (g), (i) and (m) of the definition of "Indebtedness" set forth in this Section 1.1, (b) all Funded Debt of others of the type referred to in clause (a) above secured by (or for which the holder of such Funded Debt has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (c) all Guaranty Obligations of such Person with respect to Funded Debt of the type referred to in clause (a) above of another Person and (d) Funded Debt of the type referred to in clause (a) above of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer, to the extent such Person would under applicable law or any governing agreement or instrument be liable therefor as a result of such Person's ownership interest in or other relationship with such partnership or unincorporated joint venture, except to the extent the terms of such Indebtedness provide that such Person shall not be liable therefor.

"GAAP" shall mean generally accepted accounting principles in effect in the United States of America applied on a consistent basis, subject, however, in the case of determination of compliance with the financial covenants set out in Section 5.9 to the provisions of Section 1.3.

"Government Acts" shall have the meaning set forth in Section 2.17.

"Governmental Authority" shall mean any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Guaranty Obligations" means, with respect to any Person, without duplication, any obligations of such Person (other than endorsements in the ordinary course of business of negotiable instruments for deposit or collection) guaranteeing or intended to guarantee any Indebtedness of any other Person in any manner, whether direct or indirect, and including without limitation any obligation, whether or not contingent, (i) to purchase any such Indebtedness or any property constituting security therefor, (ii) to advance or provide funds or other support for the payment or purchase of any such Indebtedness or to maintain working capital, solvency or other balance sheet conditions of such other Person (including without limitation keep well agreements, maintenance agreements, comfort letters or similar agreements or arrangements) for the benefit of any holder of Indebtedness of such other Person, (iii) to lease or purchase property, securities or services primarily for the purpose of assuring the holder of such Indebtedness of the payment thereof, or (iv) to otherwise assure or hold harmless the holder of such Indebtedness against loss in respect thereof. The amount of any Guaranty Obligation hereunder shall (subject to any limitations set forth therein) be deemed to be an amount equal to the outstanding principal amount (or maximum principal amount, if larger) of the Indebtedness in respect of which such Guaranty Obligation is made.

"Guarantor" shall mean (a) any of the Domestic Subsidiaries which is an operating company and is identified as a "Guarantor" on the signature pages hereto and (b) the Additional Credit Parties which execute a Joinder Agreement, together with their successors and permitted assigns.

"Guaranty" shall mean the guaranty of the Guarantors set forth in Article X.

"Hedging Agreements" shall mean, with respect to any Person, any agreement entered into to protect such Person against fluctuations in interest rates, the value of equity securities, currency values or raw material values, including, without limitation, any interest rate swap, cap or collar agreement, equity swap, cap or collar agreement, or similar arrangement between such Person and one or more counterparties, any foreign currency exchange agreement, currency protection agreements, commodity purchase or option agreements or other interest or exchange rate or commodity price hedging agreements.

"Indebtedness" shall mean, with respect to any Person, without duplication, (a) all obligations of such Person for borrowed money (excluding borrowings against life insurance policies incurred to pay the premiums under such life insurance policies owned by such Person to the extent the amount outstanding does not exceed the termination value of such policies), (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in

the ordinary course of business) which would appear as liabilities on a balance sheet of such Person, (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, provided, that the amount of any Indebtedness of others that constitutes Indebtedness of such Person solely by reason of this clause (f) shall not for purposes of this Agreement exceed the greater of the book value or the fair market value of the property subject to such Lien, (g) all Guaranty Obligations of such Person with respect to Indebtedness of another Person, (h) the principal portion of all obligations of such Person under Capital Leases, (i) all obligations of such Person under Hedging Agreements, (j) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed), (k) all preferred Capital Stock issued by such Person and which by the terms thereof could be (at the request of the holders thereof or otherwise) subject to mandatory sinking fund payments, redemption or other acceleration, (l) the principal balance outstanding under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product, and (m) the Indebtedness of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer to the extent such Person would under applicable law or any governing agreement or instrument be liable therefor as a result of such Person's ownership interest in or other relationship with such partnership or unincorporated joint venture, except to the extent the terms of such Indebtedness provide that such Person shall not be liable therefor.

"Insolvency" shall mean, with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of such term as used in Section 4245 of ERISA.

"Insolvent" shall mean being in a condition of Insolvency.

"Interest and Leases Coverage Ratio" shall mean, with respect to the Borrower and its consolidated Subsidiaries on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter of the Borrower, the ratio of (a) Consolidated EBLIT for such period to (b) the sum of (i) Consolidated Interest Expense for such period plus (ii) Consolidated Lease Expense for such period.

"Interest Payment Date" shall mean (a) as to any Alternate Base Rate Loan, the last day of each March, June, September and December and on the Maturity Date, (b) as to any LIBOR Rate Loan having an Interest Period of three months or less, the last day of such Interest Period, and (c) as to any LIBOR Rate Loan having an Interest Period longer than three months, the day which is three months after the first day of such Interest Period and the last day of such Interest Period.

"Interest Period" shall mean, with respect to any LIBOR Rate Loan,

(i) initially, the period commencing on the Borrowing Date or conversion date, as the case may be, with respect to such LIBOR Rate Loan and ending one, two,

three or six months thereafter, as selected by the Borrower in the notice of borrowing or notice of conversion given with respect thereto; and

(ii) thereafter, each period commencing on the last day of the immediately preceding Interest Period applicable to such LIBOR Rate Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Administrative Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that the foregoing provisions are subject to the following:

(A) if any Interest Period pertaining to a LIBOR Rate Loan would otherwise end on a day that is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(B) any Interest Period pertaining to a LIBOR Rate Loan that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period;

(C) if the Borrower shall fail to give notice as provided above, the Borrower shall be deemed to have selected an Alternate Base Rate Loan to replace the affected LIBOR Rate Loan;

(D) any Interest Period in respect of any Loan that would otherwise extend beyond the Maturity Date shall end on the Maturity Date; and

(E) no more than five(5) LIBOR Tranches may be in effect at any time. For purposes hereof, LIBOR Rate Loans with different Interest Periods shall be considered as separate LIBOR Tranches, although borrowings, extensions and conversions may, in accordance with the provisions hereof, be combined at the end of existing Interest Periods to constitute a new LIBOR Tranche.

"Investment" shall mean all investments, in cash or by delivery of property made, directly or indirectly, in, to or from any Person, whether by acquisition of shares of Capital Stock, property, assets, indebtedness or other obligations or securities or by loan advance, capital contribution or otherwise.

"Issuing Lender" shall mean First Union.

"Issuing Lender Fees" shall have the meaning set forth in Section 2.3(c).

"Joinder Agreement" shall mean a Joinder Agreement substantially in the form of Schedule 5.10, executed and delivered by an Additional Credit Party in accordance with the provisions of Section 5.10.

"Lender" shall have the meaning set forth in the first paragraph of this Agreement.

"Letters of Credit" shall mean any letter of credit issued by the Issuing Lender pursuant to the terms hereof, as such Letters of Credit may be amended, modified, extended, renewed or replaced from time to time.

"Letter of Credit Fee" shall have the meaning set forth in Section 2.3 (b).

"Leverage Ratio" shall mean, with respect to the Borrower and its consolidated Subsidiaries on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter of the Borrower, the ratio of (a) Funded Debt of the Borrower and its consolidated Subsidiaries on a consolidated basis on the last day of such period to (b) Consolidated EBLITDA for such period.

"LIBOR" shall mean, for any LIBOR Rate Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If for any reason such rate is not available, the term "LIBOR" shall mean, for any LIBOR Rate Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBO Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; provided, however, if more than one rate is specified on Reuters Screen LIBO Page, the applicable rate shall be the arithmetic mean of all such rates (rounded upwards, if necessary, to the nearest 1/100 of 1%). If, for any reason, neither of such rates is available, then "LIBOR" shall mean, for any LIBOR Rate Loan for any Interest Period therefor, the rate per annum at which, as determined by the Administrative Agent, Dollars in an amount comparable to such LIBOR Rate Loan are being offered to leading banks at approximately 11:00 A.M. London time, two (2) Business Days prior to the commencement of the applicable Interest Period for settlement in immediately available funds by leading banks in the London interbank market for a period equal to the Interest Period selected.

"LIBOR Lending Office" shall mean, initially, the office of each Lender designated as such Lender's LIBOR Lending Office shown on Schedule 9.2; and thereafter, such other office of such Lender as such Lender may from time to time specify to the Administrative Agent and the Borrower as the office of such Lender at which the LIBOR Rate Loans of such Lender are to be made.

"LIBOR Rate" shall mean a rate per annum (rounded upwards, if necessary, to the next higher 1/100th of 1%) determined by the Administrative Agent pursuant to the following formula:

$$\text{LIBOR Rate} = \frac{\text{LIBOR}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

"LIBOR Rate Loan" shall mean Loans the rate of interest applicable to which is based on the LIBOR Rate.

"Lien" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Capital Lease having substantially the same economic effect as any of the foregoing).

"Loans" shall have the meaning set forth in Section 2.1.

"LOC Commitment" shall mean the commitment of the Issuing Lender to issue Letters of Credit and, with respect to each Lender, the commitment of such Lender to purchase participation interests in the Letters of Credit up to such Lender's LOC Committed Amount as specified in Schedule 2.1(a), as such amount may be reduced from time to time in accordance with the provisions hereof.

"LOC Commitment Percentage" shall mean, for each Lender, the percentage identified as the LOC Commitment Percentage for such Lender on Schedule 2.1(a), as such percentage may be modified in connection with any assignment made in accordance with the provisions of Section 9.6(c).

"LOC Committed Amount" shall mean, collectively, the aggregate amount of all of the LOC Commitments of the Lenders to issue and participate in Letters of Credit as referenced in Section 2.2 and, individually, the amount of each Lender's LOC Commitment as specified in Schedule 2.1(a).

"LOC Documents" shall mean, with respect to any Letter of Credit, such Letter of Credit, any amendments thereto, any documents delivered in connection therewith, any application therefor, and any agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (i) the rights and obligations of the parties concerned or (ii) any collateral security for such obligations.

"LOC Obligations" shall mean, at any time, the sum of (i) the maximum amount which is, or at any time thereafter may become, available to be drawn under Letters of Credit then outstanding, assuming compliance with all requirements for drawings referred to in such Letters of Credit plus (ii) the aggregate amount of all drawings under Letters of Credit honored by the Issuing Lender but not theretofore reimbursed.

"Mandatory Borrowing" shall have the meaning set forth in Section 2.2(e).

"Material Adverse Effect" shall mean a material adverse effect on (a) the business, operations, property and condition (financial or otherwise) of the Credit Parties taken as a whole, (b) the ability of the Borrower or any Guarantor to perform its obligations, when such obligations are required to be performed, under this Agreement, any of the Notes or any other Credit Document or (c) the validity or enforceability of this Agreement, any of the Notes or any of the other Credit Documents or the rights or remedies of the Administrative Agent or the Lenders hereunder or thereunder.

"Material Contract" shall mean any contract or other arrangement, whether written or oral, to which the Borrower or any Subsidiary is a party as to which the breach, nonperformance, cancellation or failure to renew by any party thereto could reasonably be expected to have a Material Adverse Effect.

"Materials of Environmental Concern" shall mean any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, materials containing greater than 1% asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

"Maturity Date" shall mean October 19, 2002.

"Minority Interest" shall mean with respect to any Credit Party, a Person (other than a Subsidiary) with respect to which shares of its Capital Stock are owned by such Credit Party.

"Moody's" shall mean Moody's Investors Service, Inc.

"Multiemployer Plan" shall mean a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Note" or "Notes" shall mean the promissory notes of the Borrower in favor of each of the Lenders evidencing the Loans provided pursuant to Section 2.1(e), individually or collectively, as appropriate, as such promissory notes may be amended, modified, supplemented, extended, renewed or replaced from time to time.

"Notice of Borrowing" shall mean the written notice of borrowing as referenced and defined in Section 2.1(b)(i).

"Notice of Conversion" shall mean the written notice of extension or conversion as referenced and defined in Section 2.8.

"Obligations" shall mean, collectively, Loans and LOC Obligations.

"Participant" shall have the meaning set forth in Section 9.6(b).



"Participation Interest" shall mean the purchase by a Lender of a participation interest in Letters of Credit as provided in Section 2.2.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Permitted Investments" shall mean:

- (i) cash and Cash Equivalents;
- (ii) receivables owing to the Borrower or any Subsidiary or any advances to suppliers, in each case if created, acquired or made in the ordinary course of business and payable or dischargeable in accordance with customary trade terms, including receivables owing by a BFD Licensee made and payable in accordance with the BFD Financing Policy;
- (iii) investments in and loans to any Credit Parties;
- (iv) loans and advances to officers, directors, employees and Affiliates made in the ordinary course of business plus such other loans and advances to officers, directors, employees and Affiliates that do not in the aggregate exceed \$5,000,000 at any time outstanding;
- (v) investments (including debt obligations) received in connection with the bankruptcy or reorganization of suppliers and customers and in settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business;
- (vi) investments, acquisitions or transactions permitted under Section 6.4(b);
- (vii) investments existing on the Closing Date and set forth on Schedule 1.1(b);
- (viii) investments in Foreign Subsidiaries (including any minority-owned foreign entities or joint ventures) not to exceed an aggregate amount of \$15,000,000 at any time outstanding; and
- (ix) additional loans, advances and/or investments to the extent not permitted by the foregoing clauses hereof, provided that such loans, advances and/or investments made pursuant to this clause (viii) shall not exceed an aggregate amount of \$10,000,000 at any time outstanding.

"Permitted Liens" shall mean:

- (i) Liens created by or otherwise existing, under or in connection with this Agreement or the other Credit Documents in favor of the Lenders or the Administrative Agent;

(ii) purchase money Liens securing purchase money indebtedness (and refinancings thereof) (A) to the extent permitted under Section 6.1(c) or (B) securing Indebtedness of the type described in Section 6.1(c) incurred by a Subsidiary of the Borrower which is not a Guarantor;

(iii) Liens for taxes, assessments, charges or other governmental levies not yet due or as to which the period of grace (not to exceed 60 days), if any, related thereto has not expired or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Borrower or its Subsidiaries, as the case may be, in conformity with GAAP (or, in the case of Subsidiaries with significant operations outside of the United States of America, generally accepted accounting principles in effect from time to time in their respective jurisdictions of incorporation);

(iv) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or do not in the aggregate materially detract from the value of the property subject to such Lien or materially impair the use of such property in the operation of the business of the Credit Parties or which are being contested in good faith by appropriate proceedings;

(v) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation and deposits securing liability to insurance carriers under insurance or self-insurance arrangements;

(vi) deposits to secure the performance of bids, trade contracts, (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business, and deposits securing liabilities to insurance carriers under insurance or self-insurance arrangements;

(vii) judgment liens in respect of judgments that have not resulted in an Event of Default under Section 7.1(f);

(viii) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that are not incurred in connection with the borrowing of money and do not in the aggregate materially detract from the value of such property or materially impair the use of such property in the operation of the business of the Credit Parties;

(ix) any extension, renewal or replacement (or successive extensions, renewals or replacements) , in whole or in part, of any Lien referred to in the foregoing clauses; provided that such extension, renewal or replacement Lien shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property);

(x) Liens existing on the Closing Date and set forth on Schedule 1.1(c); provided, that (a) no such Lien shall at any time be extended to cover property or assets other than the property or assets subject thereto on the Closing Date and (b) the principal amount of the Indebtedness secured by such Liens shall not be extended, renewed, refunded or refinanced;

(xi) Liens securing Indebtedness permitted by Section 6.1(i);

(xii) Liens incidental to the conduct of the business of the Borrower and its Subsidiaries or the ownership of the property and assets of the Borrower and its Subsidiaries, other than Liens on current assets, not contemplated by the foregoing clauses but only to the extent that the aggregate amount of Indebtedness or other obligations secured by such Liens does not at any time exceed \$5,000,000;

(xiii) leases or subleases granted to others not interfering in any material respect with the business of any Credit Party; and

(xiv) any interest of title of a lessor under, and Liens arising from UCC financing statements (or equivalent filings, registrations or agreements in foreign jurisdictions) relating to, leases permitted by this Credit Agreement.

"Person" shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan" shall mean, at any particular time, any employee benefit plan which is covered by Title IV of ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Prime Rate" shall have the meaning set forth in the definition of Alternate Base Rate.

"Properties" shall have the meaning set forth in Section 3.10(a).

"Purchasing Lenders" shall have the meaning set forth in Section 9.6(c).

"Recovery Event" shall mean the receipt by the Borrower or any of its Subsidiaries of any cash insurance proceeds or condemnation award payable by reason of theft, loss, physical destruction or damage, taking or similar event with respect to any of their respective property or assets.

"Register" shall have the meaning set forth in Section 9.6(d).

"Reorganization" shall mean, with respect to any Multiemployer Plan, the condition that such Plan is in reorganization within the meaning of such term as used in Section 4241 of ERISA.

"Reportable Event" shall mean any of the events set forth in Section 4043(c) of ERISA, other than those events as to which the thirty-day notice period is waived under PBGC Reg. Section 4043.

"Required Lenders" shall mean Lenders holding in the aggregate greater than 50% of the Commitments and Participation Interests therein or outstanding Loans and Participation Interests (including the Participation Interests of the Issuing Lender in any Letters of Credit), as the case may be, provided, however, that if any Lender shall be a Defaulting Lender at such time, then there shall be excluded from the determination of Required Lenders, Obligations (including Participation Interests) owing to such Defaulting Lender and such Defaulting Lender's Commitments, or after termination of the Commitments, the principal balance of the Obligations owing to such Defaulting Lender.

"Requirement of Law" shall mean, as to any Person, the Certificate of Incorporation and Bylaws or other organizational or governing documents of such Person, and each law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Responsible Officer" shall mean, as to (a) the Borrower, the Chief Executive Officer, the Chief Operating Officer, the Vice President or the Chief Accounting Officer or (b) any other Credit Party, any duly authorized officer thereof.

"Restricted Payment" shall mean (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of Capital Stock of the Borrower or any of its Subsidiaries, now or hereafter outstanding, (b) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of Capital Stock of the Borrower or any of its Subsidiaries, now or hereafter outstanding, (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of Capital Stock of the Borrower or any of its Subsidiaries, now or hereafter outstanding, or (d) any payment or prepayment of principal of, premium, if any, or interest on, redemption, purchase, retirement, defeasance, sinking fund or similar payment with respect to, any Subordinated Debt.

"Revolving Commitment" shall mean, with respect to each Lender, the commitment of such Lender to make Loans in an aggregate principal amount at any time outstanding up to such Lender's Revolving Committed Amount as specified in Schedule 2.1(a), as such amount may be reduced from time to time in accordance with the provisions hereof.

"Revolving Commitment Percentage" shall mean, for each Lender, the percentage identified as its Revolving Commitment Percentage on Schedule 2.1(a), as such percentage may

be modified in connection with any assignment made in accordance with the provisions of Section 9.6(c).

"Revolving Committed Amount" shall mean, collectively, the aggregate amount of all Revolving Commitments as referenced in Section 2.1(a), as such amount may be reduced from time to time in accordance with the provisions hereof, and, individually, the amount of each Lender's Revolving Commitment as specified on Schedule 2.1(a).

"S&P" shall mean Standard & Poor's, a division of The McGraw Hill Companies, Inc.

"Scheduled Funded Debt Payments" shall mean, as of any date of determination for the Borrower and its consolidated Subsidiaries, the sum of all scheduled payments of principal on Funded Debt for the applicable period ending on the date of determination (including the principal component of payments due on Capital Leases during the applicable period ending on the date of determination).

"Single Employer Plan" shall mean any Plan which is not a Multiemployer Plan.

"Solvent" shall mean, with respect to the Borrower and its Subsidiaries on a particular date, that any such Person (a) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage and is able to pay its debts as they mature, (b) owns property having a value, both at fair valuation and at present fair saleable value, greater than the amount required to pay its probable liabilities (including contingencies), and (c) does not believe that it will incur debts or liabilities beyond its ability to pay such debts or liabilities as they mature.

"Specified Sales" shall mean (a) the sale, transfer, lease or other disposition of inventory and materials in the ordinary course of business and (b) the sale, transfer or other disposition of Permitted Investments described in clause (i) of the definition thereof.

"Subordinated Debt" shall mean any Indebtedness incurred by any Credit Party which by its terms is specifically subordinated in right of payment to the prior payment of the Credit Party Obligations.

"Subsidiary" shall mean, as to any Person at any time, (a) any corporation more than 50% of whose Capital Stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at such time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at such time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity of which such Person directly or indirectly through Subsidiaries owns at such time more than 50% of the Capital Stock. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Taxes" shall have the meaning set forth in Section 2.16.

"Tranche" shall mean the collective reference to LIBOR Rate Loans whose Interest Periods begin and end on the same day. A Tranche may sometimes be referred to as a "LIBOR Tranche".

"Transfer Effective Date" shall have the meaning set forth in each Commitment Transfer Supplement.

"2.16 Certificate" shall have the meaning set forth in Section 2.16.

"Type" shall mean, as to any Loan, its nature as an Alternate Base Rate Loan or LIBOR Rate Loan, as the case may be.

"Voting Stock" means, with respect to any Person, Capital Stock issued by such Person the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

"Year 2000 Compliant" shall have the meaning set forth in Section 3.25.

#### SECTION 1.2 OTHER DEFINITIONAL PROVISIONS.

(a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or other Credit Documents or any certificate or other document made or delivered pursuant hereto.

(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(c) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

#### SECTION 1.3 ACCOUNTING TERMS.

Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP applied on a basis consistent with the most recent audited consolidated financial statements of the Borrower delivered to the Lenders; provided that, if the Borrower notifies the Administrative Agent that it wishes to amend any covenant in Section 5.9 to eliminate the effect of any change in GAAP on the operation of such covenant (or if the Administrative Agent notifies the Borrower that the Required Lenders wish to amend Section 5.9 for such purpose), then the Borrower's compliance with such covenant shall be determined on the basis of GAAP in effect immediately before the relevant change in GAAP became effective, until either such notice is withdrawn or such covenant is amended in a manner satisfactory to the Borrower and the Required Lenders.

The Borrower shall deliver to the Administrative Agent and each Lender at the same time as the delivery of any annual or quarterly financial statements given in accordance with the provisions of Section 5.1, (i) a description in reasonable detail of any material change in the application of accounting principles employed in the preparation of such financial statements from those applied in the most recently preceding quarterly or annual financial statements as to which no objection shall have been made in accordance with the provisions above and (ii) a reasonable estimate of the effect on the financial statements on account of such changes in application.

## ARTICLE II

### THE LOANS; AMOUNT AND TERMS

#### SECTION 2.1 LOANS.

(a) Revolving Commitment. During the Commitment Period, subject to the terms and conditions hereof, each Lender severally agrees to make revolving credit loans ("Loans") to the Borrower from time to time for the purposes hereinafter set forth; provided, however, that (i) with regard to each Lender individually, the sum of such Lender's share of outstanding Loans plus such Lender's LOC Commitment Percentage of outstanding LOC Obligations shall not exceed such Lender's Revolving Commitment Percentage of the aggregate Revolving Committed Amount, and (ii) with regard to the Lenders collectively, the sum of the aggregate amount of outstanding Loans plus outstanding LOC Obligations shall not exceed the Revolving Committed Amount. For purposes hereof, the aggregate amount available hereunder shall be FIFTY MILLION DOLLARS (\$50,000,000) (as such aggregate maximum amount may be reduced from time to time as provided in Section 2.4, the "Revolving Committed Amount"). Loans may consist of Alternate Base Rate Loans or LIBOR Rate Loans, or a combination thereof, as the Borrower may request, and may be repaid and reborrowed in accordance with the provisions hereof; provided that no more than five (5) separate LIBOR Tranches shall be outstanding at any one time. LIBOR Rate Loans shall be made by each Lender at its LIBOR Lending Office and Alternate Base Rate Loans at its Domestic Lending Office.

#### (b) Loan Borrowings.

(i) Notice of Borrowing. The Borrower shall request a Loan borrowing by written notice (or telephone notice promptly confirmed in writing which confirmation may be by fax) to the Administrative Agent not later than 11:00 A.M. (Charlotte, North Carolina time) on the date of the requested borrowing in the case of Alternate Base Rate Loans, and on the third Business Day prior to the date of the requested borrowing in the case of LIBOR Rate Loans. Each such request for borrowing shall be irrevocable and shall specify (A) that a Loan is requested, (B) the date of the requested borrowing (which shall be a

Business Day), (C) the aggregate principal amount to be borrowed, (D) whether the borrowing shall be comprised of Alternate Base Rate Loans, LIBOR Rate Loans or a combination thereof, and if LIBOR Rate Loans are requested, the Interest Period(s) therefor. A form of Notice of Borrowing (a "Notice of Borrowing") is attached as Schedule 2.1(b)(i). If the Borrower shall fail to specify in any such Notice of Borrowing (I) an applicable Interest Period in the case of a LIBOR Rate Loan, then such notice shall be deemed to be a request for an Interest Period of one month, or (II) the type of Loan requested, then such notice shall be deemed to be a request for an Alternate Base Rate Loan hereunder. The Administrative Agent shall give notice to each Lender promptly upon receipt of each Notice of Borrowing, the contents thereof and each such Lender's share thereof.

(ii) Minimum Amounts. Each Loan borrowing shall be in a minimum aggregate amount of (A) with respect to LIBOR Rate Loans, \$1,000,000 and integral multiples of \$500,000 in excess thereof (or the remaining amount of the Revolving Committed Amount, if less) or (B) with respect to Alternate Base Rate Loans, \$500,000 and integral multiples of \$100,000 in excess thereof (or the remaining amount of the Revolving Committed Amount, if less).

(iii) Advances. Each Lender will make its Revolving Commitment Percentage of each Loan borrowing available to the Administrative Agent for the account of the Borrower at the office of the Administrative Agent specified in Schedule 9.2, or at such other office as the Administrative Agent may designate in writing, by 1:00 P.M. (Charlotte, North Carolina time) on the date specified in the applicable Notice of Borrowing in Dollars and in funds immediately available to the Administrative Agent. Such borrowing will then be made available to the Borrower by the Administrative Agent by crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Administrative Agent by the Lenders and in like funds as received by the Administrative Agent.

(c) Repayment. The principal amount of all Loans shall be due and payable in full on the Maturity Date.

(d) Interest. Subject to the provisions of Section 2.9, Loans shall bear interest as follows:

(i) Alternate Base Rate Loans. During such periods as Loans shall be comprised of Alternate Base Rate Loans, each such Alternate Base Rate Loan shall bear interest at a per annum rate equal to the sum of the Alternate Base Rate plus the Applicable Percentage; and

(ii) LIBOR Rate Loans. During such periods as Loans shall be comprised of LIBOR Rate Loans, each such LIBOR Rate Loan shall bear interest



at a per annum rate equal to the sum of the LIBOR Rate for the related Interest Period plus the Applicable Percentage.

Interest on Loans shall be payable in arrears on each Interest Payment Date.

(e) Notes. Each Lender's Revolving Commitment Percentage of the Loans shall be evidenced by a duly executed promissory note of the Borrower to such Lender in substantially the form of Schedule 2.1(e).

SECTION 2.2 LETTER OF CREDIT SUBFACILITY.

(a) Issuance. Subject to the terms and conditions hereof and of the LOC Documents, if any, and any other terms and conditions which the Issuing Lender may reasonably require, during the Commitment Period the Issuing Lender shall issue, and the Lenders shall participate in, Letters of Credit for the account of the Borrower from time to time upon request in a form acceptable to the Issuing Lender; provided, however, that (i) the aggregate amount of LOC Obligations shall not at any time exceed TEN MILLION DOLLARS (\$10,000,000) (the "LOC Committed Amount"), (ii) the sum of the aggregate amount of Loans outstanding plus LOC Obligations outstanding shall not at any time exceed the Revolving Committed Amount, (iii) all Letters of Credit shall be denominated in U.S. Dollars and (iv) Letters of Credit shall be issued for lawful corporate purposes and may be issued as standby letters of credit, including in connection with workers' compensation and other insurance programs, and trade letters of credit. Except as otherwise expressly agreed upon by all the Lenders, no Letter of Credit shall have an original expiry date more than twelve (12) months from the date of issuance; provided, however, so long as no Default or Event of Default has occurred and is continuing and subject to the other terms and conditions to the issuance of Letters of Credit hereunder, the expiry dates of Letters of Credit may be extended annually or periodically from time to time on the request of the Borrower or by operation of the terms of the applicable Letter of Credit to a date not more than twelve (12) months from the date of extension; provided, further, that no Letter of Credit, as originally issued or as extended, shall have an expiry date extending beyond the Maturity Date. Each Letter of Credit shall comply with the related LOC Documents. The issuance and expiry date of each Letter of Credit shall be a Business Day. First Union shall be the Issuing Lender on all Letters of Credit issued after the Closing Date.

(b) Notice and Reports. The request for the issuance of a Letter of Credit shall be submitted to the Issuing Lender at least three (3) Business Days prior to the requested date of issuance. The Issuing Lender will promptly upon request provide to the Administrative Agent for dissemination to the Lenders a detailed report specifying the Letters of Credit which are then issued and outstanding and any activity with respect thereto which may have occurred since the date of any prior report, and including therein, among other things, the account party, the beneficiary, the face amount, expiry date as well as any payments or expirations which may have occurred. The Issuing Lender will further provide to the Administrative Agent promptly upon request copies of the Letters

of Credit. The Issuing Lender will provide to the Administrative Agent promptly upon request a summary report of the nature and extent of LOC Obligations then outstanding.

(c) Participations. Each Lender upon issuance of a Letter of Credit shall be deemed to have purchased without recourse a risk participation from the Issuing Lender in such Letter of Credit and the obligations arising thereunder and any collateral relating thereto, in each case in an amount equal to its LOC Commitment Percentage of the obligations under such Letter of Credit and shall absolutely, unconditionally and irrevocably assume, as primary obligor and not as surety, and be obligated to pay to the Issuing Lender therefor and discharge when due, its LOC Commitment Percentage of the obligations arising under such Letter of Credit. Without limiting the scope and nature of each Lender's participation in any Letter of Credit, to the extent that the Issuing Lender has not been reimbursed as required hereunder or under any LOC Document, each such Lender shall pay to the Issuing Lender its LOC Commitment Percentage of such unreimbursed drawing in same day funds on the day of notification by the Issuing Lender of an unreimbursed drawing pursuant to the provisions of subsection (d) hereof. The obligation of each Lender to so reimburse the Issuing Lender shall be absolute and unconditional and shall not be affected by the occurrence of a Default, an Event of Default or any other occurrence or event. Any such reimbursement shall not relieve or otherwise impair the obligation of the Borrower to reimburse the Issuing Lender under any Letter of Credit, together with interest as hereinafter provided.

(d) Reimbursement. In the event of any drawing under any Letter of Credit, the Issuing Lender will promptly notify the Borrower and the Administrative Agent. The Borrower shall reimburse the Issuing Lender on the day of drawing under any Letter of Credit (with the proceeds of a Loan obtained hereunder or otherwise) in same day funds as provided herein or in the LOC Documents. If the Borrower shall fail to reimburse the Issuing Lender as provided herein, the unreimbursed amount of such drawing shall bear interest at a per annum rate equal to the Alternate Base Rate plus two percent (2%). Unless the Borrower shall immediately notify the Issuing Lender and the Administrative Agent of its intent to otherwise reimburse the Issuing Lender, the Borrower shall be deemed to have requested a Loan in the amount of the drawing as provided in subsection (e) hereof, the proceeds of which will be used to satisfy the reimbursement obligations. The Borrower's reimbursement obligations hereunder shall be absolute and unconditional under all circumstances irrespective of any rights of set-off, counterclaim or defense to payment the Borrower may claim or have against the Issuing Lender, the Administrative Agent, the Lenders, the beneficiary of the Letter of Credit drawn upon or any other Person, including without limitation any defense based on any failure of the Borrower to receive consideration or the legality, validity, regularity or unenforceability of the Letter of Credit. The Issuing Lender will promptly notify the other Lenders of the amount of any unreimbursed drawing and each Lender shall promptly pay to the Administrative Agent for the account of the Issuing Lender in Dollars and in immediately available funds, the amount of such Lender's LOC Commitment Percentage of such unreimbursed drawing. Such payment shall be made on the day such notice is received by such Lender from the Issuing Lender if such notice is received at or before 2:00 P.M. (Charlotte, North Carolina time), otherwise such payment shall be made at or before 12:00 Noon

(Charlotte, North Carolina time) on the Business Day next succeeding the day such notice is received. If such Lender does not pay such amount to the Issuing Lender in full upon such request, such Lender shall, on demand, pay to the Administrative Agent for the account of the Issuing Lender interest on the unpaid amount during the period from the date of such drawing until such Lender pays such amount to the Issuing Lender in full at a rate per annum equal to, if paid within two (2) Business Days of the date of drawing, the Federal Funds Effective Rate and thereafter at a rate equal to the Alternate Base Rate. Each Lender's obligation to make such payment to the Issuing Lender, and the right of the Issuing Lender to receive the same, shall be absolute and unconditional, shall not be affected by any circumstance whatsoever and without regard to the termination of this Agreement or the Commitments hereunder, the existence of a Default or Event of Default or the acceleration of the Credit Party Obligations hereunder and shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Repayment with Loans. On any day on which the Borrower shall have requested, or been deemed to have requested, a Loan to reimburse a drawing under a Letter of Credit, the Administrative Agent shall give notice to the Lenders that a Loan has been requested or deemed requested in connection with a drawing under a Letter of Credit, in which case a Loan borrowing comprised entirely of Alternate Base Rate Loans (each such borrowing, a "Mandatory Borrowing") shall be immediately made (without giving effect to any termination of the Commitments pursuant to Section 7.2) pro rata based on each Lender's respective Revolving Commitment Percentage (determined before giving effect to any termination of the Commitments pursuant to Section 7.2) and the proceeds thereof shall be paid directly to the Issuing Lender for application to the respective LOC Obligations. Each Lender hereby irrevocably agrees to make such Loans immediately upon any such request or deemed request on account of each Mandatory Borrowing in the amount and in the manner specified in the preceding sentence and on the same such date notwithstanding (i) the amount of Mandatory Borrowing may not comply with the minimum amount for borrowings of Loans otherwise required hereunder, (ii) whether any conditions specified in Section 4.2 are then satisfied, (iii) whether a Default or an Event of Default then exists, (iv) failure for any such request or deemed request for a Loan to be made by the time otherwise required in Section 2.1(b), (v) the date of such Mandatory Borrowing, or (vi) any reduction in the Revolving Committed Amount after any such Letter of Credit may have been drawn upon; provided, however, that in the event any such Mandatory Borrowing should be less than the minimum amount for borrowings of Loans otherwise provided in Section 2.1(b)(ii), the Borrower shall pay to the Administrative Agent for its own account an administrative fee of \$500. In the event that any Mandatory Borrowing cannot for any reason be made on the date otherwise required above (including, without limitation, as a result of the commencement of a proceeding under the Bankruptcy Code with respect to the Borrower), then each such Lender hereby agrees that it shall forthwith fund (as of the date the Mandatory Borrowing would otherwise have occurred, but adjusted for any payments received from the Borrower on or after such date and prior to such purchase) its Participation Interests in the outstanding LOC Obligations; provided, further, that in the event any Lender shall fail to fund its Participation Interest on the day the Mandatory Borrowing would otherwise have occurred, then the amount of such Lender's unfunded

Participation Interest therein shall bear interest payable to the Issuing Lender upon demand, at the rate equal to, if paid within two (2) Business Days of such date, the Federal Funds Effective Rate, and thereafter at a rate equal to the Alternate Base Rate.

(f) Modification, Extension. The issuance of any supplement, modification, amendment, renewal, or extension to any Letter of Credit shall, for purposes hereof, be treated in all respects the same as the issuance of a new Letter of Credit hereunder.

(g) Uniform Customs and Practices. The Issuing Lender shall have the Letters of Credit be subject to The Uniform Customs and Practice for Documentary Credits (the "UCP") or the International Standby Practices 1998 (the "ISP98"), in either case as published as of the date of issue by the International Chamber of Commerce, in which case the UCP or the ISP98, as applicable, may be incorporated therein and deemed in all respects to be a part thereof.

#### SECTION 2.3 FEES.

(a) Commitment Fee. In consideration of the Revolving Commitment, the Borrower agrees to pay to the Administrative Agent for the ratable benefit of the Lenders a commitment fee (the "Commitment Fee") in an amount equal to the Applicable Percentage per annum on the average daily unused amount of the aggregate Revolving Committed Amount. The Commitment Fee shall be payable quarterly in arrears on the 15th day following the last day of each calendar quarter for the prior calendar quarter.

(b) Letter of Credit Fees. In consideration of the LOC Commitments, the Borrower agrees to pay to the Issuing Lender a fee (the "Letter of Credit Fee") equal to the Applicable Percentage per annum on the average daily maximum amount available to be drawn under each Letter of Credit from the date of issuance to the date of expiration. In addition to such Letter of Credit Fee, the Issuing Lender may charge, and retain for its own account without sharing by the other Lenders, an additional facing fee of one-eighth of one percent (.125 %) per annum on the average daily maximum amount available to be drawn under each such Letter of Credit issued by it. The Issuing Lender shall promptly pay over to the Administrative Agent for the ratable benefit of the Lenders (including the Issuing Lender) the Letter of Credit Fee. The Letter of Credit Fee shall be payable quarterly in arrears on the 15th day following the last day of each calendar quarter for the prior calendar quarter.

(c) Issuing Lender Fees. In addition to the Letter of Credit Fees payable pursuant to subsection (b) hereof, the Borrower shall pay to the Issuing Lender for its own account without sharing by the other Lenders the reasonable and customary charges from time to time of the Issuing Lender with respect to the amendment, transfer, administration, cancellation and conversion of, and drawings under, such Letters of Credit (collectively, the "Issuing Lender Fees").

(d) Administrative Fee. The Borrower agrees to pay to the Administrative Agent the annual administrative fee as described in the Commitment Letter.

## SECTION 2.4 COMMITMENT REDUCTIONS.

(a) Voluntary Reductions. The Borrower shall have the right to terminate or permanently reduce the unused portion of the Revolving Committed Amount at any time or from time to time upon not less than five Business Days' prior notice to the Administrative Agent (which shall notify the Lenders thereof as soon as practicable of each such termination or reduction), which notice shall specify the effective date thereof and the amount of any such reduction which shall be in a minimum amount of \$1,000,000 or a whole multiple of \$100,000 in excess thereof and shall be irrevocable and effective upon receipt by the Administrative Agent, provided that no such reduction or termination shall be permitted if after giving effect thereto, and to any prepayments of the Loans made on the effective date thereof, the sum of the then outstanding aggregate principal amount of the Loans plus outstanding LOC Obligations would exceed the Revolving Committed Amount.

(b) Maturity Date. The Revolving Commitment and the LOC Commitment shall automatically terminate on the Maturity Date.

## SECTION 2.5 PREPAYMENTS.

(a) Optional Prepayments. The Borrower shall have the right to prepay Loans in whole or in part from time to time; provided, however, that each partial prepayment of Loans shall be in a minimum principal amount of \$1,000,000 and integral multiples of \$500,000 in excess thereof with respect to LIBOR Rate Loans, and \$500,000 and integral multiples of \$100,000 in excess thereof with respect to Alternate Base Rate Loans. The Borrower shall give three Business Days' irrevocable notice in the case of LIBOR Rate Loans and one Business Day's irrevocable notice in the case of Alternate Base Rate Loans, to the Administrative Agent (which shall notify the Lenders thereof as soon as practicable). Amounts prepaid under this Section 2.5(a) shall be applied first to Alternate Base Rate Loans and then to LIBOR Rate Loans in direct order of Interest Period maturities. All prepayments under this Section 2.5(a) shall be subject to Section 2.15, but otherwise without premium or penalty. Interest on the principal amount prepaid shall be payable on the next occurring Interest Payment Date that would have occurred had such loan not been prepaid or, at the request of the Administrative Agent, interest on the principal amount prepaid shall be payable on any date that a prepayment is made hereunder through the date of prepayment. Amounts prepaid on the Loans may be reborrowed in accordance with the terms hereof.

(b) Mandatory Prepayments.

(i) Revolving Committed Amount. If at any time after the Closing Date, the sum of the aggregate principal amount of outstanding Loans plus outstanding LOC Obligations shall exceed the Revolving Committed Amount, the Borrower immediately shall prepay the Loans and (after all Loans have been

repaid) cash collateralize the LOC Obligations, in an amount sufficient to eliminate such excess.

(ii) Application of Mandatory Prepayments. All amounts required to be paid pursuant to this Section 2.5(b) shall be applied first to the Loans and (after all Loans have been repaid) to a cash collateral account in respect of LOC Obligations. Within the parameters of the applications set forth above, prepayments shall be applied first to Alternate Base Rate Loans and then to LIBOR Rate Loans in direct order of Interest Period maturities. All prepayments under this Section 2.5(b) shall be subject to Section 2.15 and be accompanied by interest on the principal amount prepaid through the date of prepayment.

#### SECTION 2.6 MINIMUM PRINCIPAL AMOUNT OF TRANCHEs.

All borrowings, payments and prepayments in respect of the Loans shall be in such amounts and be made pursuant to such elections so that after giving effect thereto the aggregate principal amount of the Loans comprising any Tranche shall not be less than \$500,000 or a whole multiple of \$100,000 in excess thereof.

#### SECTION 2.7 DEFAULT RATE AND PAYMENT DATES.

Upon the occurrence, and during the continuance, of an Event of Default, the principal of and, to the extent permitted by law, interest on the Loans and any other amounts owing hereunder or under the other Credit Documents shall bear interest, payable on demand, at a per annum rate 2% greater than the rate which would otherwise be applicable (or if no rate is applicable, whether in respect of interest, fees or other amounts, then the Alternate Base Rate plus 2%).

#### SECTION 2.8 CONVERSION OPTIONS.

(a) The Borrower may elect from time to time to convert Alternate Base Rate Loans to LIBOR Rate Loans, by giving the Administrative Agent irrevocable written notice of such election not later than 11:00 a.m. (Charlotte, North Carolina time) on the date which is three Business Days prior to the requested date of conversion. A form of Notice of Conversion/ Extension is attached as Schedule 2.8. If the date upon which an Alternate Base Rate Loan is to be converted to a LIBOR Rate Loan is not a Business Day, then such conversion shall be made on the next succeeding Business Day and during the period from such last day of an Interest Period to such succeeding Business Day such Loan shall bear interest as if it were an Alternate Base Rate Loan. All or any part of outstanding Alternate Base Rate Loans may be converted as provided herein, provided that (i) no Loan may be converted into a LIBOR Rate Loan when any Default or Event of Default has occurred and is continuing and (ii) partial conversions shall be in an aggregate principal amount of \$1,000,000 or a whole multiple of \$500,000 in excess thereof.

(b) Any LIBOR Rate Loans may be continued as such upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice

provisions contained in Section 2.8(a); provided, that no LIBOR Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, in which case such Loan shall be automatically converted to an Alternate Base Rate Loan at the end of the applicable Interest Period with respect thereto. If the Borrower shall fail to give timely notice of an election to continue a LIBOR Rate Loan, or the continuation of LIBOR Rate Loans is not permitted hereunder, such LIBOR Rate Loans shall be automatically converted to Alternate Base Rate Loans at the end of the applicable Interest Period with respect thereto.

#### SECTION 2.9 COMPUTATION OF INTEREST AND FEES.

(a) Interest payable hereunder with respect to Alternate Base Rate Loans shall be calculated on the basis of a year of 365 days (or 366 days, as applicable) for the actual days elapsed. All other fees, interest and all other amounts payable hereunder shall be calculated on the basis of a 360 day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of each determination of a LIBOR Rate on the Business Day of the determination thereof. Any change in the interest rate on a Loan resulting from a change in the Alternate Base Rate shall become effective as of the opening of business on the day on which such change in the Alternate Base Rate shall become effective. The Administrative Agent shall as soon as practicable notify the Borrower and the Lenders of the effective date and the amount of each such change.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error. The Administrative Agent shall, at the request of the Borrower, deliver to the Borrower a statement showing in reasonable detail the computations used by the Administrative Agent in determining any interest rate.

#### SECTION 2.10 PRO RATA TREATMENT AND PAYMENTS.

(a) Each borrowing of Loans and any reduction of the Revolving Commitments shall be made pro rata according to the respective Commitment Percentages of the Lenders. Each payment under this Agreement or any Note shall be applied, first, to any fees then due and owing by the Borrower pursuant to Section 2.3, second, to interest then due and owing in respect of the Notes of the Borrower and, third, to principal then due and owing hereunder and under the Notes of the Borrower. Each payment on account of any fees pursuant to Section 2.3 shall be made pro rata in accordance with the respective amounts due and owing (except as to the portion of the Letter of Credit retained by the Issuing Lender and the Issuing Lender Fees). Each payment (other than prepayments) by the Borrower on account of principal of and interest on the Loans, shall be made pro rata according to the respective amounts due and owing in accordance with Section 2.5 hereof. Each optional prepayment on account of principal of the Loans shall be applied to such of the Loans as the Borrower may designate (to be applied pro rata among the Lenders); provided, that prepayments made pursuant to Section 2.11 shall be applied in accordance with such section. Each mandatory prepayment on account of principal of the Loans

shall be applied in accordance with Section 2.5(b). All payments (including prepayments) to be made by the Borrower on account of principal, interest and fees shall be made without defense, set-off or counterclaim (except as provided in Section 2.16(b)) and shall be made to the Administrative Agent for the account of the Lenders at the Administrative Agent's office specified on Schedule 9.2 in Dollars and in immediately available funds not later than 1:00 P.M. (Charlotte, North Carolina time) on the date when due. The Administrative Agent shall distribute such payments to the Lenders entitled thereto promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the LIBOR Rate Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day, and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension. If any payment on a LIBOR Rate Loan becomes due and payable on a day other than a Business Day, the maturity thereof shall be extended to the next succeeding Business Day unless the result of such extension would be to extend such payment into another calendar month, in which event such payment shall be made on the immediately preceding Business Day.

(b) Allocation of Payments After Event of Default. Notwithstanding any other provisions of this Agreement to the contrary, after the occurrence and during the continuance of an Event of Default, all amounts collected or received by the Administrative Agent or any Lender on account of the Credit Party Obligations or any other amounts outstanding under any of the Credit Documents shall be paid over or delivered as follows:

FIRST, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation reasonable attorneys' fees) of the Administrative Agent in connection with enforcing the rights of the Lenders under the Credit Documents;

SECOND, to payment of any fees owed to the Administrative Agent;

THIRD, to the payment of all reasonable out-of-pocket costs and expenses (including without limitation, reasonable attorneys' fees) of each of the Lenders in connection with enforcing its rights under the Credit Documents or otherwise with respect to the Credit Party Obligations owing to such Lender;

FOURTH, to the payment of all of the Credit Party Obligations consisting of accrued fees and interest;

FIFTH, to the payment of the outstanding principal amount of the Credit Party Obligations (including the payment or cash collateralization of the outstanding LOC Obligations);

SIXTH, to all other Credit Party Obligations and other obligations which shall have become due and payable under the Credit Documents or otherwise and not repaid pursuant to clauses "FIRST" through "FIFTH" above; and

SEVENTH, to the payment of the surplus, if any, to whoever may be lawfully entitled to receive such surplus.



In carrying out the foregoing, (i) amounts received shall be applied in the numerical order provided until exhausted prior to application to the next succeeding category; (ii) each of the Lenders shall receive an amount equal to its pro rata share (based on the proportion that the then outstanding Loans and LOC Obligations held by such Lender bears to the aggregate then outstanding Loans and LOC Obligations) of amounts available to be applied pursuant to clauses "THIRD", "FOURTH", "FIFTH" and "SIXTH" above; and (iii) to the extent that any amounts available for distribution pursuant to clause "FIFTH" above are attributable to the issued but undrawn amount of outstanding Letters of Credit, such amounts shall be held by the Administrative Agent in a cash collateral account and applied (A) first, to reimburse the Issuing Lender from time to time for any drawings under such Letters of Credit and (B) then, following the expiration of all Letters of Credit, to all other obligations of the types described in clauses "FIFTH", "SIXTH", and "SEVENTH" above in the manner provided in this Section 2.10(b).

SECTION 2.11 NON-RECEIPT OF FUNDS BY THE ADMINISTRATIVE AGENT.

(a) Unless the Administrative Agent shall have been notified in writing by a Lender prior to the date a Loan is to be made by such Lender (which notice shall be effective upon receipt) that such Lender does not intend to make the proceeds of such Loan available to the Administrative Agent, the Administrative Agent may assume that such Lender has made such proceeds available to the Administrative Agent on such date, and the Administrative Agent may in reliance upon such assumption (but shall not be required to) make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Administrative Agent, the Administrative Agent shall be able to recover such corresponding amount from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent will promptly notify the Borrower, and the Borrower shall immediately pay such corresponding amount to the Administrative Agent. The Administrative Agent shall also be entitled to recover from the Lender or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to the Borrower to the date such corresponding amount is recovered by the Administrative Agent at a per annum rate equal to (i) from the Borrower at the applicable rate for the applicable borrowing pursuant to the Notice of Borrowing and (ii) from a Lender at the Federal Effective Funds Rate.

(b) Unless the Administrative Agent shall have been notified in writing by the Borrower, prior to the date on which any payment is due from it hereunder (which notice shall be effective upon receipt) that the Borrower does not intend to make such payment, the Administrative Agent may assume that such Borrower has made such payment when due, and the Administrative Agent may in reliance upon such assumption (but shall not be required to) make available to each Lender on such payment date an amount equal to the portion of such assumed payment to which such Lender is entitled hereunder, and if the Borrower has not in fact made such payment to the Administrative Agent, such Lender shall, on demand, repay to the Administrative Agent the amount made available

to such Lender. If such amount is repaid to the Administrative Agent on a date after the date such amount was made available to such Lender, such Lender shall pay to the Administrative Agent on demand interest on such amount in respect of each day from the date such amount was made available by the Administrative Agent to such Lender to the date such amount is recovered by the Administrative Agent at a per annum rate equal to the Federal Funds Effective Rate.

(c) A certificate of the Administrative Agent submitted to the Borrower or any Lender with respect to any amount owing under this Section 2.11 showing in reasonable detail the computations used by the Administrative Agent in determining such amounts shall be conclusive in the absence of manifest error.

#### SECTION 2.12 INABILITY TO DETERMINE INTEREST RATE.

Notwithstanding any other provision of this Agreement, if (i) the Administrative Agent shall reasonably determine (which determination shall be conclusive and binding absent manifest error) that, by reason of circumstances affecting the relevant market, reasonable and adequate means do not exist for ascertaining LIBOR for such Interest Period, or (ii) the Required Lenders shall reasonably determine (which determination shall be conclusive and binding absent manifest error) that the LIBOR Rate does not adequately and fairly reflect the cost to such Lenders of funding LIBOR Rate Loans that the Borrower has requested be outstanding as a LIBOR Tranche during such Interest Period, the Administrative Agent shall forthwith give telephone notice of such determination, confirmed in writing, to the Borrower, and the Lenders at least two Business Days prior to the first day of such Interest Period. Unless the Borrower shall have notified the Administrative Agent upon receipt of such telephone notice that it wishes to rescind or modify its request regarding such LIBOR Rate Loans, any Loans that were requested to be made as LIBOR Rate Loans shall be made as Alternate Base Rate Loans and any Loans that were requested to be converted into or continued as LIBOR Rate Loans shall be converted into Alternate Base Rate Loans. Until any such notice has been withdrawn by the Administrative Agent, no further Loans shall be made as, continued as, or converted into, LIBOR Rate Loans for the Interest Periods so affected.

#### SECTION 2.13 ILLEGALITY.

Notwithstanding any other provision of this Agreement, if the adoption of or any change in any Requirement of Law or in the interpretation or application thereof by the relevant Governmental Authority to any Lender, in each case made subsequent to the date hereof, shall make it unlawful for such Lender or its LIBOR Lending Office to make or maintain LIBOR Rate Loans as contemplated by this Agreement or to obtain in the interbank eurodollar market through its LIBOR Lending Office the funds with which to make such Loans, (a) such Lender shall promptly notify the Administrative Agent and the Borrower thereof, (b) the commitment of such Lender hereunder to make LIBOR Rate Loans or continue LIBOR Rate Loans as such shall forthwith be suspended until the Administrative Agent shall give notice that the condition or situation which gave rise to the suspension shall no longer exist (which notice shall be given promptly after such condition or situation shall no longer exist), and (c) such Lender's Loans then outstanding as LIBOR Rate Loans, if any, shall be converted on the last day of the Interest

Period for such Loans or within such earlier period as required by law as Alternate Base Rate Loans. The Borrower hereby agrees promptly to pay any Lender, within fifteen (15) days after demand by such Lender, any additional amounts necessary to compensate such Lender for actual and direct costs (but not including anticipated profits) reasonably incurred by such Lender in making any repayment in accordance with this Section including, but not limited to, any interest or fees payable by such Lender to lenders of funds obtained by it in order to make or maintain its LIBOR Rate Loans hereunder. A certificate as to any additional amounts payable pursuant to this Section submitted by such Lender, through the Administrative Agent, to the Borrower showing in reasonable detail the computations used by such Lender in determining such amounts shall be conclusive in the absence of manifest error. Each Lender agrees to use reasonable efforts (including reasonable efforts to change its LIBOR Lending Office) to avoid or to minimize any amounts which may otherwise be payable pursuant to this Section; provided, however, that such efforts shall not cause the imposition on such Lender of any additional costs or legal or regulatory burdens reasonably deemed by such Lender to be material.

SECTION 2.14 REQUIREMENTS OF LAW.

(a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject such Lender to any tax of any kind whatsoever with respect to any Letter of Credit or any application relating thereto, or any LIBOR Rate Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for changes in taxes excluded under Section 2.16(a));

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender which is not otherwise included in the determination of the LIBOR Rate hereunder; or

(iii) shall impose on such Lender any other condition in connection with this Agreement (except for any tax of any kind which are separately addressed in Section 2.16);

and the result of any of the foregoing is to increase the cost to such Lender of making or maintaining LIBOR Rate Loans or the Letters of Credit or to reduce any amount receivable hereunder or under any Note, then, in any such case, the Borrower shall pay such Lender, within fifteen (15) days after demand by such Lender, any additional amounts necessary to compensate such Lender for such additional cost or reduced amount receivable which such Lender reasonably deems to be material as reasonably determined by such Lender with respect to its LIBOR Rate Loans or Letters of Credit. A certificate as to any additional amounts payable pursuant to this Section submitted by such Lender, through the Administrative Agent, to the Borrower showing in reasonable

detail the computations used by such Lender in determining such amounts and the method by which such Lender allocated such amounts to the Borrower (which method must have been applied by such Lender in good faith) shall be conclusive in the absence of manifest error. Each Lender agrees to use reasonable efforts (including reasonable efforts to change its Domestic Lending Office or LIBOR Lending Office, as the case may be) to avoid or to minimize any amounts which might otherwise be payable pursuant to this paragraph of this Section; provided, however, that such efforts shall not cause the imposition on such Lender of any additional costs or legal or regulatory burdens reasonably deemed by such Lender to be material.

(b) If the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by any Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any central bank or Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount reasonably deemed by such Lender to be material, then from time to time, within fifteen (15) days after demand by such Lender, the Borrower shall pay to such Lender such additional amount as shall be certified by such Lender as being required to compensate it for such reduction. Such a certificate as to any additional amounts payable under this Section submitted by a Lender (which certificate shall include a reasonably detailed description of the basis for the computation and the method by which such Lender allocated such amounts to the Borrower which method must have been applied by such Lender in good faith), through the Administrative Agent, to the Borrower shall be conclusive absent manifest error. Each Lender agrees to use reasonable efforts (including reasonable efforts to change its Domestic Lending Office or LIBOR Lending Office, as the case may be) to avoid or to minimize any amounts which might otherwise be payable pursuant to this paragraph of this Section; provided, however, that such efforts shall not cause the imposition on such Lender of any additional costs or legal or regulatory burdens reasonably deemed by such Lender to be material.

(c) The agreements in this Section 2.14 shall survive the termination of this Agreement and payment of the Notes and all other amounts payable hereunder.

#### SECTION 2.15 INDEMNITY.

The Borrower hereby agrees to indemnify each Lender and to hold such Lender harmless from any funding loss or expense which such Lender may sustain or incur as a consequence of (a) default by the Borrower in payment of the principal amount of or interest on any Loan by such Lender in accordance with the terms hereof, (b) default by the Borrower in accepting a borrowing after the Borrower has given a notice in accordance with the terms hereof, (c) default by the Borrower in making any prepayment after the Borrower has given a notice in accordance with the terms hereof, and/or (d) the making by the Borrower of a prepayment of a Loan, or the

conversion thereof, on a day which is not the last day of the Interest Period with respect thereto, in each case including, but not limited to, any such loss or expense arising from interest or fees payable by such Lender to lenders of funds obtained by it in order to maintain its Loans hereunder. A certificate as to any additional amounts payable pursuant to this Section submitted by any Lender, through the Administrative Agent, to the Borrower (which certificate must be delivered to the Administrative Agent within thirty days following such default, prepayment or conversion and must show in reasonable detail the computations used by such Lender in determining such amounts) shall be conclusive in the absence of manifest error. The agreements in this Section shall survive termination of this Agreement and payment of the Notes and all other amounts payable hereunder.

SECTION 2.16 TAXES.

(a) All payments made by the Borrower hereunder or under any Note will be, except as provided in Section 2.16(b), made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any Governmental Authority or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding any tax imposed on or measured by the overall gross or net income or profits of a Lender and any franchise taxes imposed on a Lender pursuant to the laws of the jurisdiction in which it is organized or the jurisdiction in which the principal office or applicable lending office of such Lender is located or any subdivision thereof or therein) and all interest, penalties or similar liabilities with respect thereto (all such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as "Taxes"). If any Taxes are so levied or imposed, the Borrower agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement or under any Note, after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein or in such Note. The Borrower will furnish to the Administrative Agent as soon as practicable after the date the payment of any Taxes is due pursuant to applicable law certified copies (to the extent reasonably available and required by law) of tax receipts evidencing such payment by the Borrower. The Borrower agrees to indemnify and hold harmless each Lender, and reimburse such Lender upon its written request, for the amount of any Taxes so levied or imposed and paid by such Lender.

(b) Each Lender that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) agrees to deliver to the Borrower and the Administrative Agent on or prior to the Closing Date, or in the case of a Lender that is an assignee or transferee of an interest under this Agreement pursuant to Section 9.6(d) (unless the respective Lender was already a Lender hereunder immediately prior to such assignment or transfer), on the date of such assignment or transfer to such Lender, (i) if the Lender is a "bank" within the meaning of Section 881(c)(3)(A) of the Code, two accurate and complete original signed copies of Internal Revenue Service Form 4224 or 1001 (or successor forms) certifying such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this

Agreement and under any Note, or (ii) if the Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code, either Internal Revenue Service Form 1001 or 4224 as set forth in clause (i) above, or (x) a certificate substantially in the form of Schedule 2.16 (any such certificate, a "2.16 Certificate") and (y) two accurate and complete original signed copies of Internal Revenue Service Form W-8 (or successor form) certifying such Lender's entitlement to an exemption from United States withholding tax with respect to payments of interest to be made under this Agreement and under any Note. In addition, each Lender agrees that it will deliver upon the Borrower's request updated versions of the foregoing, as applicable, whenever the previous certification has become obsolete or inaccurate in any material respect, together with such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any Note. Notwithstanding anything to the contrary contained in Section 2.16(a), but subject to the immediately succeeding sentence, (x) each Borrower shall be entitled, to the extent it is required to do so by law, to deduct or withhold Taxes imposed by the United States (or any political subdivision or taxing authority thereof or therein) from interest, fees or other amounts payable hereunder for the account of any Lender which is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) for U.S. Federal income tax purposes to the extent that such Lender has not provided to the Borrower U.S. Internal Revenue Service Forms that establish a complete exemption from such deduction or withholding and (y) the Borrower shall not be obligated pursuant to Section 2.16(a) to gross-up payments to be made to a Lender in respect of Taxes imposed by the United States if (I) such Lender has not provided to the Borrower the Internal Revenue Service Forms required to be provided to the Borrower pursuant to this Section 2.16(b) or (II) in the case of a payment, other than interest, to a Lender described in clause (ii) above, to the extent that such Forms do not establish a complete exemption from withholding of such Taxes. Notwithstanding anything to the contrary contained in the preceding sentence or elsewhere in this Section 2.16, the Borrower agrees to pay additional amounts and to indemnify each Lender in the manner set forth in Section 2.16(a) (without regard to the identity of the jurisdiction requiring the deduction or withholding) in respect of any amounts deducted or withheld by it as described in the immediately preceding sentence as a result of any changes after the Closing Date in any applicable law, treaty, governmental rule, regulation, guideline or order, or in the interpretation thereof, relating to the deducting or withholding of Taxes.

(c) Each Lender agrees to use reasonable efforts (including reasonable efforts to change its Domestic Lending Office or LIBOR Lending Office, as the case may be) to avoid or to minimize any amounts which might otherwise be payable pursuant to this Section; provided, however, that such efforts shall not cause the imposition on such Lender of any additional costs or legal or regulatory burdens reasonably deemed by such Lender to be material.

(d) If the Borrower pays any additional amount pursuant to this Section 2.16 with respect to a Lender, such Lender shall use reasonable efforts to obtain a refund of tax or credit against its tax liabilities on account of such payment; provided that such Lender shall have no obligation to use such reasonable efforts if either (i) it is in an

excess foreign tax credit position or (ii) it believes in good faith, in its sole discretion, that claiming a refund or credit would cause adverse tax consequences to it. In the event that such Lender receives such a refund or credit, such Lender shall pay to the Borrower an amount that such Lender reasonably determines is equal to the net tax benefit obtained by such Lender as a result of such payment by the Borrower. In the event that no refund or credit is obtained with respect to the Borrower's payments to such Lender pursuant to this Section 2.16, then such Lender shall upon request provide a certification that such Lender has not received a refund or credit for such payments. Nothing contained in this Section 2.16 shall require a Lender to disclose or detail the basis of its calculation of the amount of any tax benefit or any other amount or the basis of its determination referred to in the proviso to the first sentence of this Section 2.16 to the Borrower or any other party.

(e) The agreements in this Section 2.16 shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

#### SECTION 2.17 INDEMNIFICATION; NATURE OF ISSUING LENDER'S DUTIES.

(a) In addition to its other obligations under Section 2.4, the Borrower hereby agrees to protect, indemnify, pay and save each Issuing Lender harmless from and against any and all claims, demands, liabilities, damages, losses, costs, charges and expenses (including reasonable attorneys' fees) that the Issuing Lender may incur or be subject to as a consequence, direct or indirect, of (i) the issuance of any Letter of Credit or (ii) the failure of the Issuing Lender to honor a drawing under a Letter of Credit as a result of any act or omission, whether rightful or wrongful, of any present or future de jure or de facto government or governmental authority (all such acts or omissions, herein called "Government Acts").

(b) As between the Borrower and the Issuing Lender, the Borrower shall assume all risks of the acts, omissions or misuse of any Letter of Credit by the beneficiary thereof. The Issuing Lender shall not be responsible: (i) for the form, validity, sufficiency, accuracy, genuineness or legal effect of any document submitted by any party in connection with the application for and issuance of any Letter of Credit, even if it should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged; (ii) for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign any Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, that may prove to be invalid or ineffective for any reason; (iii) for its refusal to honor any draw under a Letter of Credit where the beneficiary has failed to comply fully with conditions required in order to draw upon such Letter of Credit; (iv) for errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, whether or not they be in cipher; (v) for errors in interpretation of technical terms; (vi) for any loss or delay in the transmission or otherwise of any document required in order to make a drawing under a Letter of Credit or of the proceeds thereof; and (vii) for any consequences arising from causes beyond the control of the Issuing Lender, including, without limitation, any Government Acts. None of the above shall affect, impair, or prevent the vesting of the Issuing Lender's rights or powers hereunder.

(c) In furtherance and extension and not in limitation of the specific provisions hereinabove set forth, any action taken or omitted by the Issuing Lender, under or in connection with any Letter of Credit or the related certificates, if taken or omitted in good faith, shall not put such Issuing Lender under any resulting liability to the Borrower. It is the intention of the parties that this Agreement shall be construed and applied to protect and indemnify the Issuing Lender against any and all risks involved in the issuance of the Letters of Credit, all of which risks are hereby assumed by the Borrower, including, without limitation, any and all risks of the acts or omissions, whether rightful or wrongful, of any Government Authority. The Issuing Lender shall not, in any way, be liable for any failure by the Issuing Lender or anyone else to pay any drawing under any Letter of Credit as a result of any Government Acts or any other cause beyond the control of the Issuing Lender.

(d) Nothing in this Section 2.17 is intended to limit the reimbursement obligation of the Borrower contained in Section 2.2(d) hereof. The obligations of the Borrower under this Section 2.17 shall survive the termination of this Agreement. No act or omissions of any current or prior beneficiary of a Letter of Credit shall in any way affect or impair the rights of the Issuing Lender to enforce any right, power or benefit under this Agreement.

(e) Notwithstanding anything to the contrary contained in this Section 2.17, the Borrower shall have no obligation to indemnify any Issuing Lender in respect of any liability incurred by such Issuing Lender arising out of the gross negligence or willful misconduct of the Issuing Lender (including action not taken by an Issuing Lender), or caused by such Issuing Lender's failure to pay under any Letter of Credit after presentation to it of a request strictly complying with the terms and conditions of such Letter of Credit, unless such payment is prohibited by any law, regulation, court order or decree.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

To induce the Lenders to enter into this Agreement and to make the Extensions of Credit herein provided for, the Credit Parties hereby represent and warrant to the Administrative Agent and to each Lender that:

##### SECTION 3.1 FINANCIAL CONDITION.

The balance sheets of the Borrower and its consolidated Subsidiaries as of November 30, 1997 and November 28, 1998 and the related statements of income and of cash flows of the Borrower and its consolidated Subsidiaries for the fiscal years then ended audited by Arthur Anderson LLP are complete and correct and present fairly the financial condition of the Borrower and its consolidated Subsidiaries as of such dates and the results of their operations



and cash flows for such fiscal years. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as disclosed therein). Additionally, the company-prepared pro forma balance sheets and the five-year projections have been prepared in good faith based upon reasonable assumptions.

SECTION 3.2 NO CHANGE.

Since May 29, 1999 (and, after delivery of annual audited financial statements in accordance Section 5.1(a), from the date of the most recently delivered annual audited financial statements), there has been no development or event which has had or could reasonably be expected to have a Material Adverse Effect.

SECTION 3.3 CORPORATE EXISTENCE; COMPLIANCE WITH LAW.

Each of the Credit Parties (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the requisite power and authority and the legal right to own and operate all its material property, to lease the material property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified to conduct business and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification except to the extent that the failure to so qualify or be in good standing could not, in the aggregate, reasonably be expected to have a Material Adverse Effect and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

SECTION 3.4 CORPORATE POWER; AUTHORIZATION; ENFORCEABLE OBLIGATIONS; NO CONSENTS.

Each of the Borrower and the other Credit Parties has full power and authority and the legal right to make, deliver and perform the Credit Documents to which it is party and has taken all necessary limited liability company or corporate action to authorize the execution, delivery and performance by it of the Credit Documents to which it is party. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or with the execution, delivery or performance of any Credit Document by the Borrower or the other Credit Parties (other than those which have been obtained) or with the validity or enforceability of any Credit Document against the Borrower or the other Credit Parties (except such filings as are necessary in connection with the perfection of the Liens created by such Credit Documents). Each Credit Document to which it is a party has been duly executed and delivered on behalf of the Borrower or the other Credit Parties, as the case may be. Each Credit Document to which it is a party constitutes a legal, valid and binding obligation of the Borrower or the other Credit Parties, as the case may be, enforceable against the Borrower or such other Credit Party, as the case may be, in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors'

rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

SECTION 3.5 NO LEGAL BAR; NO DEFAULT.

The execution, delivery and performance of the Credit Documents, the borrowings thereunder and the use of the proceeds of the Loans will not violate any Requirement of Law, any organizational document or any Contractual Obligation of the Borrower or its Subsidiaries (except those as to which waivers or consents have been obtained or, in the case of Contractual Obligations, violations which could not reasonably be expected to have a Material Adverse Effect), and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any Requirement of Law or Contractual Obligation other than the Liens arising under or contemplated in connection with the Credit Documents. Neither the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

SECTION 3.6 NO MATERIAL LITIGATION.

Except as set forth on Schedule 3.6, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the best knowledge of the Borrower, threatened by or against the Borrower or any of its Subsidiaries or against any of its or their respective properties or revenues (a) with respect to the Credit Documents or any Loan or any of the transactions contemplated hereby, or (b) which could reasonably be expected to have a Material Adverse Effect.

SECTION 3.7 INVESTMENT COMPANY ACT.

Neither the Borrower nor any Credit Party is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

SECTION 3.8 MARGIN REGULATIONS.

No part of the proceeds of any Loan hereunder will be used directly or indirectly for any purpose which violates, or which would be inconsistent with, the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. The Borrower and its Subsidiaries taken as a group do not own "margin stock" except as identified in the financial statements referred to in Section 3.1 and on Schedule 1.1B and the aggregate value of all "margin stock" owned by the Credit Parties taken as a group does not exceed 25% of the value of their assets.

SECTION 3.9 ERISA.

Neither a Reportable Event nor an "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period

prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code, except to the extent that any such occurrence or failure to comply would not reasonably be expected to have a Material Adverse Effect. No termination of a Single Employer Plan has occurred resulting in any liability that has remained underfunded, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period which could reasonably be expected to have a Material Adverse Effect. The present value of all accrued benefits under each Single Employer Plan (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits by an amount which, as determined in accordance with GAAP, could reasonably be expected to have a Material Adverse Effect. Neither the Borrower nor any Commonly Controlled Entity is currently subject to any liability for a complete or partial withdrawal from a Multiemployer Plan which could reasonably be expected to have a Material Adverse Effect.

#### SECTION 3.10 ENVIRONMENTAL MATTERS.

Except as set forth on Schedule 3.10, which matters, in the aggregate, are, to the knowledge of Borrower, not reasonably expected to have a Material Adverse Effect:

(a) To the best knowledge of the Borrower, the facilities and properties owned, leased or operated by the Borrower or any of its Subsidiaries (the "Properties") do not contain any Materials of Environmental Concern in amounts or concentrations which (i) constitute a violation of, or (ii) could give rise to liability under, any Environmental Law.

(b) To the best knowledge of the Borrower, the Properties and all operations of the Borrower and/or its Subsidiaries at the Properties are in compliance in all material respects, and have in the last five years been in compliance in all material respects, with all applicable Environmental Laws, and there is no violation of any Environmental Law with respect to the Properties or the business operated by the Borrower or any of its Subsidiaries (the "Business").

(c) Neither the Borrower nor any of its Subsidiaries has received any written or actual notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the Business, nor does the Borrower or any of its Subsidiaries have knowledge or reason to believe that any such notice will be received or is being threatened.

(d) To the best knowledge of the Borrower, Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of, or in a manner or to a location which could give rise to liability under any Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could give rise to liability under, any applicable Environmental Law.

(e) No judicial proceeding or governmental or administrative action is pending or, to the knowledge of the Borrower, threatened, under any Environmental Law to which the Borrower or any Subsidiary is or will be named as a party with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business.

(f) To the best knowledge of the Borrower, there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of the Borrower or any Subsidiary in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws.

#### SECTION 3.11 USE OF PROCEEDS.

The proceeds of the Loans hereunder shall be used solely by the Borrower to (i) provide for working capital, capital expenditures and other general corporate purposes and (ii) finance acquisitions as permitted by the terms hereof. The Letters of Credit shall be used only for or in connection with appeal bonds, reimbursement obligations arising in connection with surety and reclamation bonds, reinsurance, domestic or international trade transactions and obligations not otherwise aforementioned relating to transactions entered into by the applicable account party in the ordinary course of business.

#### SECTION 3.12 SUBSIDIARIES.

Set forth on Schedule 3.12 is a complete and accurate list of all Subsidiaries of the Borrower. Information on the attached Schedule includes state of incorporation; the number of shares of each class of Capital Stock or other equity interests outstanding; the number and percentage of outstanding shares of each class of stock; and the number and effect, if exercised, of all outstanding options, warrants, rights of conversion or purchase and similar rights. The outstanding Capital Stock and other equity interests of all such Subsidiaries are validly issued, fully paid and non-assessable and are owned, free and clear of all Liens (other than Permitted Liens).

#### SECTION 3.13 OWNERSHIP.

Each of the Credit Parties is the owner of, and has good and marketable title to, all of its respective assets, except as may be permitted pursuant Section 6.13 hereof and except for defects in title that do not interfere in any material respect with the operation of the business of the Credit Parties and could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, and none of such assets is subject to any Lien other than Permitted Liens.

#### SECTION 3.14 INDEBTEDNESS.

Except as otherwise permitted under Section 6.1, the Credit Parties have no Indebtedness.

SECTION 3.15 TAXES.

Each of the Credit Parties has filed, or caused to be filed, all tax returns (federal, state, local and foreign) required to be filed and paid (a) all amounts of taxes shown thereon to be due (including interest and penalties) and (b) all other taxes, fees, assessments and other governmental charges (including mortgage recording taxes, documentary stamp taxes and intangibles taxes) owing by it, except for such taxes (i) which are not yet delinquent or (ii) that are being contested in good faith and by proper proceedings, and against which adequate reserves are being maintained in accordance with GAAP. Neither the Borrower nor any of its Subsidiaries is aware as of the Closing Date of any proposed tax assessments against them or any of their Subsidiaries which could reasonably be expected to have a Material Adverse Effect.

SECTION 3.16 INTELLECTUAL PROPERTY.

Each of the Credit Parties owns, or has the legal right to use, all trademarks, tradenames, copyrights, technology, know-how and processes necessary for each of them to conduct its business as currently conducted. No claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, nor does the Borrower or any of its Subsidiaries know of any such claim, and, to the knowledge of the Borrower or any of its Subsidiaries, the use of such Intellectual Property by the Borrower or any of its Subsidiaries does not infringe on the rights of any Person, except for such claims and infringements that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

SECTION 3.17 SOLVENCY.

The fair saleable value of each Credit Party's assets, measured on a going concern basis, exceeds all probable liabilities, including those to be incurred pursuant to this Agreement. None of the Credit Parties (a) has unreasonably small capital in relation to the business in which it is or proposes to be engaged or (b) has incurred, or believes that it will incur, after giving effect to the transactions contemplated by this Agreement, debts beyond its ability to pay such debts as they become due.

SECTION 3.18 INVESTMENTS.

All Investments of each of the Credit Parties are Permitted Investments.

SECTION 3.19 NO BURDENSOME RESTRICTIONS.

None of the Borrower or any of its Subsidiaries is a party to any agreement or instrument or subject to any other obligation or any charter or corporate restriction or any provision of any applicable law, rule or regulation which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

## SECTION 3.20 BROKERS' FEES.

None of the Borrower or any of its Subsidiaries has any obligation to any Person in respect of any finder's, broker's, investment banking or other similar fee in connection with any of the transactions contemplated under the Credit Documents other than the closing and other fees payable pursuant to this Agreement.

## SECTION 3.21 LABOR MATTERS.

There are no collective bargaining agreements or Multiemployer Plans covering the employees of the Borrower or any of its Subsidiaries as of the Closing Date, and none of the Borrower or any of its Subsidiaries (i) has suffered any strikes, walkouts, work stoppages or other material labor difficulty within the last five years or (ii) has knowledge of any potential or pending strike, walkout or work stoppage which could reasonably be expected to have a Material Adverse Effect.

## SECTION 3.22 ACCURACY AND COMPLETENESS OF INFORMATION.

All factual information heretofore, contemporaneously or hereafter furnished by or on behalf of the Borrower or any of its Subsidiaries to the Administrative Agent or any Lender in writing for purposes of or in connection with this Agreement or any other Credit Document, or any transaction contemplated hereby or thereby, is or will be true and accurate in all material respects and not incomplete by omitting to state any material fact necessary to make such information not misleading, in each case as of the date stated or certified; provided, however, that, with respect to pro forma and projected financial information, the Credit Parties represent only that such information was prepared in good faith based upon reasonable assumptions. There is no fact now known to any Credit Party which has, or could reasonably be expected to have, a Material Adverse Effect which fact has not been set forth herein, in the financial statements of the Credit Parties furnished to the Administrative Agent and/or the Lenders, or in any certificate, opinion or other written statement made or furnished by the Borrower to the Administrative Agent and/or the Lenders.

## SECTION 3.23 YEAR 2000 ISSUE.

Any reprogramming and related testing required to permit the proper functioning of the computer systems of the Borrower and its Subsidiaries in and following the year 2000 will be completed in all material respects prior to November 27, 1999 (that is, the Borrower and its Subsidiaries will be "Year 2000 Compliant"), and the cost to the Borrower and its Subsidiaries of such reprogramming and testing will not result in a Default or Event of Default or a Material Adverse Effect. Except for such reprogramming referred to in the preceding sentence as may be necessary, the computer and management information systems of the Borrower, and its Subsidiaries are and, with ordinary course upgrading and maintenance, will continue for the term of this Agreement to be, adequate for the conduct of its business.

## ARTICLE IV

## CONDITIONS PRECEDENT

## SECTION 4.1 CONDITIONS TO CLOSING DATE AND INITIAL LOANS.

This Agreement shall become effective upon, and the obligation of each Lender to make the initial Loans on the Closing Date is subject to, the satisfaction of the following conditions precedent:

(a) Execution of Agreement. The Administrative Agent shall have received (i) counterparts of this Agreement, executed by a duly authorized officer of each party hereto, (ii) Notes for the account of each Lender and (iii) all other Credit Documents, each in form and substance reasonably acceptable to the Administrative Agent in its sole discretion.

(b) Authority Documents. The Administrative Agent shall have received the following:

(i) Organizational Documents. A copy of the articles of organization, articles of incorporation or other organizational documents, as applicable, of each Credit Party certified to be true and complete as of a recent date by the appropriate governmental authority of the state of its organization.

(ii) Resolutions. A copy of the resolutions of the managing member (or, if required, of all members) or board of directors of each Credit Party approving and adopting the Credit Documents, the transactions contemplated therein and authorizing execution and delivery thereof, certified by an officer of such Credit Party as of the Closing Date to be true and correct and in force and effect as of such date.

(iii) Bylaws. A copy of the operating agreement or bylaws of each Credit Party, if applicable, certified by an officer of such Credit Party as of the Closing Date to be true and correct and in force and effect as of such date.

(iv) Good Standing. Copies of certificates of good standing, existence or its equivalent with respect to each Credit Party certified as of a recent date by the appropriate governmental authorities of the state of organization and each other state in which the failure to so qualify and be in good standing could reasonably be expected to have a Material Adverse Effect on the business or operations of the Credit Parties in such state.

(v) Incumbency. An incumbency certificate of each Credit Party certified by a secretary or assistant secretary to be true and correct as of the Closing Date.

(c) Legal Opinions of Counsel. The Administrative Agent shall have received an opinion of McGuire, Woods, Battle & Boothe LLP, counsel for the Credit Parties, dated the Closing Date and addressed to the Administrative Agent and the Lenders, in form and substance acceptable to the Administrative Agent (including, without limitation, a satisfactory no-conflicts opinion).

(d) Fees. The Administrative Agent shall have received all fees, if any, owing pursuant to the Commitment Letter and Section 2.3.

(e) Solvency Evidence. The Administrative Agent shall have received an officer's certificate for each Credit Party prepared by the principal financial officer of each such Credit Party as to the financial condition, solvency and related matters of each such Credit Party, in each case after giving effect to the initial borrowings under the Credit Documents, in substantially the form of Schedule 4.1(e) hereto.

(f) Account Designation Letter. The Administrative Agent shall have received the executed Account Designation Letter in the form of Schedule 1.1(a) hereto.

(g) Ownership Structure. The capital and ownership structure of the Subsidiaries of the Borrower and any Minority Interests (after giving effect to the transactions contemplated hereby) shall be as described in Schedule 3.12. The Administrative Agent shall be satisfied with management structure, legal structure, voting control, liquidity, total leverage and total capitalization of the Borrower as of the Closing Date.

(h) Consents. The Administrative Agent shall have received evidence that all governmental, shareholder and material third party consents and approvals necessary in connection with the financings and other transactions contemplated hereby have been obtained and all applicable waiting periods have expired without any action being taken by any authority or third party that could restrain, prevent or impose any material adverse conditions on such transactions or that could seek or threaten any of the foregoing.

(i) Compliance with Laws. The financings and other transactions contemplated hereby shall be in compliance with all applicable laws and regulations (including all applicable securities and banking laws, rules and regulations).

(j) Bankruptcy. There shall be no bankruptcy or insolvency proceedings with respect to the Borrower or any of its Subsidiaries.

(k) Material Adverse Effect. No material adverse change shall have occurred since May 29, 1999 in the business, properties, operations or conditions (financial or otherwise) of the Credit Parties taken as a whole.

(l) Financial Statements. The Administrative Agent shall have received copies of all of the financial statements referred to in Section 3.1, each in form and substance reasonably satisfactory to it.



(m) Year 2000 Plan. The Administrative Agent shall have received the Borrower's plan for becoming Year 2000 Compliant, which plan shall be in form and substance reasonably satisfactory to the Administrative Agent.

(n) Officer's Certificates. The Administrative Agent shall have received a certificate or certificates executed by a responsible officer of the Borrower as of the Closing Date stating that (i) no action, suit, investigation or proceeding is pending or threatened in any court or before any arbitrator or governmental instrumentality that purports to affect the Borrower or any Subsidiary or any transaction contemplated by the Credit Documents, if such action, suit, investigation or proceeding could reasonably be expected to have a Material Adverse Effect and (ii) immediately after giving effect to this Credit Agreement, the other Credit Documents and all the transactions contemplated therein to occur on such date, (A) each of the Credit Parties is Solvent, (B) no Default or Event of Default exists, (C) all representations and warranties contained herein and in the other Credit Documents are true and correct in all material respects, and (D) the Credit Parties are in compliance with each of the financial covenants set forth in Section 5.9.

(o) Additional Matters. All other documents and legal matters in connection with the transactions contemplated by this Agreement shall be reasonably satisfactory in form and substance to the Administrative Agent and its counsel.

#### SECTION 4.2 CONDITIONS TO ALL EXTENSIONS OF CREDIT.

The obligation of each Lender to make any Extension of Credit hereunder is subject to the satisfaction of the following conditions precedent on the date of making such Extension of Credit:

(a) Representations and Warranties. The representations and warranties made by the Credit Parties herein or which are contained in any certificate furnished at any time under or in connection herewith, except as such relate explicitly to an earlier date, shall be true and correct in all material respects on and as of the date of such Extension of Credit as if made on and as of such date.

(b) No Default or Event of Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Extension of Credit to be made on such date unless such Default or Event of Default shall have been waived in accordance with this Agreement.

(c) Compliance with Commitments. Immediately after giving effect to the making of any such Extension of Credit (and the application of the proceeds thereof), (i) the sum of the aggregate principal amount of outstanding Loans plus outstanding LOC Obligations shall not exceed the Revolving Committed Amount and (ii) the outstanding LOC Obligations shall not exceed the LOC Committed Amount.

(d) Additional Conditions to Loans. If such Loan is made pursuant to Section 2.1, all conditions set forth in such Section shall have been satisfied.

(e) Additional Conditions to Letters of Credit. If such Extension of Credit is made pursuant to Section 2.2, all conditions set forth in such Section shall have been satisfied.

Each request for an Extension of Credit and each acceptance by the Borrower of any such Extension of Credit shall be deemed to constitute a representation and warranty by the Borrower as of the date of such Extension of Credit that the applicable conditions in paragraphs (a) through (e) of this Section have been satisfied.

## ARTICLE V

### AFFIRMATIVE COVENANTS

The Credit Parties hereby covenant and agree that on the Closing Date, and thereafter for so long as this Agreement is in effect and until the Commitments have terminated, no Note remains outstanding and unpaid and the Credit Party Obligations, together with interest, Commitment Fees and all other amounts owing to the Administrative Agent or any Lender hereunder, are paid in full, the Borrower shall, and shall cause each of its Subsidiaries (other than in the case of Sections 5.1, 5.2 or 5.7 hereof), to:

#### SECTION 5.1 FINANCIAL STATEMENTS.

Furnish to the Administrative Agent and each of the Lenders:

(a) Annual Financial Statements. As soon as available, but in any event within ninety (90) days after the end of each fiscal year of the Borrower, (i) a copy of the consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such fiscal year and the related consolidated statements of income and retained earnings and of cash flows of the Borrower and its consolidated Subsidiaries for such year, audited by a "Big Five" accounting firm, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification indicating that the scope of the audit was inadequate to permit such independent certified public accountants to certify such financial statements without such qualification and (ii) a company-prepared consolidating balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such fiscal year and the related company-prepared consolidating statements of income and retained earnings and of cash flows of the Borrower and its consolidated Subsidiaries for such year, in each case setting forth in comparative form consolidating figures for the corresponding period or periods of the preceding fiscal year;

(b) Quarterly Financial Statements. As soon as available and in any event within forty-five (45) days after the end of each of the first three fiscal quarters of the

Borrower, a company-prepared consolidated balance sheet of the Borrower and its consolidated Subsidiaries as at the end of such period and related company-prepared consolidated statements of income and retained earnings and of cash flows for the Borrower and its consolidated Subsidiaries for such quarterly period and for the portion of the fiscal year ending with such period, in each case setting forth in comparative form consolidated figures for the corresponding period or periods of the preceding fiscal year (subject to normal recurring year-end audit adjustments); and

(c) Annual Budget Plan. As soon as available, but in any event within forty-five (45) days after the end of each fiscal year, a copy of the detailed annual operating budget or plan of the Borrower for the next fiscal year on a month-by-month basis, in form and detail reasonably acceptable to the Administrative Agent and the Required Lenders, together with a summary of the material assumptions made in the preparation of such annual budget or plan;

all such financial statements to be complete and correct in all material respects (subject, in the case of interim statements, to normal recurring year-end audit adjustments) and to be prepared in reasonable detail and, in the case of the annual and quarterly financial statements provided in accordance with subsections (a) and (b) above, in accordance with GAAP applied consistently throughout the periods reflected therein and further accompanied by a description of, and an estimation of the effect on the financial statements on account of, a change, if any, in the application of accounting principles as provided in Section 1.3.

#### SECTION 5.2 CERTIFICATES; OTHER INFORMATION.

Furnish to the Administrative Agent and each of the Lenders:

(a) concurrently with the delivery of the financial statements referred to in Section 5.1(a) above, a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default, except as specified in such certificate;

(b) concurrently with the delivery of the financial statements referred to in Sections 5.1(a) and 5.1(b) above, a certificate of a Responsible Officer stating that, to the best of such Responsible Officer's knowledge, each of the Credit Parties during such period observed or performed in all material respects all of its covenants and other agreements, and satisfied in all material respects every condition, contained in this Agreement to be observed, performed or satisfied by it, and that such Responsible Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate and such certificate shall include the calculations in reasonable detail required to indicate compliance with Section 5.9 as of the last day of such period;

(c) within thirty (30) days after the same are sent, copies of all reports (other than those otherwise provided pursuant to Section 5.1 and those which are of a promotional nature) and other financial information which the Borrower sends to its

shareholders, and within thirty days after the same are filed, copies of all financial statements and non-confidential reports which the Borrower may make to, or file with the Securities and Exchange Commission or any successor or analogous Governmental Authority;

(d) promptly upon receipt thereof, a copy of any other report or "management letter" submitted by independent accountants to the Borrower or any of its Subsidiaries in connection with any annual, interim or special audit of the books of such Person; and

(e) promptly, such additional financial and other information as the Administrative Agent, on behalf of any Lender, may from time to time reasonably request.

#### SECTION 5.3 PAYMENT OF OBLIGATIONS.

Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, in accordance with industry and historical company practice (subject, where applicable, to specified grace periods) all its material obligations (including, without limitation, all taxes) of whatever nature and any additional costs that are imposed as a result of any failure to so pay, discharge or otherwise satisfy such obligations, except when the amount or validity of such obligations and costs is currently being contested in good faith by appropriate proceedings and reserves, if applicable, in conformity with GAAP with respect thereto have been provided on the books of the Borrower or its Subsidiaries, as the case may be.

#### SECTION 5.4 CONDUCT OF BUSINESS AND MAINTENANCE OF EXISTENCE.

Continue to engage in business of the same general type as now conducted by it on the Closing Date and preserve, renew and keep in full force and effect its existence as a corporation or limited liability company, as applicable, and take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business; comply with all Contractual Obligations and Requirements of Law applicable to it except to the extent that failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

#### SECTION 5.5 MAINTENANCE OF PROPERTY; INSURANCE.

(a) Keep all material property useful and necessary in its business in good working order and condition (ordinary wear and tear and obsolescence excepted); and

(b) Maintain with financially sound and reputable insurance companies (or through self-insurance in accordance with practices customary for companies engaged in the same or a similar business) insurance on all its material property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to the Administrative Agent, upon written request, full information as to the insurance carried;

provided, however, that the Credit Parties may maintain self insurance plans to the extent companies of similar size and in similar businesses do so.

#### SECTION 5.6 INSPECTION OF PROPERTY; BOOKS AND RECORDS; DISCUSSIONS.

Keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its businesses and activities; and permit during regular business hours and upon reasonable notice by the Administrative Agent or any Lender, the Administrative Agent or any Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records (other than materials protected by the attorney-client privilege and materials which the Borrower may not disclose without violation of a confidentiality obligation binding upon it) at any reasonable time and as often as may reasonably be desired, and to discuss the business, operations, properties and financial and other condition of the Credit Parties with officers and employees of the Credit Parties and with its independent certified public accountants. The Administrative Agent and the Lenders shall be solely responsible for all costs and expenses incurred in connection with any such visit, inspection or examination conducted or held other than during the continuance of an Event of Default. The Borrower shall be solely responsible for all costs and expenses incurred in connection with any such visit, inspection or examination conducted or held during the continuance of an Event of Default.

#### SECTION 5.7 NOTICES.

Give notice in writing to the Administrative Agent (which shall promptly transmit such notice to each Lender) of:

(a) promptly, but in any event within two (2) Business Days, after the Borrower has knowledge thereof, the occurrence of any Default or Event of Default;

(b) promptly, any default or event of default under any Contractual Obligation of the Borrower or any of its Subsidiaries which could reasonably be expected to have a Material Adverse Effect;

(c) promptly, any litigation, or any investigation or proceeding (including, without limitation, any governmental or environmental proceeding) known to the Borrower, affecting the Borrower or any of its Subsidiaries which, if adversely determined, could reasonably be expected to have a Material Adverse Effect;

(d) as soon as practicable and in any event within thirty (30) days after the Borrower knows or has reason to know thereof: (i) the occurrence or expected occurrence of any Reportable Event with respect to any Plan, a failure to make any required contribution to a Plan, the creation of any Lien in favor of the PBGC (other than a Permitted Lien) or a Plan or any withdrawal from, or the termination, Reorganization or Insolvency of, any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or

any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Plan; and

(e) promptly, any other development or event which could reasonably be expected to have a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Borrower proposes to take with respect thereto. In the case of any notice of a Default or Event of Default, the Borrower shall specify that such notice is a Default or Event of Default notice on the face thereof.

#### SECTION 5.8 ENVIRONMENTAL LAWS.

(a) Comply in all material respects with, and use reasonable efforts to ensure compliance in all material respects by all tenants and subtenants, if any, with, all applicable Environmental Laws and obtain and comply in all material respects with and maintain, and use reasonable efforts to ensure that all tenants and subtenants obtain and comply in all material respects with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect;

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply in all material respects with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws except to the extent that the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not reasonably be expected to have a Material Adverse Effect; and

(c) Defend, indemnify and hold harmless the Administrative Agent and the Lenders, and their respective employees, agents, officers and directors, from and against any and all claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature arising out of, or in any way relating to the violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the Borrower or any of its Subsidiaries or the Properties, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, reasonable attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the acts or omissions or willful misconduct of the party seeking indemnification therefor. The agreements in this paragraph shall survive repayment of the Notes and all other amounts payable hereunder for a period of five (5) years.

## SECTION 5.9 FINANCIAL COVENANTS.

Commencing on the day immediately following the Closing Date, the Credit Parties shall comply with the following financial covenants:

(a) Leverage Ratio. The Leverage Ratio, as of the last day of each fiscal quarter of the Borrower, shall be less than or equal to 3.0 to 1.0.

(b) Interest and Leases Coverage Ratio. The Interest and Leases Coverage Ratio, as of the last day of each fiscal quarter of the Borrower, shall be greater than or equal to 2.50 to 1.0.

(c) Minimum Consolidated Working Capital. Consolidated Working Capital, as of the last day of each fiscal quarter of the Borrower, shall be greater than or equal \$50,000,000.

## SECTION 5.10 ADDITIONAL SUBSIDIARY GUARANTORS.

The Credit Parties will cause each of their wholly-owned Domestic Subsidiaries which is an operating company, whether newly formed, after acquired or otherwise existing, to promptly become a Guarantor hereunder by way of execution of a Joinder Agreement.

## SECTION 5.11 COMPLIANCE WITH LAW.

Each Credit Party will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders, and all applicable restrictions imposed by all Governmental Authorities, applicable to it and its Property (including, without limitation, all ERISA laws and regulations) if noncompliance with any such law, rule, regulation, order or restriction could reasonably be expected to have a Material Adverse Effect.

## SECTION 5.12 YEAR 2000 COMPLIANCE.

Each Credit Party will promptly notify the Administrative Agent in the event any Credit Party discovers or determines that any computer application (including those of its suppliers, vendors and customers) that is material to its or any of its Subsidiaries' business and operations will not be Year 2000 Compliant, except to the extent that such failure could not reasonably be expected to have a Material Adverse Effect.

## ARTICLE VI

## NEGATIVE COVENANTS

The Credit Parties hereby covenant and agree that on the Closing Date, and thereafter for so long as this Agreement is in effect and until the Commitments have terminated, no Note remains outstanding and unpaid and the Credit Party Obligations, together with interest,

Commitment Fees and all other amounts owing to the Administrative Agent or any Lender hereunder, are paid in full that:

SECTION 6.1 INDEBTEDNESS.

The Credit Parties will not contract, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness arising or existing under this Agreement and the other Credit Documents;

(b) Indebtedness of the Credit Parties existing as of the Closing Date as referenced in the financial statements referenced in Section 3.1 (and set out more specifically in Schedule 6.1(b)) and renewals, refinancings or extensions thereof in a principal amount not in excess of that outstanding as of the date of such renewal, refinancing or extension;

(c) Indebtedness of the Credit Parties incurred after the Closing Date consisting of Capital Leases or Indebtedness incurred to provide all or a portion of the purchase price or cost of construction of an asset provided that (i) such Indebtedness when incurred shall not exceed the purchase price or cost of construction of such asset; (ii) no such Indebtedness shall be refinanced for a principal amount in excess of the principal balance outstanding thereon at the time of such refinancing; and (iii) the total amount of all such Indebtedness shall not exceed \$10,000,000 at any time outstanding;

(d) Unsecured intercompany Indebtedness among the Credit Parties, provided that any such Indebtedness shall be fully subordinated to the Credit Party Obligations hereunder on terms substantially similar to those set forth in Schedule 6.1(d);

(e) Indebtedness and obligations owing under Hedging Agreements relating to the Loans hereunder and other Hedging Agreements entered into in order to manage existing or anticipated interest rate, equity value exchange rate or commodity price risks and not for speculative purposes;

(f) Indebtedness and obligations of Credit Parties owing under documentary letters of credit for the purchase of goods or other merchandise generally (but not under standby, direct pay or other letters of credit except for the Letters of Credit hereunder);

(g) Indebtedness of the Credit Parties in respect of Guaranty Obligations incurred after the Closing Date guarantying loans having maturities not exceeding one year of BFD Licensees incurred to finance the acquisition of real property and/or construction of improvements on real property to be used in the business of the BFD Licensees as such in an aggregate amount not to exceed \$10,000,000 at any time outstanding;



(h) Indebtedness of the Credit Parties in respect of Guaranty Obligations guarantying loans of BFD Licensees incurred to finance working capital needs in an aggregate amount not to exceed \$15,000,000 at any time outstanding;

(i) Indebtedness incurred in connection with any securitization, synthetic lease, tax retention operating lease, off-balance sheet loan or other similar off-balance sheet financing product in an aggregate amount not to exceed \$30,000,000 at any time outstanding and containing terms and conditions reasonably satisfactory to the Agent; and

(j) other unsecured Indebtedness of the Credit Parties which does not exceed \$10,000,000 in the aggregate at any time outstanding, provided such Indebtedness contains covenants no more restrictive than those contained in this Credit Agreement.

#### SECTION 6.2 LIENS.

The Borrower will not, nor will it permit any Subsidiary to, contract, create, incur, assume or permit to exist any Lien with respect to any of its property or assets of any kind (whether real or personal, tangible or intangible), whether now owned or hereafter acquired, except for Permitted Liens.

#### SECTION 6.3 NATURE OF BUSINESS.

The Borrower will not, nor will it permit any Subsidiary to, alter the character of its business in any material respect from that conducted as of the Closing Date.

#### SECTION 6.4 CONSOLIDATION, MERGER, SALE OR PURCHASE OF ASSETS, ETC.

The Borrower will not, nor will it permit any Subsidiary to,

(a) dissolve, liquidate or wind up its affairs, sell, transfer, lease or otherwise dispose of its property or assets or agree to do so at a future time except the following, without duplication, shall be expressly permitted:

(i) Specified Sales; and

(ii) the sale, transfer, lease or other disposition of property or assets (a) to an unrelated party not in the ordinary course of business (other than Specified Sales), where and to the extent that they are the result of a Recovery Event or (b) the sale, lease, transfer or other disposition of property or assets no longer used or useful in the conduct of the business of the Borrower or any of its Subsidiaries, as appropriate in its reasonable discretion, so long as the net cash proceeds from such sale, lease, transfer or other disposition are used by the Borrower or such Subsidiary to (A) acquire replacement property or assets of a similar character within 90 days after receipt of such net cash proceeds or (B) prepay the Loans

hereunder, with a corresponding permanent reduction in the Revolving Committed Amount in the amount of such prepayment;

(iii) (A) the sale, lease or transfer of property or assets among the Credit Parties (at fair value) or from Subsidiaries which are not Credit Parties to Credit Parties (at not more than fair value), and (B) the sale, lease or transfer of real property or non-operating assets (at fair value) among the Credit Parties and their Subsidiaries which are not Credit Parties;

(iv) the sale or lease of real property and improvements thereon to a BFD Licensee and the sale to any other Person of real property, fixtures and improvements thereon leased or to be leased by a BFD Licensee, provided that such sale or lease is at fair market value and the property is or will be used in the conduct of the BFD Licensee's business as such; and

(v) the sale, lease or transfer of property or assets not to exceed \$10,000,000 in the aggregate in any fiscal year;

provided, that with respect to subclauses (ii) and (iv) above, at least 75% of the aggregate consideration received therefor by the Borrower or any such Subsidiary is in the form of cash or Cash Equivalents; or

(b) (i) purchase, lease or otherwise acquire (in a single transaction or a series of related transactions) the property or assets of any Person (other than (A) purchases, leases or other acquisitions of property or assets in the ordinary course of business, except as otherwise limited or prohibited herein, (B) in connection with transactions permitted by Section 6.4(a) (iii) and (C) transactions permitted by Section 6.5); provided that so long as no Default or Event of Default shall have occurred and be continuing or would result therefrom, the Borrower may acquire Capital Stock or other ownership interest in any Person (in a similar or complementary line of business) or any or all of the assets, property and/or operations of a Person (in a similar or complementary line of business) in an aggregate amount not to exceed \$20,000,000 in any fiscal year; provided, that (A) such acquisition is not hostile in nature and (B) immediately before and after giving effect to any such acquisition, the Borrower can demonstrate to the Administrative Agent pro forma compliance with all provisions of this Agreement, or (ii) enter into any transaction of merger or consolidation, except for (A) investments or acquisitions permitted pursuant to Section 6.5, (B) the merger or consolidation of a Subsidiary with and into a Credit Party, provided that such Credit Party will be the surviving corporation and if the Borrower is a party thereto, the Borrower will be the surviving corporation, (C) the merger of another Person into a Credit Party in a transaction in which the Credit Party is the surviving corporation in a transaction otherwise permitted by clause (b) (i) above and (D) the merger or consolidation of a Subsidiary (other than a Credit Party) into or with another Person in a transaction otherwise permitted by clause (b) (i) above if the Borrower determines in good faith that such merger or consolidation is in the best interests of the Borrower and is not materially disadvantageous to the Lenders.

## SECTION 6.5 ADVANCES, INVESTMENTS AND LOANS.

The Borrower will not, nor will it permit any Subsidiary to, lend money or extend credit or make advances to any Person, or purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any Person except for Permitted Investments.

## SECTION 6.6 TRANSACTIONS WITH AFFILIATES.

Except as permitted in subsection (iv) of the definition of Permitted Investments, The Borrower will not, nor will it permit any Subsidiary to, enter into any transaction or series of transactions, whether or not in the ordinary course of business, with any officer, director, shareholder or Affiliate other than on terms and conditions substantially as favorable as would be obtainable in a comparable arm's-length transaction with a Person other than an officer, director, shareholder or Affiliate.

## SECTION 6.7 OWNERSHIP OF SUBSIDIARIES; RESTRICTIONS.

The Borrower will not sell, transfer, pledge or otherwise dispose of any Capital Stock or other equity interests in any of its Subsidiaries, nor will it permit any of its Subsidiaries to issue, sell, transfer, pledge or otherwise dispose of any of their Capital Stock or other equity interests, except in a transaction permitted by Section 6.4.

## SECTION 6.8 FISCAL YEAR; ORGANIZATIONAL DOCUMENTS; MATERIAL CONTRACTS.

The Borrower will not, nor will it permit any of its Subsidiaries to, change its fiscal year. The Borrower will not, nor will it permit any Subsidiary to, amend, modify or change its limited liability company operating agreement or articles of incorporation, as applicable (or corporate charter or other similar organizational document) or bylaws (or other similar document) in a manner materially adverse to the Lenders without the prior written consent of the Required Lenders. The Borrower will not, nor will it permit any of its Subsidiaries to, without the prior written consent of the Administrative Agent, amend, modify, cancel or terminate any of the Material Contracts, except in the event that such amendments, modifications, cancellations or terminations could not reasonably be expected to have a Material Adverse Effect.

## SECTION 6.9 LIMITATION ON RESTRICTED ACTIONS.

The Borrower will not, nor will it permit any Subsidiary to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Person to (a) pay dividends or make any other distributions to the Borrower or any Subsidiary on its Capital Stock or with respect to any other interest or participation in, or measured by, its profits, (b) pay any Indebtedness or other obligation owed to the Borrower or any Subsidiary, (c) make loans or advances to the Borrower or any Subsidiary, (d) sell, lease or transfer any of its properties or assets to the Borrower or any Subsidiary, or (e) act as a Guarantor and pledge its assets pursuant to the Credit Documents or any renewals, refinancings, exchanges, refundings or extension thereof, except (in respect of any of the matters referred to in

clauses (a)-(d) above) for such encumbrances or restrictions existing under or by reason of (i) this Agreement and the other Credit Documents, (ii) applicable law, (iii) any document or instrument governing Indebtedness incurred pursuant to Section 6.1(c), provided that any such restriction contained therein relates only to the asset or assets constructed or acquired in connection therewith or (iv) any Permitted Lien or any document or instrument governing any Permitted Lien, provided that any such restriction contained therein relates only to the asset or assets subject to such Permitted Lien.

#### SECTION 6.10 RESTRICTED PAYMENTS.

The Borrower will not, nor will it permit any Subsidiary to, directly or indirectly, declare, order, make or set apart any sum for or pay any Restricted Payment, except (a) to make dividends payable solely in the same class of Capital Stock of such Person or (b) to make dividends or other distributions payable in whole or in part to the Borrower or any Subsidiary (directly or indirectly through Subsidiaries); provided, however, so long as no Default or Event of Default would exist after giving pro forma effect to such transaction, (i) during any fiscal year, the Borrower may make cash dividend payments to the holders of shares of its outstanding Capital Stock not to exceed an aggregate annual amount equal to 100% of Consolidated Net Income for such fiscal year and (ii) the Borrower may repurchase outstanding shares of its Capital Stock for an aggregate purchase price not to exceed \$45,000,000 during the term of this Agreement.

#### SECTION 6.11 PREPAYMENTS OF INDEBTEDNESS, ETC.

The Borrower will not, nor will it permit any Subsidiary to (a) after the occurrence and during the continuance of an Event of Default, amend or modify (or permit the amendment or modification of) any of the terms of any Indebtedness if such amendment or modification would add or change any terms in a manner adverse to the issuer of such Indebtedness, or shorten the final maturity or average life to maturity or require any payment to be made sooner than originally scheduled or increase the interest rate applicable thereto or (b) change any subordination provision of any Indebtedness.

#### SECTION 6.12 SALE LEASEBACKS.

The Borrower will not, nor will it permit any Subsidiary to, directly or indirectly, become or remain liable as lessee or as guarantor or other surety with respect to any lease, whether an operating lease or a Capital Lease, of any property (whether real, personal or mixed), whether now owned or hereafter acquired requiring rental payments in excess of \$5,000,000 in the aggregate on an annual basis, (a) which the Borrower or any Subsidiary has sold or transferred or is to sell or transfer to a Person which is not the Borrower or any Subsidiary or (b) which the Borrower or any Subsidiary intends to use for substantially the same purpose as any other property which has been sold or is to be sold or transferred by the Borrower or any Subsidiary to another Person which is not the Borrower or any Subsidiary in connection with such lease.

## SECTION 6.13 NO FURTHER NEGATIVE PLEDGES.

The Borrower will not, nor will it permit any Subsidiary to, enter into, assume or become subject to any agreement prohibiting or otherwise restricting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired, or requiring the grant of any security for such obligation if security is given for some other obligation, except (a) pursuant to this Agreement and the other Credit Documents, (b) pursuant to any document or instrument governing Indebtedness incurred pursuant to Section 6.1(c) or any similar type of Funded Debt incurred by a Subsidiary which is not a Guarantor, provided that any such restriction contained therein relates only to the asset or assets constructed or acquired in connection therewith and (c) in connection with any Permitted Lien or any document or instrument governing any Permitted Lien, provided that any such restriction contained therein relates only to the asset or assets subject to such Permitted Lien.

## ARTICLE VII

## EVENTS OF DEFAULT

## SECTION 7.1 EVENTS OF DEFAULT.

An Event of Default shall exist upon the occurrence of any of the following specified events (each an "Event of Default"):

(a) The Borrower shall fail to pay any principal on any Note when due in accordance with the terms thereof or hereof; or the Borrower shall fail to reimburse the Issuing Lender for any LOC Obligations when due in accordance with the terms hereof; or the Borrower shall fail to pay any interest on any Note or any fee or other amount payable hereunder when due in accordance with the terms thereof or hereof and such failure shall continue unremedied for five (5) Business Days (or any Guarantor shall fail to pay on the Guaranty in respect of any of the foregoing or in respect of any other Guaranty Obligations thereunder); or

(b) Any representation or warranty made or deemed made herein or in any of the other Credit Documents or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement shall prove to have been incorrect, false or misleading in any material respect on or as of the date made or deemed made; or

(c) (i) Any Credit Party shall fail to perform, comply with or observe any term, covenant or agreement applicable to it contained in Section 5.7(a), Section 5.9 or Article VI hereof ; or (ii) any Credit Party shall fail to comply with any other covenant, contained in this Credit Agreement or the other Credit Documents or any other agreement, document or instrument among any Credit Party, the Administrative Agent and the Lenders or executed by any Credit Party in favor of the Administrative Agent or the Lenders (other than as described in Sections 7.1(a) or 7.1(c)(i) above), and in the

event such breach or failure to comply is capable of cure, is not cured within thirty (30) days of any Credit Party becoming aware of its occurrence; or

(d) The Borrower or any of its Subsidiaries shall (i) default in any payment of principal of or interest on any Indebtedness (other than the Notes) in a principal amount outstanding of at least \$5,000,000 in the aggregate for the Borrower and any of its Subsidiaries beyond the period of grace (not to exceed 30 days), if any, provided in the instrument or agreement under which such Indebtedness was created; or (ii) default in the observance or performance of any other agreement or condition relating to any Indebtedness in a principal amount outstanding of at least \$5,000,000 in the aggregate for the Borrower or any of its Subsidiaries or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Indebtedness (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity; or

(e) (i) The Borrower or any of its Subsidiaries shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Borrower or any Subsidiary shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any Subsidiary any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against the Borrower or any Subsidiary any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the Borrower or any Subsidiary shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower or any Subsidiary shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(f) One or more judgments or decrees shall be entered against the Borrower or any of its Subsidiaries involving in the aggregate a liability (to the extent not paid when due or covered by insurance) of \$5,000,000 or more and all such judgments or decrees shall not have been paid and satisfied, vacated, discharged, stayed or bonded pending appeal within 10 Business Days from the entry thereof; or

(g) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) for which no exemption exists under Section 408 of ERISA or Section 4975(c)(2) or (d) if the Code involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan (other than a Permitted Lien) shall arise on the assets of the Borrower or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a Trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Borrower, any of its Subsidiaries or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, any Multiemployer Plan or (vi) any other similar event or condition shall occur or exist with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could have a Material Adverse Effect; or

(h) There shall occur a Change of Control; or

(i) The Guaranty or any provision thereof shall cease to be in full force and effect or any Guarantor or any Person acting by or on behalf of any Guarantor shall deny or disaffirm any Guarantor's obligations under the Guaranty; or

(j) Any other Credit Document shall fail to be in full force and effect or to give the Administrative Agent and/or the Lenders the security interests, liens, rights, powers and privileges purported to be created thereby (except as such documents may be terminated or no longer in force and effect in accordance with the terms thereof, other than those indemnities and provisions which by their terms shall survive).

#### SECTION 7.2 ACCELERATION; REMEDIES.

Upon the occurrence of an Event of Default, then, and in any such event, (a) if such event is an Event of Default specified in Section 7.1(e) above, automatically the Commitments shall immediately terminate and the Loans (with accrued interest thereon), and all other amounts under the Credit Documents (including without limitation the maximum amount of all contingent liabilities under Letters of Credit) shall immediately become due and payable, and (b) if such event is any other Event of Default, either or both of the following actions may be taken: (i) the Administrative Agent may, or upon the written request of the Required Lenders, the Administrative Agent shall, by notice to the Borrower declare the Commitments to be terminated forthwith, whereupon the Commitments shall immediately terminate; and (ii) the Administrative Agent may, or upon the written request of the Required Lenders, the Administrative Agent shall, by notice of default to the Borrower, declare the Loans (with accrued interest thereon) and all

other amounts owing under this Agreement and the Notes to be due and payable forthwith, whereupon the same shall become immediately due and payable, and direct the Borrower to pay to the Administrative Agent cash collateral as security for the LOC Obligations for subsequent drawings under then outstanding Letters of Credit in an amount equal to the maximum amount which may be drawn under Letters of Credit then outstanding.

## ARTICLE VIII

### THE AGENT

#### SECTION 8.1 APPOINTMENT.

Each Lender hereby irrevocably designates and appoints First Union National Bank as the Administrative Agent of such Lender under this Agreement, and each such Lender irrevocably authorizes First Union National Bank, as the Administrative Agent for such Lender, to take such action on its behalf under the provisions of this Agreement and to exercise such powers and perform such duties as are expressly delegated to the Administrative Agent by the terms of this Agreement, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Administrative Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent.

#### SECTION 8.2 DELEGATION OF DUTIES.

The Administrative Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Administrative Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care. Without limiting the foregoing, the Administrative Agent may appoint one of its affiliates as its agent to perform the functions of the Administrative Agent hereunder relating to the advancing of funds to the Borrower and distribution of funds to the Lenders and to perform such other related functions of the Administrative Agent hereunder as are reasonably incidental to such functions.

#### SECTION 8.3 EXCULPATORY PROVISIONS.

Neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement (except for its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in



connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of any of the Credit Documents or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Administrative Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance by the Borrower of any of the agreements contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Borrower.

#### SECTION 8.4 RELIANCE BY ADMINISTRATIVE AGENT.

The Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it in good faith to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Administrative Agent. The Administrative Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless (a) a written notice of assignment, negotiation or transfer thereof shall have been filed with the Administrative Agent and (b) the Administrative Agent shall have received the written agreement of such assignee to be bound hereby as fully and to the same extent as if such assignee were an original Lender party hereto, in each case in form satisfactory to the Administrative Agent. The Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under any of the Credit Documents in accordance with a request of the Required Lenders or all of the Lenders, as may be required under this Agreement, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Notes.

#### SECTION 8.5 NOTICE OF DEFAULT.

The Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Administrative Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating on the face thereof that such notice is a "notice of default". In the event that the Administrative Agent receives such a notice, the Administrative Agent shall give prompt notice thereof to the Lenders. The Administrative Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Required Lenders; provided, however, that unless and until the Administrative Agent shall have received such directions, the Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders except to the extent that this Credit Agreement expressly requires that such action be taken, or not taken, only with the consent or upon the authorization of the Required Lenders, or all of the Lenders, as the case may be.

## SECTION 8.6 NON-RELIANCE ON ADMINISTRATIVE AGENT AND OTHER LENDERS.

Each Lender expressly acknowledges that neither the Administrative Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representation or warranty to it and that no act by the Administrative Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Administrative Agent to any Lender. Each Lender represents to the Administrative Agent that it has, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon the Administrative Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Administrative Agent hereunder, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Administrative Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

## SECTION 8.7 INDEMNIFICATION.

The Lenders agree to indemnify the Administrative Agent in its capacity hereunder (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their respective Commitment Percentages in effect on the date on which indemnification is sought under this Section, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against the Administrative Agent in any way relating to or arising out of any Credit Document or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Administrative Agent under or in connection with any of the foregoing; provided, however, that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements to the extent resulting from the Administrative Agent's gross negligence or willful misconduct, as determined by a court of competent jurisdiction. The agreements in this Section 8.7 shall survive the termination of this Agreement and payment of the Notes and all other amounts payable hereunder.

## SECTION 8.8 ADMINISTRATIVE AGENT IN ITS INDIVIDUAL CAPACITY.

The Administrative Agent and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though the Administrative Agent were not the Administrative Agent hereunder. With respect to its Loans made or renewed by it and any Note issued to it, the Administrative Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not the Administrative Agent, and the terms "Lender" and "Lenders" shall include the Administrative Agent in its individual capacity.

## SECTION 8.9 SUCCESSOR ADMINISTRATIVE AGENT.

The Administrative Agent may resign as Administrative Agent upon 30 days' prior notice to the Borrower and the Lenders. If the Administrative Agent shall resign as Administrative Agent under this Agreement and the Notes, then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall be approved by the Borrower, whereupon such successor agent shall succeed to the rights, powers and duties of the Administrative Agent, and the term "Administrative Agent" shall mean such successor agent effective upon such appointment and approval, and the former Administrative Agent's rights, powers and duties as Administrative Agent shall be terminated, without any other or further act or deed on the part of such former Administrative Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Administrative Agent's resignation as Administrative Agent, the provisions of this Section 8.9 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

## ARTICLE IX

## MISCELLANEOUS

## SECTION 9.1 AMENDMENTS AND WAIVERS.

Neither this Agreement, nor any of the Notes, nor any of the other Credit Documents, nor any terms hereof or thereof may be amended, supplemented, waived or modified except in accordance with the provisions of this Section nor may be released except as specifically provided herein or in accordance with the provisions of this Section 9.1. The Required Lenders may, or, with the written consent of the Required Lenders, the Administrative Agent may, from time to time, (a) enter into with the Borrower written amendments, supplements or modifications hereto and to the other Credit Documents for the purpose of adding any provisions to this Agreement or the other Credit Documents or changing in any manner the rights of the Lenders or of the Borrower hereunder or thereunder or (b) waive, on such terms and conditions as the Required Lenders may specify in such instrument, any of the requirements of this Agreement or the other Credit Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, waiver, supplement, modification or release shall:

(i) reduce the amount or extend the scheduled date of maturity of any Loan or Note or any installment thereon, or reduce the stated rate of any interest or fee payable hereunder (other than interest at the increased post-default rate) or extend the scheduled date of any payment thereof or increase the amount or extend the expiration date of any Lender's Commitment, in each case without the written consent of each Lender directly affected thereby, or

(ii) amend, modify or waive any provision of this Section 9.1 or reduce the percentage specified in the definition of Required Lenders, without the written consent of all the Lenders, or

(iii) amend, modify or waive any provision of Article VIII without the written consent of the then Administrative Agent, or

(iv) release any of the Guarantors from their obligations under the Guaranty, without the written consent of all of the Lenders, or

(v) amend, modify or waive any provision of the Credit Documents requiring consent, approval or request of the Required Lenders or all Lenders, without the written consent of all of the Required Lenders or Lenders as appropriate and, provided, further, that no amendment, waiver or consent affecting the rights or duties of the Administrative Agent or the Issuing Lender under any Credit Document shall in any event be effective, unless in writing and signed by the Administrative Agent and/or the Issuing Lender, as applicable, in addition to the Lenders required hereinabove to take such action.

Any such waiver, any such amendment, supplement or modification and any such release shall apply equally to each of the Lenders and shall be binding upon the Borrower, the other Credit Parties, the Lenders, the Administrative Agent and all future holders of the Notes. In the case of any waiver, the Borrower, the other Credit Parties, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the outstanding Loans and Notes and other Credit Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

Notwithstanding any of the foregoing to the contrary, the consent of the Borrower shall not be required for any amendment, modification or waiver of the provisions of Article VIII (other than the provisions of Section 8.9); provided, however, that the Administrative Agent will provide written notice to the Borrower of any such amendment, modification or waiver. In addition, the Borrower and the Lenders hereby authorize the Administrative Agent to modify this Credit Agreement by unilaterally amending or supplementing Schedule 2.1(a) from time to time in the manner requested by the Borrower, the Administrative Agent or any Lender in order to reflect any assignments or transfers of the Loans as provided for hereunder; provided, however, that the Administrative Agent shall promptly deliver a copy of any such modification to the Borrower and each Lender.

Notwithstanding the fact that the consent of all the Lenders is required in certain circumstances as set forth above, (x) each Lender is entitled to vote as such Lender sees fit on any bankruptcy reorganization plan that affects the Loans, and each Lender acknowledges that the provisions of Section 1126(c) of the Bankruptcy Code supersede the unanimous consent provisions set forth herein and (y) the Required Lenders may consent to allow a Credit Party to use cash collateral in the context of a bankruptcy or insolvency proceeding.

#### SECTION 9.2 NOTICES.

Except as otherwise provided in Article II, all notices, requests and demands to or upon the respective parties hereto to be effective shall be in writing (including by telecopy), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made (a) when delivered by hand, (b) when transmitted via telecopy (or other facsimile device) to the number set out herein, (c) the day following the day on which the same has been delivered prepaid to a reputable national overnight air courier service, or (d) the third Business Day following the day on which the same is sent by certified or registered mail, postage prepaid, in each case, addressed to each such party at the address set forth on Schedule 9.2, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes.

#### SECTION 9.3 NO WAIVER; CUMULATIVE REMEDIES.

No failure to exercise and no delay in exercising, on the part of the Administrative Agent or any Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

#### SECTION 9.4 SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

All representations and warranties made hereunder and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes and the making of the Loans, provided that all such representations and warranties shall terminate on the date upon which the Commitments have been terminated and all amounts owing hereunder and under any Notes have been paid in full.

#### SECTION 9.5 PAYMENT OF EXPENSES AND TAXES.

The Borrower agrees (a) to pay or reimburse the Administrative Agent for all its reasonable out-of-pocket costs and expenses incurred in connection with the development, preparation, negotiation, printing and execution of, and any amendment, supplement or modification to, this Agreement and the other Credit Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, together with the reasonable fees and disbursements of counsel to the Administrative Agent, (b) to pay or reimburse each Lender and

the Administrative Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under, or defense against any actions arising out of, this Agreement, the Notes and any such other documents, including, without limitation, the reasonable fees and disbursements of counsel to the Administrative Agent and to the Lenders (including reasonable allocated costs of in-house legal counsel), and (c) on demand, to pay, indemnify, and hold each Lender and the Administrative Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other similar taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, the Credit Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and the Administrative Agent and their Affiliates harmless from and against, any and all other liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of the Credit Documents and any such other documents and the use, or proposed use, of proceeds of the Loans (all of the foregoing, collectively, the "indemnified liabilities"); provided, however, that the Borrower shall not have any obligation hereunder to the Administrative Agent or any Lender with respect to indemnified liabilities arising from the gross negligence or willful misconduct of the Administrative Agent or any such Lender. The agreements in this Section 9.5 shall survive repayment of the Loans, Notes and all other amounts payable hereunder.

SECTION 9.6 SUCCESSORS AND ASSIGNS; PARTICIPATIONS; PURCHASING LENDERS.

(a) This Agreement shall be binding upon and inure to the benefit of the Borrower, the Lenders, the Administrative Agent, all future holders of the Notes and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement or the other Credit Documents without the prior written consent of each Lender.

(b) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender, or any other interest of such Lender hereunder. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Note for all purposes under this Agreement, and the Borrower and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. No Lender shall transfer or grant any participation under which the Participant shall have rights to approve any amendment to or waiver of this Agreement or any other Credit Document except to the extent such amendment or waiver would (i) extend the scheduled maturity of any Loan or Note or any installment thereon in which such Participant is participating, or reduce the stated

rate or extend the time of payment of interest or fees thereon (except in connection with a waiver of interest at the increased post-default rate) or reduce the principal amount thereof, or increase the amount of the Participant's participation over the amount thereof then in effect (it being understood that a waiver of any Default or Event of Default shall not constitute a change in the terms of such participation, and that an increase in any Commitment or Loan shall be permitted without consent of any participant if the Participant's participation is not increased as a result thereof), (ii) release any of the Guarantors from their obligations under the Guaranty or (iii) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement. In the case of any such participation, the Participant shall not have any rights under this Agreement or any of the other Credit Documents (the Participant's rights against such Lender in respect of such participation to be those set forth in the agreement executed by such Lender in favor of the Participant relating thereto) and all amounts payable by the Borrower hereunder shall be determined as if such Lender had not sold such participation, provided that each Participant shall be entitled to the benefits of Sections 2.14, 2.15, 2.16 and 9.5 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such Sections than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant had no such transfer occurred.

(c) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time, sell or assign to any Lender or any affiliate thereof and with the consent of the Administrative Agent and, so long as no Default or Event of Default has occurred and is continuing, the Borrower (in each case, which consent shall not be unreasonably withheld), to one or more additional banks or financial institutions ("Purchasing Lenders"), all or any part of its rights and obligations under this Agreement and the Notes in minimum amounts of \$5,000,000 with respect to its Revolving Commitment and its Loans (or, if less, the entire amount of such Lender's obligations), pursuant to a Commitment Transfer Supplement, executed by such Purchasing Lender and such transferor Lender (and, in the case of a Purchasing Lender that is not then a Lender or an affiliate thereof, the Administrative Agent and, so long as no Default or Event of Default has occurred and is continuing, the Borrower), and delivered to the Administrative Agent for its acceptance and recording in the Register; provided, however, that any sale or assignment to an existing Lender shall not require the consent of the Administrative Agent or the Borrower nor shall any such sale or assignment be subject to the minimum assignment amounts specified herein. Upon such execution, delivery, acceptance and recording, from and after the Transfer Effective Date specified in such Commitment Transfer Supplement, (x) the Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of a Lender hereunder with a Commitment as set forth therein, and (y) the transferor Lender thereunder shall, to the extent provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement (and, in the case of a Commitment Transfer Supplement covering all or the remaining portion of a transferor Lender's rights and obligations under this Agreement, such transferor Lender shall cease to be a party

hereto). Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Notes. On or prior to the Transfer Effective Date specified in such Commitment Transfer Supplement, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the Notes delivered to the Administrative Agent pursuant to such Commitment Transfer Supplement new Notes to the order of such Purchasing Lender in an amount equal to the Commitment assumed by it pursuant to such Commitment Transfer Supplement and, unless the transferor Lender has not retained a Commitment hereunder, new Notes to the order of the transferor Lender in an amount equal to the Commitment retained by it hereunder. Such new Notes shall be dated the Closing Date and shall otherwise be in the form of the Notes replaced thereby. The Notes surrendered by the transferor Lender shall be returned by the Administrative Agent to the Borrower marked "canceled".

(d) The Administrative Agent shall maintain at its address referred to in Section 9.2 a copy of each Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as the owner of the Loan recorded therein for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly executed Commitment Transfer Supplement, together with payment to the Administrative Agent by the transferor Lender or the Purchasing Lender, as agreed between them, of a registration and processing fee of \$3,000 for each Purchasing Lender listed in such Commitment Transfer Supplement and the Notes subject to such Commitment Transfer Supplement, the Administrative Agent shall (i) accept such Commitment Transfer Supplement, (ii) record the information contained therein in the Register and (iii) give prompt notice of such acceptance and recordation to the Lenders and the Borrower.

(f) The Borrower authorizes each Lender to disclose to any Participant or Purchasing Lender (each, a "Transferee") and any prospective Transferee any and all financial information in such Lender's possession concerning the Borrower and its Affiliates which has been delivered to such Lender by or on behalf of the Borrower pursuant to this Agreement or which has been delivered to such Lender by or on behalf of the Borrower in connection with such Lender's credit evaluation of the Borrower and its Affiliates prior to becoming a party to this Agreement, in each case subject to Section 9.16.



(g) At the time of each assignment pursuant to this Section 9.6 to a Person which is not already a Lender hereunder and which is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) for Federal income tax purposes, the respective assignee Lender shall provide to the Borrower and the Administrative Agent the appropriate Internal Revenue Service Forms (and, if applicable, a 2.16 Certificate) described in Section 2.16.

(h) Nothing herein shall prohibit any Lender from pledging or assigning any of its rights under this Agreement (including, without limitation, any right to payment of principal and interest under any Note) to any Federal Reserve Bank in accordance with applicable laws.

#### SECTION 9.7 ADJUSTMENTS; SET-OFF.

(a) Each Lender agrees that if any Lender (a "benefited Lender") shall at any time receive any payment of all or part of its Loans, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 7.1(e), or otherwise) in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's Loans, or interest thereon, such benefited Lender shall purchase for cash from the other Lenders a participating interest in such portion of each such other Lender's Loan, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefited Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefited Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that each Lender so purchasing a portion of another Lender's Loans may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(b) In addition to any rights and remedies of the Lenders provided by law (including, without limitation, other rights of set-off), each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon the occurrence of any Event of Default, to setoff and appropriate and apply any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of the Borrower, or any part thereof in such amounts as such Lender may elect, against and on account of the obligations and liabilities of the Borrower to such Lender hereunder and claims of every nature and description of such Lender against the Borrower, in any currency, whether arising hereunder, under the Notes or under any documents contemplated by or referred to herein or therein, as such Lender may elect, whether or not such Lender has made any demand

for payment and although such obligations, liabilities and claims may be contingent or unmatured. The aforesaid right of set-off may be exercised by such Lender against the Borrower or against any trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver or execution, judgment or attachment creditor of the Borrower, or against anyone else claiming through or against the Borrower or any such trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, receiver, or execution, judgment or attachment creditor, notwithstanding the fact that such right of set-off shall not have been exercised by such Lender prior to the occurrence of any Event of Default. Each Lender agrees promptly to notify the Borrower and the Administrative Agent after any such set-off and application made by such Lender; provided, however, that the failure to give such notice shall not affect the validity of such set-off and application.

#### SECTION 9.8 TABLE OF CONTENTS AND SECTION HEADINGS.

The table of contents and the Section and subsection headings herein are intended for convenience only and shall be ignored in construing this Agreement.

#### SECTION 9.9 COUNTERPARTS.

This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent.

#### SECTION 9.10 EFFECTIVENESS.

This Credit Agreement shall become effective on the date on which all of the parties have signed a copy hereof (whether the same or different copies) and shall have delivered the same to the Administrative Agent pursuant to Section 9.2 or, in the case of the Lenders, shall have given to the Administrative Agent written, telecopied or telex notice (actually received) at such office that the same has been signed and mailed to it.

#### SECTION 9.11 SEVERABILITY.

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

#### SECTION 9.12 INTEGRATION.

This Agreement and the Notes represent the agreement of the Borrower, the Administrative Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Administrative Agent, the Borrower

or any Lender relative to the subject matter hereof not expressly set forth or referred to herein or in the Notes.

#### SECTION 9.13 GOVERNING LAW.

This Agreement and the Notes and the rights and obligations of the parties under this Agreement and the Notes shall be governed by, and construed and interpreted in accordance with, the law of the State of North Carolina.

#### SECTION 9.14 CONSENT TO JURISDICTION AND SERVICE OF PROCESS.

All judicial proceedings brought against the Borrower and/or any other Credit Party with respect to this Agreement, any Note or any of the other Credit Documents may be brought in any state or federal court of competent jurisdiction in the State of North Carolina, and, by execution and delivery of this Agreement, each of the Borrower and the other Credit Parties accepts, for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction of the aforesaid courts and irrevocably agrees to be bound by any final judgment rendered thereby in connection with this Agreement from which no appeal has been taken or is available. Each of the Borrower and the other Credit Parties irrevocably agrees that all service of process in any such proceedings in any such court may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to it at its address set forth in Section 9.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto, such service being hereby acknowledged by the each of the Borrower and the other Credit Parties to be effective and binding service in every respect. Each of the Borrower, the other Credit Parties, the Administrative Agent and the Lenders irrevocably waives any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens which it may now or hereafter have to the bringing of any such action or proceeding in any such jurisdiction. Nothing herein shall affect the right to serve process in any other manner permitted by law or shall limit the right of any Lender to bring proceedings against the Borrower or the other Credit Parties in the court of any other jurisdiction.

#### SECTION 9.15 ARBITRATION.

(a) Notwithstanding the provisions of Section 9.14 to the contrary, upon demand of any party hereto, whether made before or within three (3) months after institution of any judicial proceeding, any dispute, claim or controversy arising out of, connected with or relating to this Agreement and other Credit Documents ("Disputes") between or among parties to this Agreement shall be resolved by binding arbitration as provided herein. Institution of a judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include, without limitation, tort claims, counterclaims, disputes as to whether a matter is subject to arbitration, claims brought as class actions, claims arising from Credit Documents executed in the future, or claims arising out of or connected with the transaction reflected by this Agreement.

Arbitration shall be conducted under and governed by the Commercial Arbitration Rules (the "Arbitration Rules") of the American Arbitration Association (the "AAA") and

Title 9 of the U.S. Code. All arbitration hearings shall be conducted in Charlotte, North Carolina. A hearing shall begin within 90 days of demand for arbitration and all hearings shall be concluded within 120 days of demand for arbitration. These time limitations may not be extended unless a party shows cause for extension and then no more than a total extension of 60 days. The expedited procedures set forth in Rule 51 et seq. of the Arbitration Rules shall be applicable to claims of less than \$1,000,000. All applicable statutes of limitation shall apply to any Dispute. A judgment upon the award may be entered in any court having jurisdiction. Arbitrators shall be licensed attorneys selected from the Commercial Financial Dispute Arbitration Panel of the AAA. The parties hereto do not waive applicable Federal or state substantive law except as provided herein. Notwithstanding the foregoing, this arbitration provision does not apply to disputes under or related to Hedging Agreements.

(b) Notwithstanding the preceding binding arbitration provisions, the Administrative Agent, the Lenders, the Borrower and the other Credit Parties agree to preserve, without diminution, certain remedies that the Administrative Agent on behalf of the Lenders may employ or exercise freely, independently or in connection with an arbitration proceeding or after an arbitration action is brought. The Administrative Agent on behalf of the Lenders shall have the right to proceed in any court of proper jurisdiction or by self-help to exercise or prosecute the following remedies, as applicable (i) all rights to foreclose against any real or personal property or other security by exercising a power of sale granted under Credit Documents or under applicable law or by judicial foreclosure and sale, including a proceeding to confirm the sale; (ii) all rights of self-help including peaceful occupation of real property and collection of rents, set-off, and peaceful possession of personal property; (iii) obtaining provisional or ancillary remedies including injunctive relief, sequestration, garnishment, attachment, appointment of receiver and filing an involuntary bankruptcy proceeding; and (iv) when applicable, a judgment by confession of judgment. Preservation of these remedies does not limit the power of an arbitrator to grant similar remedies that may be requested by a party in a Dispute.

(c) The parties hereto agree that they shall not have a remedy of punitive or exemplary damages against the other in any Dispute and hereby waive any right or claim to punitive or exemplary damages they have now or which may arise in the future in connection with any Dispute whether the Dispute is resolved by arbitration or judicially.

(d) By execution and delivery of this Agreement, each of the parties hereto accepts, for itself and in connection with its properties, generally and unconditionally, the non-exclusive jurisdiction relating to any arbitration proceedings conducted under the Arbitration Rules in Charlotte, North Carolina and irrevocably agrees to be bound by any final judgment rendered thereby in connection with this Agreement from which no appeal has been taken or is available.

## SECTION 9.16 CONFIDENTIALITY.

The Administrative Agent and each of the Lenders agrees not to disclose without the prior consent of the Borrower (other than to its employees, affiliates, auditors or counsel or to another Lender) any information with respect to the Credit Parties which is furnished pursuant to this Agreement, any other Credit Document or any documents contemplated by or referred to herein or therein and which is designated by the Borrower to the Lenders in writing as confidential or as to which it is otherwise reasonably clear such information is not public, except that any Lender may disclose any such information (a) as has become generally available to the public other than by a breach of this Section 9.16, (b) as may be required or appropriate in any report, statement or testimony submitted to any municipal, state or federal regulatory body having or claiming to have jurisdiction over such Lender or to the Federal Reserve Board or the Federal Deposit Insurance Corporation or the OCC or the NAIC or similar organizations (whether in the United States or elsewhere) or their successors, (c) as may be required or appropriate in response to any summons or subpoena or any law, order, regulation or ruling applicable to such Lender, (d) to any prospective Participant or assignee in connection with any contemplated transfer pursuant to Section 9.6, provided that such prospective transferee shall have been made aware of this Section 9.16 and shall have agreed to be bound by its provisions as if it were a party to this Agreement or (e) to Gold Sheets and other similar bank trade publications, such information to consist of deal terms and other information regarding the credit facilities evidenced by this Credit Agreement customarily found in such publications.

## SECTION 9.17 ACKNOWLEDGMENTS.

The Borrower and the other Credit Parties each hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of each Credit Document;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to the Borrower or any other Credit Party arising out of or in connection with this Agreement and the relationship between Administrative Agent and Lenders, on one hand, and the Borrower and the other Credit Parties, on the other hand, in connection herewith is solely that of debtor and creditor; and

(c) no joint venture exists among the Lenders or among the Borrower or the other Credit Parties and the Lenders.

## SECTION 9.18 WAIVERS OF JURY TRIAL.

THE BORROWER, THE OTHER CREDIT PARTIES, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

## ARTICLE X

## GUARANTY

## SECTION 10.1 THE GUARANTY.

In order to induce the Lenders to enter into this Agreement and to extend credit hereunder and in recognition of the direct benefits to be received by the Guarantors from the Extensions of Credit hereunder, each of the Guarantors hereby agrees with the Administrative Agent and the Lenders as follows: the Guarantor hereby unconditionally and irrevocably jointly and severally guarantees as primary obligor and not merely as surety the full and prompt payment when due, whether upon maturity, by acceleration or otherwise, of any and all indebtedness of the Borrower to the Administrative Agent and the Lenders. If any or all of the indebtedness of the Borrower to the Administrative Agent and the Lenders becomes due and payable hereunder, each Guarantor unconditionally promises to pay such indebtedness to the Administrative Agent and the Lenders, or order, on demand, together with any and all reasonable expenses which may be incurred by the Administrative Agent or the Lenders in collecting any of the indebtedness. The word "indebtedness" is used in this Article X in its most comprehensive sense and includes any and all advances, debts, obligations and liabilities of the Borrower arising in connection with this Agreement, in each case, heretofore, now, or hereafter made, incurred or created, whether voluntarily or involuntarily, absolute or contingent, liquidated or unliquidated, determined or undetermined, whether or not such indebtedness is from time to time reduced, or extinguished and thereafter increased or incurred, whether the Borrower may be liable individually or jointly with others, whether or not recovery upon such indebtedness may be or hereafter become barred by any statute of limitations, and whether or not such indebtedness may be or hereafter become otherwise unenforceable.

Notwithstanding any provision to the contrary contained herein or in any other of the Credit Documents, to the extent the obligations of a Guarantor shall be adjudicated to be invalid or unenforceable for any reason (including, without limitation, because of any applicable state or federal law relating to fraudulent conveyances or transfers) then the obligations of each such Guarantor hereunder shall be limited to the maximum amount that is permissible under applicable law (whether federal or state and including, without limitation, the Bankruptcy Code).

## SECTION 10.2 BANKRUPTCY.

Additionally, each of the Guarantors unconditionally and irrevocably guarantees jointly and severally the payment of any and all indebtedness of the Borrower to the Lenders whether or not due or payable by the Borrower upon the occurrence of any of the events specified in Section 7.1(e), and unconditionally promises to pay such indebtedness to the Administrative Agent for the account of the Lenders, or order, on demand, in lawful money of the United States. Each of the Guarantors further agrees that to the extent that the Borrower or a Guarantor shall make a payment or a transfer of an interest in any property to the Administrative Agent or any Lender, which payment or transfer or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, or otherwise is avoided, and/or required to be repaid to the Borrower or a Guarantor, the estate of the Borrower or a Guarantor, a trustee, receiver or any other party

under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such avoidance or repayment, the obligation or part thereof intended to be satisfied shall be revived and continued in full force and effect as if said payment had not been made.

#### SECTION 10.3 NATURE OF LIABILITY.

The liability of each Guarantor hereunder is exclusive and independent of any security for or other guaranty of the indebtedness of the Borrower whether executed by any such Guarantor, any other guarantor or by any other party, and no Guarantor's liability hereunder shall be affected or impaired by (a) any direction as to application of payment by the Borrower or by any other party, or (b) any other continuing or other guaranty, undertaking or maximum liability of a guarantor or of any other party as to the indebtedness of the Borrower, or (c) any payment on or in reduction of any such other guaranty or undertaking, or (d) any dissolution, termination or increase, decrease or change in personnel by the Borrower, or (e) any payment made to the Administrative Agent or the Lenders on the indebtedness which the Administrative Agent or such Lenders repay the Borrower pursuant to court order in any bankruptcy, reorganization, arrangement, moratorium or other debtor relief proceeding, and each of the Guarantors waives any right to the deferral or modification of its obligations hereunder by reason of any such proceeding.

#### SECTION 10.4 INDEPENDENT OBLIGATION.

The obligations of each Guarantor hereunder are independent of the obligations of any other guarantor or the Borrower, and a separate action or actions may be brought and prosecuted against each Guarantor whether or not action is brought against any other guarantor or the Borrower and whether or not any other Guarantor or the Borrower is joined in any such action or actions.

#### SECTION 10.5 AUTHORIZATION.

Each of the Guarantors authorizes the Administrative Agent and each Lender without notice or demand (except as shall be required by applicable statute and cannot be waived), and without affecting or impairing its liability hereunder, from time to time to (a) renew, compromise, extend, increase, accelerate or otherwise change the time for payment of, or otherwise change the terms of the indebtedness or any part thereof in accordance with this Agreement, including any increase or decrease of the rate of interest thereon, (b) take and hold security from any guarantor or any other party for the payment of this Guaranty or the indebtedness and exchange, enforce waive and release any such security, (c) apply such security and direct the order or manner of sale thereof as the Administrative Agent and the Lenders in their discretion may determine and (d) release or substitute any one or more endorsers, guarantors, the Borrower or other obligors.

#### SECTION 10.6 RELIANCE.

It is not necessary for the Administrative Agent or the Lenders to inquire into the capacity or powers of the Borrower or the officers, directors, members, partners or agents acting

or purporting to act on its behalf, and any indebtedness made or created in reliance upon the professed exercise of such powers shall be guaranteed hereunder.

SECTION 10.7 WAIVER.

(a) Each of the Guarantors waives any right (except as shall be required by applicable statute and cannot be waived) to require the Administrative Agent or any Lender to (i) proceed against the Borrower, any other guarantor or any other party, (ii) proceed against or exhaust any security held from the Borrower, any other guarantor or any other party, or (iii) pursue any other remedy in the Administrative Agent's or any Lender's power whatsoever. Each of the Guarantors waives any defense based on or arising out of any defense of the Borrower, any other guarantor or any other party other than payment in full of the indebtedness, including without limitation any defense based on or arising out of the disability of the Borrower, any other guarantor or any other party, or the unenforceability of the indebtedness or any part thereof from any cause, or the cessation from any cause of the liability of the Borrower other than payment in full of the indebtedness. Without limiting the generality of the provisions of this Article X, each of the Guarantors hereby specifically waives the benefits of N.C. Gen. Stat. Section 26-7 through 26-9, inclusive. The Administrative Agent or any of the Lenders may, at their election, foreclose on any security held by the Administrative Agent or a Lender by one or more judicial or nonjudicial sales, whether or not every aspect of any such sale is commercially reasonable (to the extent such sale is permitted by applicable law), or exercise any other right or remedy the Administrative Agent and any Lender may have against the Borrower or any other party, or any security, without affecting or impairing in any way the liability of any Guarantor hereunder except to the extent the indebtedness has been paid. Each of the Guarantors waives any defense arising out of any such election by the Administrative Agent and each of the Lenders, even though such election operates to impair or extinguish any right of reimbursement or subrogation or other right or remedy of the Guarantors against the Borrower or any other party or any security.

(b) Each of the Guarantors waives all presentments, demands for performance, protests and notices, including without limitation notices of nonperformance, notice of protest, notices of dishonor, notices of acceptance of this Guaranty, and notices of the existence, creation or incurring of new or additional indebtedness. Each Guarantor assumes all responsibility for being and keeping itself informed of the Borrower's financial condition and assets, and of all other circumstances bearing upon the risk of nonpayment of the indebtedness and the nature, scope and extent of the risks which such Guarantor assumes and incurs hereunder, and agrees that neither the Administrative Agent nor any Lender shall have any duty to advise such Guarantor of information known to it regarding such circumstances or risks.

(c) Each of the Guarantors hereby agrees it will not exercise any rights of subrogation which it may at any time otherwise have as a result of this Guaranty (whether contractual, under Section 509 of the U.S. Bankruptcy Code, or otherwise) to the claims of the Lenders against the Borrower or any other guarantor of the indebtedness of the Borrower owing to the Lenders (collectively, the "Other Parties") and all contractual,



statutory or common law rights of reimbursement, contribution or indemnity from any Other Party which it may at any time otherwise have as a result of this Guaranty until such time as the Loans hereunder shall have been paid and the Commitments have been terminated. Each of the Guarantors hereby further agrees not to exercise any right to enforce any other remedy which the Administrative Agent and the Lenders now have or may hereafter have against any Other Party, any endorser or any other guarantor of all or any part of the indebtedness of the Borrower and any benefit of, and any right to participate in, any security or collateral given to or for the benefit of the Lenders to secure payment of the indebtedness of the Borrower until such time as the Loans hereunder shall have been paid and the Commitments have been terminated.

SECTION 10.8 LIMITATION ON ENFORCEMENT.

The Lenders agree that this Guaranty may be enforced only by the action of the Administrative Agent acting upon the instructions of the Required Lenders and that no Lender shall have any right individually to seek to enforce or to enforce this Guaranty, it being understood and agreed that such rights and remedies may be exercised by the Administrative Agent for the benefit of the Lenders under the terms of this Agreement. The Lenders further agree that this Guaranty may not be enforced against any director, officer, employee or stockholder of the Guarantors.

SECTION 10.9 CONFIRMATION OF PAYMENT.

The Administrative Agent and the Lenders will, upon request after payment of the indebtedness and obligations which are the subject of this Guaranty and termination of the Commitments relating thereto, confirm to the Borrower, the Guarantors or any other Person that the such indebtedness and obligations have been paid and the Commitments relating thereto terminated, subject to the provisions of Section 10.2.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by its proper and duly authorized officers as of the day and year first above written.

BORROWER: BASSETT FURNITURE INDUSTRIES, INCORPORATED

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

GUARANTORS: BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

E.B. MALONE CORPORATION, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BASSETT DIRECT STORES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BASSETT DIRECT SC, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

BASSETT DIRECT NC, LLC

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Schedule 2.1(e)

[FORM OF NOTE]

NOTE

\$ \_\_\_\_\_

October 19, 1999

FOR VALUE RECEIVED, the undersigned, BASSETT FURNITURE INDUSTRIES, INCORPORATED, a Virginia corporation, hereby unconditionally promises to pay, on the Maturity Date (as defined in the Credit Agreement referred to below), to the order of \_\_\_\_\_ (the "Lender") at the office of First Union National Bank located at One First Union Center, Charlotte, North Carolina 28288, in lawful money of the United States of America and in immediately available funds, the principal amount of (a) \_\_\_\_\_ DOLLARS (\$ \_\_\_\_\_), or, if less, (b) the aggregate unpaid principal amount of all Loans made by the Lender to the undersigned pursuant to Section 2.1 of the Credit Agreement referred to below. The undersigned further agrees to pay interest in like money at such office on the unpaid principal amount hereof and, to the extent permitted by law, accrued interest in respect hereof from time to time from the date hereof until payment in full of the principal amount hereof and accrued interest hereon, at the rates and on the dates set forth in the Credit Agreement.

The holder of this Note is authorized to endorse the date and amount of each Loan pursuant to Section 2.1 of the Credit Agreement and each payment of principal and interest with respect thereto and its character as a LIBOR Rate Loan or an Alternate Base Rate Loan on Schedule I annexed hereto and made a part hereof, or on a continuation thereof which shall be attached hereto and made a part hereof, which endorsement shall constitute prima facie evidence of the accuracy of the information endorsed; provided, however, that the failure to make any such endorsement shall not affect the obligations of the undersigned under this Note.

This Note is one of the Notes referred to in the Credit Agreement dated as of the date hereof among Bassett Furniture Industries, Incorporated, a Virginia corporation, the other Credit Parties identified therein, the Lender, the other banks and financial institutions from time to time parties thereto and First Union National Bank, as Administrative Agent (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement"), and is entitled to the benefits thereof. Terms used but not otherwise defined herein shall have the meanings provided in the Credit Agreement.

Upon the occurrence of any one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable, all as provided therein. In the event this Note is not paid when due at any stated or accelerated maturity, the Borrower agrees to pay, in addition to principal and interest, all costs of collection, including reasonable attorneys' fees.

All parties now and hereafter liable with respect to this Note, whether maker, principal, surety, endorser or otherwise, hereby waive presentment, demand, protest and all other notices of any kind.

Terms defined in the Credit Agreement are used herein with their defined meanings unless otherwise defined herein. This Note shall be governed by, and construed and interpreted in accordance with, the law of the State of North Carolina.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

By: \_\_\_\_\_

Title: \_\_\_\_\_

SCHEDULE 1  
to  
Note

LOANS AND PAYMENTS OF PRINCIPAL

Date	Amount of Loan	Type of Loan(1)	Interest Rate	Interest Period	Maturity Date	Principal Paid or Converted	Principal Balance	Notation Made By
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(1) The type of Loan may be represented by "L" for LIBOR Rate Loans or "ABR" for Alternate Base Rate Loans.

## Schedule 5.10

## FORM OF JOINDER AGREEMENT

THIS JOINDER AGREEMENT (the "Agreement"), dated as of \_\_\_\_\_, \_\_\_\_\_, is by and between \_\_\_\_\_, a \_\_\_\_\_ (the "Subsidiary Guarantor"), and FIRST UNION NATIONAL BANK, in its capacity as Administrative Agent under that certain Credit Agreement (as it may be amended, modified, extended or restated from time to time, the "Credit Agreement"), dated as of October 19, 1999 by and among BASSETT FURNITURE INDUSTRIES, INCORPORATED, a Virginia corporation, as Borrower, certain Subsidiaries of the Borrower as Guarantors, the Lenders and First Union National Bank, as Administrative Agent (the "Administrative Agent"). All of the defined terms in the Credit Agreement are incorporated herein by reference.

The Subsidiary Guarantor is an Additional Credit Party, and, consequently, the Credit Parties are required by Section 5.10 of the Credit Agreement to cause the Subsidiary Guarantor to become a "Guarantor" thereunder.

Accordingly, the Subsidiary Guarantor hereby agrees as follows with the Administrative Agent, for the benefit of the Lenders:

1. The Subsidiary Guarantor hereby acknowledges, agrees and confirms that, by its execution of this Agreement, the Subsidiary will be deemed to be a party to the Credit Agreement and a "Guarantor" for all purposes of the Credit Agreement and the other Credit Documents, and shall have all of the obligations of a Guarantor thereunder as if it had executed the Credit Agreement and the other Credit Documents. The Subsidiary hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Credit Documents, including without limitation (i) all of the representations and warranties of the Credit Parties set forth in Article III of the Credit Agreement and (ii) all of the affirmative and negative covenants set forth in Articles V and VI of the Credit Agreement. Without limiting the generality of the foregoing terms of this paragraph 1, the Subsidiary hereby (i) jointly and severally together with the other Guarantors, guarantees to each Lender, the Administrative Agent and the Issuing Lender as provided in the Credit Agreement the prompt payment and performance of the Credit Party Obligations of the Borrower in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise) strictly in accordance with the terms thereof and agrees that if any of such Credit Party Obligations are not paid or performed in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise), the Subsidiary will, jointly and severally together with the other Guarantors, promptly pay and perform the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Credit Party Obligations of the Borrower, the same will be promptly paid in full when due (whether at extended maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise) in accordance with the terms of such extension or renewal.

2. The Subsidiary Guarantor acknowledges and confirms that it has received a copy of the Credit Agreement and the schedules and exhibits thereto. The information on the schedules to the Credit Agreement are hereby amended to provide the information shown on the attached Schedule A.

3. The Borrower confirms that all of its obligations under the Credit Agreement are, and upon the Subsidiary Guarantor becoming a Guarantor, shall continue to be, in full force and effect. The parties hereto confirm and agree that immediately upon the Subsidiary Guarantor becoming a Guarantor the term "Credit Party Obligations," as used in the Credit Agreement, shall include all obligations of such Subsidiary Guarantor under the Credit Agreement and under each other Credit Document.

4. The Subsidiary Guarantor hereby agrees that upon becoming a Guarantor it will assume all Credit Party Obligations of a Guarantor as set forth in the Credit Agreement.

5. Each of the Borrower and the Subsidiary Guarantor agrees that at any time and from time to time, upon the written request of the Administrative Agent, it will execute and deliver such further documents and do such further acts and things as the Administrative Agent may reasonably request in order to effect the purposes of this Agreement.

6. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute one contract.

7. This Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of North Carolina.

IN WITNESS WHEREOF, each of the Borrower and the Subsidiary Guarantor has caused this Joinder Agreement to be duly executed by its authorized officer, and the Administrative Agent, for the benefit of the Lenders, has caused the same to be accepted by its authorized officer, as of the day and year first above written.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

By \_\_\_\_\_  
Title \_\_\_\_\_

[SUBSIDIARY GUARANTOR]

By \_\_\_\_\_  
Title \_\_\_\_\_

Acknowledged and accepted:

FIRST UNION NATIONAL BANK,  
as Administrative Agent

By \_\_\_\_\_  
Title \_\_\_\_\_

SCHEDULE A  
to  
Joinder Agreement  
Schedules to Credit Agreement

## SEVERANCE AGREEMENT AND GENERAL RELEASE

This AGREEMENT is made between BASSETT FURNITURE INDUSTRIES, INC., and its affiliates, subsidiaries and predecessors (referred to herein, collectively and individually, as "Company") and DOUGLAS W. MILLER ("Miller").

## A. REASONS FOR AGREEMENT

1. Miller is being separated from his employment with the Company effective January 31, 1999.
2. The Company has agreed to provide certain additional benefits to Miller for the consideration from Miller specified below.

## B. AGREEMENT

For and in consideration of the mutual promises and commitments specified herein, the parties agree as follows:

1. Special Severance Package. The Company agrees to provide Miller with the following benefits, which are referred to as the "Special Severance Package." The Special Severance Package includes, but also contains benefits over and above, those benefits, if any, normally provided by Company policy. Notwithstanding the Special Severance Package, Miller shall be deemed to have become separated from his employment with and to have ceased to be an employee of Company on January 31, 1999.

(a) Miller shall receive payment at his current salary for the full twelve months of February, 1999 through and including January, 2000 (i.e., \$9,750.00, less pre-tax deductions for health insurance coverage and deductions or withholdings for state and federal taxes, social security, etc., on or about the last day of February, 1999 and each month thereafter until and including the last day of January, 2000). During the severance period, the Company shall permit Miller to receive health insurance coverage at Miller's expense for himself and any of Miller's dependents as are currently covered at the same premium rates as are charged to employees. The Company also agrees that the executive supplemental health insurance plan shall remain in effect for Miller during the severance period (i.e., through January, 2000).

(b) The qualifying event concerning Miller's rights under the Consolidated Omnibus Budget Reconciliation Act, 29 U.S.C. Section 1161, et seq. ("COBRA") shall be January 31, 1999.

(c) The Company shall accept Miller's resignation effective as of January 31, 1999.

(d) Dividends for shares of restricted stock awarded by the Company to Miller shall continue to be paid during the severance period, but such restricted shares shall be forfeited at the end of the severance period. The Company agrees that on or about the last day of January, 2000, provided that there has been no default by Miller under this Agreement, the Company shall pay to Miller an



additional severance payment of \$79,145 (less withholdings or deductions for state and federal taxes, social security, etc.). Options awarded by the Company to Miller prior to 1998, which options have vested, shall continue to be exercisable during the severance period and for a period of thirty (30) days thereafter.

(e) In January, 1999, provided there is no breach of this Agreement by Miller, the Company will pay to Miller such amount as Miller was scheduled to receive for his 1998 fiscal year-end bonus. The payment will be a portion of the \$85,000 bonus potential, calculated in accordance with the prorated targets or goals set for Miller for fiscal year 1998. Such portion shall be \$43,860.

(f) The Company will provide six months of outplacement service for Miller, with an outplacement service selected by the Company.

2. General Release. In consideration for the Special Severance Package, Miller agrees, for himself and his heirs, representatives, successors and assigns, that he has been finally and permanently separated from employment with the Company, and that he waives, releases and forever discharges the Company, its current and former owners, shareholders, directors, officers, employees and agents, from any and all claims, known or unknown, that he has or may have against the Company, relating to or arising out of his employment with the Company and his separation thereof, or otherwise, including but not limited to any claims of wrongful discharge, breach of express or implied contract, liability in tort, claims of any kind that may be brought in any court or administrative agency, any claims under Title VII of the Civil Rights Act of 1964, as amended, the 1991 Civil Rights Act, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the Employee Retirement Income Security Act, the Fair Labor Standards Act, or any other federal, state or local law relating to, or arising out of Miller's employment with the Company and his separation thereof.

3. Special Release Notification. The General Release, paragraph B.2, includes a release of all claims under the Age Discrimination in Employment Act ("ADEA") and, therefore, pursuant to the requirements of the ADEA, Miller acknowledges that he has been advised: (i) that this release includes, but is not limited to, all claims under the ADEA arising up to and including the date of execution of this release; (ii) to consult with an attorney and/or other advisor of his choosing concerning his rights and obligations under this release; (iii) to fully consider this release before executing it and that he has been offered ample time and opportunity, in excess of 21 days, to do so; and (iv) that this release shall become effective and enforceable 7 days following execution of this Agreement, during which 7-day period Miller may revoke his acceptance of this Agreement by delivering written notice to Steven P. Rindskopf, Vice President-Administration & Human Resources, Bassett Furniture Industries, Inc., 3525 Fairy Stone Park Highway, P.O. Box 626, Bassett, Virginia 24055, with a copy to Jay R. Hervey, General Counsel, Bassett Furniture Industries, Inc., 3525 Fairy Stone Park Highway, P.O. Box 626, Bassett, Virginia 24055.

4. Non-Disclosure. Miller agrees that the terms of this Agreement and his Special Severance Package are confidential, and agrees not to disclose the terms or amount thereof to any person other than his attorney, income tax preparer or similar professional. To the extent that he discloses this information, Miller agrees to instruct such professional that this information is to be kept confidential.

5. Cooperation. Miller agrees that he will continue to cooperate with the Company by projecting a positive attitude toward the Company, its customers and employees, and its products. Miller represents that he has returned or concurrently with his execution and delivery of this Agreement is returning to the Company any and all computers (other than a laptop with docking station, keyboard and monitor, with licenses to use software thereon, which Miller will retain), equipment, records, documents and correspondence now or previously in his possession which belong to the Company or that relate in any way to his employment with the Company.

6. No Admission. It is understood and agreed that the Company admits no liability to Miller whatsoever, whether for the Special Severance Package provided herein or otherwise, or for any other benefits other than those, if any, provided by Company policy; provided that the foregoing statement shall not be construed to relieve the Company of its obligations and undertakings contained in this Agreement. The Company has entered into this Agreement solely for the purpose of maintaining an amicable and cooperative relationship between Miller and the Company.

7. Successors and Assigns. This Agreement shall be binding upon Miller, his heirs, representatives, successors, and assigns and the Company's successors and assigns.

8. Entire Agreement. The parties understand and agree that all terms of this Agreement are contractual and are not a mere recital. Miller represents and warrants that, in negotiating and executing this Agreement, he has had an adequate opportunity to consult with competent counsel or other representatives of his choosing concerning the meaning and effect of each term and provision hereof, and that there are no representations, promises or agreements other than those expressly set forth in writing herein. The parties have carefully read this Agreement in its entirety, fully understand and agree to its terms and provisions, and intend and agree that it is final and binding.

IN WITNESS WHEREOF, and intending to be legally bound, the parties have executed this Agreement as of the 31st day of January, 1999.

/s/ Douglas W. Miller

/s/ BASSETT FURNITURE INDUSTRIES, INC.

## SEVERANCE AGREEMENT AND GENERAL RELEASE

This AGREEMENT is made between BASSETT FURNITURE INDUSTRIES, INC., and its affiliates, subsidiaries and predecessors (referred to herein, collectively and individually, as "Company") and JOHN S. LUPO ("Mr. Lupo").

## A. REASONS FOR AGREEMENT

1. Mr. Lupo is being separated from his employment with the Company effective November 27, 1999.

2. The Company has agreed to provide certain additional benefits to Mr. Lupo for the consideration from Mr. Lupo specified below.

## B. AGREEMENT

For and in consideration of the mutual promises and commitments specified herein, the parties agree as follows:

1. Special Severance Package. The Company agrees to provide Mr. Lupo with the following benefits, which are referred to as the "Special Severance Package." The Special Severance Package includes, but also contains benefits over and above, those benefits, if any, normally provided by Company policy. Notwithstanding the Special Severance Package, Mr. Lupo shall be deemed to have become separated from his employment with and to have ceased to be an employee of Company on November 27, 1999.

(a) Mr. Lupo shall receive payment at his current salary for the full seven months of November, 1999 through and including May, 2000 (i.e., \$19,583.33 per month, less pre-tax deductions for health insurance coverage and deductions or withholdings for state and federal taxes, social security, etc., on or about the last day of November, 1999 and each month thereafter until and including the last day of May, 2000). During the severance period, the Company shall permit Mr. Lupo to receive health insurance coverage at Mr. Lupo's expense for himself and any of his dependents as are currently covered at the same premium rates as are charged to employees. The Company also agrees that the executive supplemental health insurance plan shall remain in effect for Mr. Lupo during the severance period (i.e., through May, 2000).

(b) The qualifying event concerning Mr. Lupo's rights under the Consolidated Omnibus Budget Reconciliation Act, 29 U.S.C. Section 1161, et seq. ("COBRA") shall be November 30, 1999.

(c) The Company shall be deemed to have accepted Mr. Lupo's resignation effective as of November 27, 1999.

(d) Options awarded by the Company to Mr. Lupo prior to the date hereof will not have vested prior to the end of the severance period and, therefore, shall be deemed cancelled as of November 27, 1999.

(e) In January, 2000, provided there is no breach of this Agreement by Mr. Lupo, the Company will pay to Mr. Lupo such amount as Mr. Lupo was scheduled to receive for his 1999 fiscal year-end bonus (based on the relative levels of achievement of performance measurements for fiscal year 1999 set for Mr. Lupo), together with the deferred \$20,000 sign-on bonus taken in lieu of a prorated fiscal year 1998 bonus. The payment will be not less than the guaranteed portion of his \$235,000 bonus potential (such guaranteed portion being \$115,000) plus the deferred \$20,000 sign-on bonus, with interest thereon in accordance with the terms of Mr. Lupo's offer letter, for a total of \$142,000. If the levels of achievement of the performance measurements for fiscal year 1999 provide for a 1999 fiscal year-end bonus in excess of \$115,000, the amount of 1999 fiscal year-end bonus in excess of \$115,000 will be payable to Mr. Lupo without interest thereon.

2. General Release. In consideration for the Special Severance Package, Mr. Lupo agrees, for himself and his heirs, representatives, successors and assigns, that he has been finally and permanently separated from employment with the Company, and that he waives, releases and forever discharges the Company, its current and former owners, shareholders, directors, officers, employees and agents, from any and all claims, known or unknown, that he has or may have against the Company, relating to or arising out of his employment with the Company and his separation thereof, or otherwise, including but not limited to any claims of wrongful discharge, breach of express or implied contract, liability in tort, claims of any kind that may be brought in any court or administrative agency, any claims under Title VII of the Civil Rights Act of 1964, as amended, the 1991 Civil Rights Act, the Americans With Disabilities Act, the Age Discrimination in Employment Act, the Employee Retirement Income Security Act, the Fair Labor Standards Act, or any other federal, state or local law relating to, or arising out of his employment with the Company and his separation thereof.

3. Special Release Notification. The General Release, paragraph B.2, includes a release of all claims under the Age Discrimination in Employment Act ("ADEA") and, therefore, pursuant to the requirements of the ADEA, Mr. Lupo acknowledges that he has been advised: (i) that this release includes, but is not limited to, all claims under the ADEA arising up to and including the date of execution of this release; (ii) to consult with an attorney and/or other advisor of his choosing concerning his rights and obligations under this release; (iii) to fully consider this release before executing it and that he has been offered ample time and opportunity, in excess of 21 days, to do so; and (iv) that this release shall become effective and enforceable 7 days following execution of this Agreement, during which 7-day period Mr. Lupo may revoke his acceptance of this Agreement by delivering written notice to Steven P. Rindskopf, Vice President-Administration & Human Resources, Bassett Furniture Industries, Inc., 3525 Fairy Stone Park Highway, P.O. Box 626, Bassett, Virginia 24055, with a copy to Jay R. Hervey, General Counsel, Bassett Furniture Industries, Inc., 3525 Fairy Stone Park Highway, P.O. Box 626, Bassett, Virginia 24055.

4. Non-Disclosure. Mr. Lupo agrees that the terms of this Agreement and his Special Severance Package are confidential, and agrees not to disclose the terms or amount thereof to any person other than his attorney, income tax preparer or similar professional. To the extent that he discloses this information, Mr. Lupo agrees to instruct such professional that this information is to be kept confidential.

5. Cooperation. Mr. Lupo agrees that he will continue to cooperate with the Company by projecting a positive attitude toward the Company, its customers and employees, and its products. Mr. Lupo represents that he has returned or concurrently with his execution and delivery of this Agreement is returning to the Company any and all computers equipment, records, documents and correspondence now or previously in his possession which belong to the Company or that relate in any way to his employment with the Company. Mr. Lupo warrants and agrees that any information he may have obtained about the Company, its employees and its business relationships, policies and dealings shall be kept strictly confidential.

6. No Admission. It is understood and agreed that the Company admits no liability to Mr. Lupo whatsoever, whether for the Special Severance Package provided herein or otherwise, or for any other benefits other than those, if any, provided by Company policy; provided that the foregoing statement shall not be construed to relieve the Company of its obligations and undertakings contained in this Agreement. The Company has entered into this Agreement solely for the purpose of maintaining an amicable and cooperative relationship between Mr. Lupo and the Company.

7. Successors and Assigns. This Agreement shall be binding upon Mr. Lupo, his heirs, representatives, successors, and assigns and the Company's successors and assigns.

8. Entire Agreement. The parties understand and agree that all terms of this Agreement are contractual and are not a mere recital. Mr. Lupo represents and warrants that, in negotiating and executing this Agreement, he has had an adequate opportunity to consult with competent counsel or other representatives of his choosing concerning the meaning and effect of each term and provision hereof, and that there are no representations, promises or agreements other than those expressly set forth in writing herein. The parties have carefully read this Agreement in its entirety, fully understand and agree to its terms and provisions, and intend and agree that it is final and binding.

IN WITNESS WHEREOF, and intending to be legally bound, the parties have executed this Agreement as of the 27th day of November, 1999.

/s/ John S. Lupo

/s/ BASSETT FURNITURE INDUSTRIES, INC.

## CONSOLIDATED BALANCE SHEETS

Bassett Furniture Industries, Incorporated and Subsidiaries  
 November 27, 1999, and November 28, 1998  
 (dollars in thousands except per share data)

ASSETS	1999	1998
Current Assets		
Cash and cash equivalents	\$ 5,740	\$ 5,499
Short-term investments	--	8,923
Trade accounts receivable, net	64,731	59,203
Inventories	50,206	47,285
Refundable income taxes	1,006	8,018
Deferred income taxes	9,314	12,682
Other current assets	5,260	2,038
	136,257	143,648
Property and Equipment, net	93,155	56,387
Other Assets		
Investment securities	23,057	50,739
Investments in affiliated companies	67,558	52,769
Other	22,802	17,971
	113,417	121,479
	\$ 342,829	\$ 321,514
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 30,122	\$ 20,221
Accrued liabilities	26,806	24,514
	56,928	44,735
Long-Term Liabilities		
Employee benefits	10,998	11,272
Notes payable	18,000	--
Deferred income taxes	1,152	595
	30,150	11,867
Commitments and Contingencies (Notes N and O)		
Stockholders' Equity		
Common stock, par value \$5 a share, 50,000,000 shares authorized	60,474	64,425
Additional paid-in capital	--	--
Retained earnings	187,973	193,130
Accumulated other comprehensive income - unrealized holding gains, net of income tax effect	7,993	8,286
Unamortized stock compensation	(689)	(929)
	255,751	264,912
	\$ 342,829	\$ 321,514

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

## CONSOLIDATED STATEMENTS OF OPERATIONS

Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 27, 1999, November 28, 1998 and November 30, 1997  
(dollars in thousands except per share data)

	1999	1998	1997
Net sales	\$394,412	\$397,557	\$446,893
Costs and expenses			
Cost of sales	309,316	323,904	396,875
Selling, general and administrative	72,622	64,002	84,694
Restructuring and impaired fixed asset charges	---	---	20,646
	381,938	387,906	502,215
Income (loss) from operations	12,474	9,651	(55,322)
Other income, net	13,744	11,445	13,367
Income (loss) before income taxes	26,218	21,096	(41,955)
Income taxes	8,264	5,379	(22,346)
Net income (loss)	\$ 17,954	\$ 15,717	\$ (19,609)
Net income (loss) per share			
Basic	\$ 1.44	\$ 1.21	\$ (1.50)
Diluted	\$ 1.44	\$ 1.20	\$ (1.50)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 27, 1999, November 28, 1998, and November 30, 1997  
(dollars in thousands)

	1999	1998	1997
Net income (loss)	\$17,954	\$15,717	\$ (19,609)
Other comprehensive income, net of tax:			
Unrealized holding gains (losses) arising during the period, net of tax	(76)	2,852	1,713
Less: reclassification adjustments for net gains included in net income, net of tax	(217)	(141)	176
Total other comprehensive income (loss)	(293)	2,711	1,889
Comprehensive income (loss)	\$17,661	\$18,428	\$ (17,720)

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 27, 1999, November 28, 1998, and November 30, 1997

(dollars in thousands except share data)

	Common Stock		Additional	Retained	Accumulated	Unamortized
	Shares	Amount	Paid-in Capital	earnings	other Comprehensive income	stock compensation
BALANCE, DECEMBER 1, 1996	13,075,595	\$65,378	\$----	\$222,417	\$3,686	\$----
Net Loss	----	----	----	(19,609)	----	----
Dividends (\$1.00 per share)	----	----	----	(13,041)	----	----
Issuance of common stock	4,288	21	86	----	----	----
Purchase and retirement of common stock	(60,000)	(300)	(44)	(1,006)	----	----
Issuance of restricted common stock	31,396	157	714	----	----	(871)
Amortization of stock compensation	----	----	----	----	----	11
Stock option grants	----	----	1,682	----	----	----
Net change in unrealized holding gains	----	----	----	----	1,889	----
BALANCE, NOVEMBER 30, 1997	13,051,279	65,256	2,438	188,761	5,575	(860)
Net Income	----	----	----	15,717	----	----
Dividends (\$.80 per share)	----	----	----	(10,393)	----	----
Issuance of common	573	3	12	---	---	---
Purchase and retirement of common stock	(185,300)	(927)	(2,896)	(955)	----	----
Issuance of restricted common stock	16,836	85	459	----	----	(544)
Forfeitures of restricted stock	(9,435)	(47)	(224)	----	----	271
Net change in unrealized holding gains	----	----	----	----	2,711	----
Amortization of stock compensation	----	----	----	----	----	204
Exercise of stock options	11,000	55	211	----	----	----
BALANCE, NOVEMBER 28, 1998	12,884,953	64,425	----	193,130	8,286	(929)
Net Income	----	----	----	17,954	----	----
Dividends (\$.80 per share)	----	----	----	(9,983)	----	----
Issuance of common stock	2,806	14	45	---	---	---
Purchase and retirement of common stock	(792,990)	(3,965)	(45)	(13,128)	----	----
Net change in unrealized holding gains	----	----	----	----	(293)	----
Amortization of stock compensation	----	----	----	----	----	240
BALANCE, NOVEMBER 27, 1999	12,094,769	\$60,474	\$----	\$187,973	\$7,993	\$(689)

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



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 27, 1999, November 28, 1998, and November 30, 1997

(dollars in thousands)

OPERATING ACTIVITIES	1999	1998	1997
Net income (loss)	\$17,954	\$15,717	\$(19,609)
Adjustments to reconcile net income (loss) to net cash Provided by operating activities:			
Unused reserves for impairment of assets	---	2,000	11,181
Depreciation and amortization	8,386	6,870	6,192
Equity in undistributed income of affiliated companies	(12,587)	(5,784)	(5,926)
Provision for losses on trade accounts receivable	358	216	7,706
Net (gain) loss from sales of investment securities	(1,795)	(1,446)	(1,804)
Net (gain) loss from sales of property and equipment	(89)	(2,402)	970
Compensation earned under restricted stock and stock option plans	240	204	1,693
Deferred income taxes	4,112	3,516	(18,549)
Changes in long-term liabilities	(274)	24	413
Changes in operating assets and liabilities:			
Trade accounts receivable	(8,617)	(2,092)	384
Inventories	(7,636)	(5,571)	25,368
Other current assets	(3,661)	(633)	(80)
Accounts payable and accrued liabilities	13,325	(3,172)	17,561
Refundable Income taxes	7,012	(2,993)	(4,180)
Net Cash Provided By Operating Activities	16,728	4,454	21,320
 INVESTING ACTIVITIES			
Purchases of property and equipment	(47,696)	(22,610)	(10,824)
Proceeds from sales of property and equipment	1,370	7,717	1,875
Purchases of investment securities	---	(16,176)	(65,385)
Proceeds from sales of investment securities	37,814	57,510	4,903
Dividends from affiliated company	5,448	31,517	21,245
Investments in affiliated companies	(5,700)	(50,000)	---
Change in investment in corporate owned life insurance	(3,841)	(3,900)	(1,153)
Proceeds from sale of bedding division	6,500	---	---
Issuance of notes receivable	---	(3,383)	---
Other	(1,320)	901	(623)
Net Cash Provided By (Used In) Investing Activities	(7,425)	1,576	(49,962)
 FINANCING ACTIVITIES			
Borrowings under notes payable	18,000	---	---
Issuances of common stock	59	281	107
Repurchases of common stock	(17,138)	(4,778)	(1,350)
Dividends	(9,983)	(10,393)	(13,041)
Net Cash Used In Financing Activities	(9,062)	(14,890)	(14,284)
 CHANGE IN CASH AND CASH EQUIVALENTS	241	(8,860)	(42,926)
 CASH AND CASH EQUIVALENTS -- beginning of year	5,499	14,359	57,285
CASH AND CASH EQUIVALENTS -- end of year	\$5,740	\$5,499	\$14,359
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Interest payments	\$1,988	\$7,240	\$8,205
Income tax payments (refunds)	\$(3,022)	\$4,656	\$1,402

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

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

#### A. Summary of Significant Accounting Policies

##### Nature of Operations

The Company is a manufacturer and retailer of quality home furnishings and sells a full range of furniture products and accessories through department and furniture stores and an exclusive network of retail stores, some of which are company-owned and others are independently owned. Retail stores are located throughout the United States. The Company has 14 manufacturing facilities throughout the United States.

##### PRINCIPLES OF CONSOLIDATION AND FISCAL YEAR

The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated (the "Company") and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions are eliminated in consolidation. The Company changed its fiscal year effective 1998 to end on the Saturday nearest November 30. Prior to 1998, the fiscal year ended on November 30.

##### USE OF ESTIMATES

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

##### CASH EQUIVALENTS

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

##### SHORT-TERM INVESTMENTS

Investments in municipal bonds with original maturities of more than three months and a remaining maturity of one year or less are considered to be short-term investments. The carrying amount approximates fair value.

##### TRADE ACCOUNTS RECEIVABLE

Substantially all of the Company's trade accounts receivable are due from retailers throughout the United States. The Company performs on-going evaluations of its customers' credit worthiness and generally requires no collateral. There is no disproportionate concentration of credit risk. The Company maintains allowances for doubtful accounts which include reserves for certain risk accounts and also reserves for sales returns and allowances and customer chargebacks. Allowances for doubtful accounts were \$2,558 and \$2,200 at November 27, 1999 and November 28, 1998, respectively.

##### INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined for wholesale furniture inventories, which approximate 92% of inventories in 1999 and 100% in 1998, using the last-in first-out (LIFO) method. Cost is determined for retail inventories, which approximate 8%, using the first-in, first-out (FIFO) method.

##### PROPERTY AND EQUIPMENT

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

##### INVESTMENT SECURITIES AND FINANCIAL INSTRUMENTS

The Company classifies its investment securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and are reported as other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income and are determined using the specific identification method for ascertaining the cost of securities sold. Periodically, the Company enters into Financial Instruments in order to reduce its exposure to fluctuations in the market value of its investment portfolio. All financial instruments are marked to market and recorded at their fair value. Gains and losses on financial instruments that qualify

as accounting hedges are deferred as unrealized gains and losses. Gains and losses on financial instruments that do not qualify as accounting hedges are recorded as other income or expense.

#### INVESTMENT IN AFFILIATED COMPANIES

The equity method of accounting is used for the Company's investment in affiliated companies in which the Company exercises significant influence but does not maintain control.

#### INVESTMENT IN CORPORATE OWNED LIFE INSURANCE (COLI)

The Company is the beneficiary of life insurance policies with a face value of \$2,188,876, which are maintained to fund various employee and director benefit plans. Policy loans outstanding of \$55,398 and \$57,496 at November 27, 1999, and November 28, 1998, respectively, are recorded as a reduction in the policies cash surrender value, which is included in other assets in the accompanying consolidated balance sheets. Net life insurance income (expense), which includes premiums and interest on policy loans, changes in cash surrender values, and death benefits, is included in other income in the accompanying consolidated statements of operations.

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

#### REVENUE RECOGNITION

Revenue is recognized when furniture is shipped to the customer. Sales to one customer were 16%, 15% and 15% of the Company's total net sales in 1999, 1998 and 1997.

#### INCOME TAXES

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

#### EARNINGS PER SHARE

The Company adopted SFAS No. 128, "Earnings Per Share" in 1998 and has restated prior period earnings per share to conform to this Statement. Basic earnings per share is determined by dividing net income available to common shareholders by the weighted average number of shares of Common Stock outstanding. Diluted earnings per share also considers the dilutive effect for stock options and restricted stock.

#### STOCK-BASED COMPENSATION

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

#### ADVERTISING COSTS

Costs incurred for producing and communicating advertising are expensed when incurred, including costs incurred under the Company's cooperative advertising program with dealers and licensees. Advertising costs totaled \$9,200, \$6,100, and \$4,500 in 1999, 1998 and 1997, respectively.

#### SEGMENT INFORMATION

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

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-deferral of the effective date of SFAS Statement No. 133 - an Amendment of FASB Statement No. 133." This statement delays the effective date of SFAS No. 133 one year, from years beginning after June 15, 1999, to years beginning after June 15, 2000. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The

Company plans to adopt the provisions of this Statement in the first quarter of fiscal year 2001. Management is currently analyzing the impact of adopting this Statement on the Company's financial position and results of operations.

In 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) No. 98-5, "Reporting on the Costs of Start-Up Activities." This SOP provides guidance on the financial reporting of start-up costs and organization costs. It requires costs of start-up activities and organization costs to be expensed as incurred including pre-opening and pre-operating activities. The SOP is effective for fiscal years beginning after December 15, 1998. In the year of adoption, all previously capitalized start up costs should be written off and presented as a cumulative change in accounting principle. The Company plans to adopt this SOP in the first quarter of 2000 and does not believe that the impact will materially effect the Company's financial position or results of operations.

#### B. Sale of Bedding Division

During 1999 the Company sold substantially all of the assets of its Bedding Division to Premier Bedding Group LLC ("PBG"). The sale was effective April 30, 1999. The net assets sold, which totaled \$8.4 million, were exchanged for \$6.5 million in cash and a \$1.9 million convertible note receivable. The reductions in these operating assets are excluded from the changes in operating assets and liabilities on the accompanying statement of cash flows for the year ended November 27, 1999. Net sales and operating income (losses) for the bedding division were \$12 million and \$(.1 million), respectively for 1999, \$39 million and \$1.0 million in 1998, and \$54 million and \$1.4 million in 1997.

#### C. Inventories

Inventories consist of the following:

	November 27, 1999	November 28, 1998
Finished goods	\$41,823	\$37,430
Work in process	9,880	9,169
Raw materials and supplies	17,881	26,506
Retail merchandise	6,076	---
Total inventories on first-in, first-out cost method	75,660	73,105
LIFO adjustment	(25,454)	(25,820)
	\$50,206	\$47,285

During 1999 and 1998, the Company liquidated certain LIFO inventories which decreased cost of sales by approximately \$1,600 and \$800, respectively.

#### D. Property and Equipment

	November 27, 1999	November 28, 1998
Land	\$ 7,920	\$3,289
Buildings	67,691	48,956
Machinery and Equipment	151,828	133,147
	227,439	185,392
Less: Accumulated Depreciation	(134,284)	(129,005)
	\$ 93,155	\$ 56,387

Depreciation expense was \$7,725, \$6,870 and \$6,192 in 1999, 1998 and 1997, respectively.

## E. Investment Securities and Financial Instruments

Investment securities by major security type are as follows:

	November 27, 1999		
	Cost	Unrealized holding gains	Fair value
Equity securities	\$ 9,953	\$13,104	\$23,057

	November 28, 1998		
	Cost	Unrealized holding gains	Fair value
Equity securities	\$11,272	\$13,146	\$24,418
Mutual funds	2,277	408	2,685
Municipal securities	23,606	30	23,636
	\$37,155	\$13,584	\$50,739

During 1999, the Company entered into an equity collar arrangement in order to reduce its exposure to fluctuations in its investment portfolio. The equity collar is a series of puts and calls on a market index covering a national amount of \$19,700, which expire quarterly in varying amounts over a three year period. The fair market value of this financial instrument at November 27, 1999 was \$3,423 and is included in accrued liabilities on the accompanying balance sheet. The related loss has been reflected in other income in the accompanying statement of operations for the year ended November 27, 1999. Subsequent to yearend, the Company terminated this particular financial instrument, at a cost of \$2.1 million, and entered into a new financial instrument which more directly correlates to the Company's investment portfolio.

## F. Investment in Affiliated Companies

The Company has equity interests in the following entities which are accounted for using the equity method:

Affiliate	% Ownership	Description of Business
International Home Furnishings Center, Inc. (IHFC)	41.3%	Home Furnishings Showrooms
The Bassett Industries Alternative Asset Fund, LP	99.8%	Investment Partnership
Triwood, Inc.	50.0%	Real Estate Joint Venture
Zenith Freight Lines, LLC	49.0%	Transportation
The Accessory Group, LP	90.0%	Home Furnishings Accessories

The Alternative Asset Fund invests in a variety of other private partnerships, which employ a combination of investment strategies including merger arbitrages, convertible arbitrages and other market neutral investments. Summarized combined financial information for all of the affiliated companies are as follows:

	1999	1998	1997
Total assets	\$136,434	\$119,276	\$ 56,794
Total liabilities	87,503	84,607	10,212
Revenues	56,628	42,203	41,730
Income from operations	31,345	24,021	23,027
Net income	18,455	14,503	15,104
Dividends received	5,448	31,517	21,245

The recorded investment in IHFC at November 27, 1999, and November 28, 1998, exceeded the Company's interest in the underlying net assets of these entities by \$8,818 and \$9,276, respectively. This difference is being amortized and the related investment balance reduced utilizing the straight-line method over 35 years.

The Company had earnings in excess of distributions from these investments of \$3,742 at November 27, 1999, and net distributions in excess of earnings of \$3,854 at November 28, 1998. Deferred income taxes related to these items have been provided in the accompanying consolidated financial statements.

#### G. Accrued Liabilities

Accrued liabilities consist of the following:

	November 27, 1999	November 28, 1998
Compensation and related benefits	\$11,000	\$ 9,335
Severance and employee benefits	2,854	1,859
Advertising and rebates	3,214	4,132
Legal and environmental	3,316	4,615
Financial instrument liability	3,423	---
Other	2,999	4,573
	\$26,806	\$24,514

#### H. Income Taxes

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

	1999	1998	1997
Statutory federal income tax rate	35.0%	35.0%	(35.0%)
Dividends received exclusion	(.6)	(1.0)	(.7)
Tax exempt interest	(.8)	(2.0)	(1.0)
Undistributed affiliate income	(5.4)	(7.7)	(4.2)
Corporate owned life insurance	(.5)	(3.2)	(4.3)
State income tax, net of federal benefit	3.6	3.1	(6.0)
Property donation	---	---	(3.2)
Other	.2	1.3	1.1
Effective income tax rate	31.5%	25.5%	(53.3%)

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

Current:	1999	1998	1997
Federal	\$ 3,928	\$ 1,762	\$ (3,968)
State	224	101	171
Deferred:			
Federal	3,906	3,340	(17,622)
State	206	176	(927)
Total	\$ 8,264	\$ 5,379	\$ (22,346)

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 27, 1999	November 28, 1998
Deferred income tax assets:		
Trade accounts receivable	\$ 1,648	\$ 1,514
Inventories	1,825	1,601
Impaired asset reserves	1,862	2,084
Retirement benefits	5,121	5,135
Severance and employee benefits	964	725
Legal and environmental	1,293	1,800
Net operating loss carry forwards	24	441
Distribution from affiliates in excess of income	2,465	2,258
Contribution carryforward (expires 2002)	989	820
Alternative minimum tax credit carryforward (no expiration)	1,756	---
Loss on financial instrument	1,335	---
Other accrued liabilities	3,726	5,141
Total gross deferred income tax assets	23,008	21,519
Deferred income tax liabilities:		
Property and equipment	5,689	3,343
Undistributed affiliate income	3,497	541
Prepaid expenses and other	549	250
Unrealized holding gains	5,111	5,298
Total gross deferred income tax liabilities	14,846	9,432
Net deferred income tax assets	\$ 8,162	\$12,087

#### I. Long-Term Liabilities and Retirement Plans

The Company has a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers all employees with over one year of service who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched by the Company at the rate of 115% of the first 2% through 5% of the employee's contribution, based on seniority. The Plan incorporates provisions of Section 401(k) of the Internal Revenue Code. The expenses for the Plan for 1999, 1998, and 1997 were approximately \$2,475, \$2,273 and \$2,453 respectively.

The Company has a Supplemental Retirement Income Plan that covers certain senior executives and provides additional retirement and death benefits. Also, the Company has a Deferred Compensation Plan for certain senior executives that provides for voluntary deferral of compensation otherwise payable. The unfunded future liability of the Company under these Plans is included in long-term liabilities.

#### J. Notes Payable

In 1999 the Company entered into a \$50 million unsecured revolving credit facility with a bank which matures October 2002. Borrowings under the facility totaled \$18 million at November 27, 1999. After coverage for letters of credit, the Company had \$26 million available for borrowing under the facility at November 27, 1999. The average interest rate was 6.9% at November 27, 1999.

The facility contains, among other provisions, certain defined financial requirements regarding working capital and leverage ratios. The Company was in compliance with all of these provisions at November 27, 1999.

## K. Capital Stock and Stock Compensation

The Company has a Long Term Incentive Stock Option Plan that was adopted in 1993 (the 1993 Plan). Under the 1993 Plan, the Company has reserved for issuance 450,000 shares of Common Stock of which 2,279 were available for grant at November 30, 1997. Options granted under the 1993 Plan may be for such terms and exercised at such times as determined at the time of grant by the Organization, Compensation and Nominating Committee of the Board of Directors. Options to purchase 360,750 shares of Common Stock were granted during 1997 to officers and key employees. The exercise price of these options is \$22.62, which equaled the fair market value of the Company's Common Stock at the date of the grant. However, this exercise price was less than the fair market value at the measurement date for 330,000 of the options granted. All of these options became exercisable in 1997. Compensation expense related to these options of \$1,682 is included in selling, general and administrative expenses in the accompanying 1997 consolidated statement of operations. These options expire at various dates through 2007.

The Company adopted a second Employee Stock Plan in 1998 (the 1998 Plan). Under the 1998 Plan, the Company has reserved for issuance 950,000 shares of Common Stock. The terms of the 1998 Plan also allow for the issuance of the 2,279 shares which remained as of December 1, 1997 from the 1993 Plan. In addition, the terms of the 1998 Plan allow for the reissuance of any stock options which have been forfeited before being exercised. An additional 500,000 shares of Common Stock were authorized for issuance by the Stockholders at the 1999 Annual Shareholders Meeting. Options granted under the 1998 Plan may be for such terms and exercised at such times as determined by the Organization, Compensation, and Nominating Committee of the Board of Directors. Shares available for grant under the 1998 Plan were 769,902 at November 27, 1999.

The Company has a Stock Plan for Non-Employee Directors which was adopted in 1993. Under this stock option plan, the Company has reserved for issuance 75,000 shares of Common Stock, 7,719 of which are available for grant at November 27, 1999. Under the terms of this plan, each non-employee director will automatically be granted an option to purchase 1,000 shares of Common Stock on April 1 of each year. These options are exercisable for 10 years commencing six months after the date of grant.

Option activity under these plans is as follows:

	Number of shares	Weighted Average price per share
Outstanding at November 30, 1996	321,625	\$32.02
Granted in 1997	382,750	\$22.87
Exercised in 1997	(2,000)	\$25.97
Cancelled in 1997	(49,577)	\$31.50
Outstanding at November 30, 1997	652,798	\$26.80
Granted in 1998	875,759	\$30.25
Exercised in 1998	(11,000)	\$24.18
Cancelled in 1998	(126,142)	\$31.67
Outstanding at November 28, 1998	1,391,415	\$28.51
Granted in 1999	320,406	\$22.58
Exercised in 1999	---	---
Cancelled in 1999	(341,032)	\$27.19
Outstanding at November 27, 1999	1,370,789	\$27.46
Exercisable at November 27, 1999	508,877	\$24.48
Exercisable at November 28, 1998	614,386	\$26.17
Exercisable at November 30, 1997	602,726	\$26.22

The following table summarizes information about stock options outstanding at November 27, 1999:

Range of exercise prices	Number outstanding at Nov. 27, 1999	Options Outstanding		Options Exercisable	
		Weighted average contractual life (years)	Weighted average exercise price	Number exercisable at Nov. 27, 1999	Weighted average exercisable price
\$16.25 - 22.49	88,500	9.4	\$19.59	---	\$---
22.50 - 27.75	566,464	7.6	23.24	445,464	23.43
27.76 - 37.40	715,825	8.0	31.79	63,413	31.89
16.25 - 37.40	1,370,789	7.9	27.46	508,877	24.48



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

	1999	1998	1997
Net income (loss):			
As reported	\$17,954	\$15,717	\$(19,609)
Pro Forma	\$16,879	\$14,863	\$(19,945)
Basic earnings (loss) per share			
As reported	\$1.44	\$1.21	\$(1.50)
Pro Forma	\$1.35	\$1.14	\$(1.53)
Diluted earnings (loss) per share:			
As reported	\$1.44	\$1.20	\$(1.50)
Pro Forma	\$1.35	\$1.14	\$(1.53)

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

	1999	1998	1997
Expected lives	5 years	5 years	5 years
Risk-free interest rate	4.5%	5.3%	6.6%
Expected volatility	34.5%	34.2%	29.5%
Dividend yield	3.3%	3.0%	3.3%

The weighted average fair values of options granted during 1999, 1998 and 1997 were \$5.64, \$9.45 and \$6.15 respectively.

During 1998 and 1997, the Company issued 16,836 and 31,396 shares respectively, of restricted Common Stock under the 1993 Long Term Incentive Plan as compensation for certain key salaried employees. These shares carry dividend and voting rights. Sale of these shares is restricted prior to the date of vesting, which is five years from the date of grant. Shares issued under this plan were recorded at their fair market value on the date of the grant with a corresponding charge to stockholders' equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to these grants was \$240 in 1999, \$204 in 1998 and \$11 in 1997.

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

#### L. Other Income, Net

	1999	1998	1997
Equity in undistributed income of affiliated companies	\$12,587	\$ 5,784	\$ 5,926
Corporate owned life insurance, net of interest expense	3,109	(91)	(1,148)
Net gain from sales of investment securities	1,795	1,446	1,804
Dividends	835	825	1,141
Interest Income (principally tax exempt)	571	3,195	3,328
Interest expense	(256)	---	---
Net loss on financial instrument	(3,423)	---	---
Other, net	(1,474)	286	2,316
	\$13,744	\$11,445	\$13,367

Interest expense on corporate owned life insurance policy loans was \$1,769 in 1999, \$5,450 in 1998, and \$7,295 in 1997.

### M. Restructuring, Impaired Fixed Asset and Other Unusual and Nonrecurring Charges

During 1999, the Company reorganized its retail operations and subsequently formed a new joint venture to operate its stores. See Note R for more discussion of this transaction. The Company recorded \$1,156 of nonrecurring charges related to this transaction and the closing of one upholstery plant. The charges were primarily severance and related employee benefit costs. Of these costs, \$676 are included in cost of sales and \$480 are included in selling, general and administrative expenses in the accompanying 1999 consolidated statement of operations.

During 1997, the Company restructured certain of its operations and recorded restructuring and impaired fixed asset charges of \$20,646. The restructuring plan was the result of management's decision to focus on its core Bassett product line and efforts to improve operating efficiencies. The principal actions of the plan included the closure or sale of 14 manufacturing facilities, elimination of three product lines (National/Mt. Airy, Impact and Veneer Production) and the severance of approximately 1,000 employees. The major components of the restructuring and impairment of fixed assets charges and the remaining reserves as of November 27, 1999, and November 28, 1998, are as follows:

	Original charges	1997 Activity	1998 Activity	1998 Reserve Balance	1999 Activity	1999 Reserve Balance
Non-cash write-downs of property and equipment to net realizable value	\$13,362	\$13,362	---	---	---	---
Severance and related employee benefits	5,684	774	3,507	1,403	289	1,114
Lease exit costs	614	---	190	424	222	202
Other	986	261	63	662	662	---
Total	\$20,646	\$14,397	\$ 3,760	\$ 2,489	\$ 1,173	\$ 1,316

The Company completed the closure of five of the 14 manufacturing facilities, disposed of one of the facilities and severed approximately 600 employees during 1997. Substantially all remaining restructuring activities were completed in 1998. Net sales and operating income from activities that were discontinued were \$2,180 and \$0, respectively, in 1998, and \$46,221 and \$(31,602) in 1997.

As a result of the plan, additional nonrecurring charges including moving costs, plant consolidation inefficiencies and inventory write-downs totaling \$4,669 were recorded in 1998. Of these costs, \$3,887 are included in cost of goods sold and \$782 are included in selling, general and administrative expenses in the accompanying 1998 consolidated statement of operations. After an income tax benefit of \$1,821, the additional nonrecurring charges of \$4,669 reduced fiscal year 1998 net income by \$2,848 or \$0.22 per share. Additional nonrecurring charges recorded in 1997 totaled \$31,654. Of these costs, \$28,325 are included in cost of goods sold and \$3,329 are included in selling, general, and administrative expenses in the accompanying 1997 consolidated statement of operations. After an income tax benefit of \$22,027, the restructuring and impaired fixed asset charges of \$20,646 and additional nonrecurring charges of \$31,654 reduced fiscal year 1997 net income by \$30,273 or \$2.32 per share.

In addition, the Company incurred other unusual and nonrecurring charges during 1997 of \$12,500 related to customer bankruptcies, environmental matters and issues related to the Bedding Division (Note N). Of these charges, \$1,000 are included in cost of goods sold and \$11,500 are included in selling, general and administrative expenses in the accompanying 1997 consolidated statement of operations. After an income tax benefit of \$4,875, these other unusual and nonrecurring charges reduced fiscal year 1997 net income by \$7,625 or \$.58 per share.

### N. Contingencies

A suit was filed in June 1997 in the Superior Court of the State of California for the County of Los Angeles (the "Superior Court") against the Company, two major retailers and certain current and former employees of the Company. The suit sought certification of a class consisting of all consumers who purchased certain mattresses and box springs from the major retailers that were manufactured by a subsidiary of the Company, E.B. Malone Corporation, with allegedly different specifications than those originally manufactured for sale by these retailers. The suit alleged various causes of action, including negligent misrepresentation, breach of warranty, violations of deceptive practices laws and fraud. Plaintiffs sought compensatory damages of \$100 million and punitive damages. In 1998, the Superior Court dismissed the class action allegations in plaintiffs' complaint and transferred the entire action out of the class action department. The court also dismissed many of the individual claims. Plaintiffs then filed a notice of appeal from the class action ruling. Plaintiffs also filed a petition for a writ of mandamus or other extraordinary relief, which was denied. The suit was subsequently transferred from the Superior Court for the County of Los Angeles to the Superior Court for Orange County. After the case was transferred to Orange County, the plaintiffs stipulated to a dismissal with prejudice of all individual defendants. Additionally, all remaining claims against the Company were stayed by the Orange County Court pending Plaintiffs' appeal of the dismissal of their

class action allegations. The parties have recently briefed the issues on appeal, but no hearing date has been set by the appellate court. Although it is impossible to predict the ultimate outcome of this litigation, the Company intends to vigorously defend this suit, because it believes that the damages sought are unjustified and because this case is inappropriate for class action treatment. Because the Company believes that the two major retailers were unaware of any alleged changes in specifications, the Company has agreed to indemnify the two major retailers with respect to the above.

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately \$8 million as the result of COLI interest deductions through 1998. The Internal Revenue Service (IRS), on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. In 1999, the IRS received a favorable Tax Court ruling on one taxpayer regarding the non-deductibility of COLI loan interest. Management understands that this ruling and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in a potential income tax and interest payments which could be material to the Company's future results of operations.

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

#### O. Leases

The Company leases land and buildings principally for the operation of its Company-owned retail outlets and related distribution facilities. Lease terms range from three to 15 years and generally have renewal options of between five and 15 years. The following schedule shows future minimum lease payments under non-cancelable leases having remaining terms in excess of one year as of November 27, 1999:

2000	\$ 2,217
2001	2,131
2002	1,913
2003	1,922
2004	1,837
Thereafter	16,197
	\$26,217

Rental expense related to these leases was \$1,330 in 1999, and \$0 in 1998 and 1997, respectively.

As part of Bassett's expansion strategy for its retail stores, Bassett has guaranteed certain lease obligations and construction loan obligations of licensee operators of the Bassett Furniture Direct program. Lease guarantees generally do not exceed five years. The Company was contingently liable under licensee lease obligation guarantees in the amount of \$12,147 at November 27, 1999. Additionally, the Company was contingently liable under licensee construction loan guarantees in the amount of \$15,180 at November 27, 1999.

## P. Earnings Per Share

The following table reconciles basic and diluted earnings per share:

	Shares	Net Income (loss)	Earnings Per Share
1999:			
Basic EPS	12,499,481	\$17,954	\$1.44
Add effect of dilutive securities:			
Options and restricted stock	6,992	---	---
Diluted EPS	12,506,473	\$17,954	\$1.44
1998:			
Basic EPS	12,984,639	\$15,717	\$1.21
Add effect of dilutive securities:			
Options and restricted stock	80,449	---	(.01)
Diluted EPS	13,065,088	\$15,717	\$1.20
1997:			
Basic EPS	13,045,789	\$(19,609)	\$(1.50)
Add effect of dilutive securities:			
Options and restricted stock	5,377	---	---
Diluted EPS	13,051,166	\$(19,609)	\$(1.50)

## Q. Segment Information

The Company's operations are classified into two primary businesses: wholesale and retail home furnishings. The wholesale home furnishings business is involved principally in the manufacture, sale and distribution of furniture products to a network of independently-owned and Company-owned stores. The wholesale business consists primarily of two operating segments, wood and upholstery. The retail home furnishings segment sells home furnishings products through a network of Company-owned retail stores known as Bassett Furniture Direct (BFD).

The wood segment is engaged in the manufacture and sale of wood furniture to independent and Company-owned retailers. The upholstery segment involved in the manufacture and sale of upholstered frames and cut upholstery items having a variety of frame and fabric options.

The Company's other businesses consist of the Bedding Division, a contemporary furniture business (Wiemer) and corporate operations, all included to reconcile segment information to the Consolidated Financial Statements. The Bedding Division activity is included for five months in 1999 and 12 months in 1998 and 1997. Restructuring and other nonrecurring charges are included for 1998 and 1997 as discussed in Note M to the Consolidated Financial Statements.

Wholesale profitability includes the wholesale gross margin, which is earned on wholesale sales to all retail stores, including Company-owned stores. The retail profitability includes the retail gross margin, which is earned based on final delivery to consumers. Inter-segment eliminations comprise primarily the wholesale sales and profit on the transfer of inventory between segments. Operating income by business segment is defined as sales less direct operating costs and expenses. Identifiable assets are those assets used exclusively in the operations of each business segment. Identifiable assets for the wood and upholstery segments consist of inventories and property, plant and equipment.

	Wood	Upholstery	Other	Wholesale	Retail	Inter-segment Eliminations	Consolidated
1999							
Net sales	259,825	103,520	26,156	389,501	11,319	(6,408)	394,412
Operating Income (Loss)	44,363	9,398	(38,267)	15,494	(2,570)	(450)	12,474
Identifiable assets	81,067	14,195	236,708	331,970	10,859	---	342,829
Depreciation and amortization	3,846	753	3,303	7,902	484	---	8,386
Capital expenditures	16,075	2,825	10,106	29,006	18,690	---	47,696

	Wood	Upholstery	Other	Wholesale	Retail	Inter-segment Eliminations	Consolidated
1998							
Net sales	233,626	110,223	53,708	397,557	---	---	397,557
Operating Income (Loss)	36,730	8,260	(35,339)	9,651	---	---	9,651
Identifiable assets	80,340	15,134	226,040	321,514	---	---	321,514
Depreciation and amortization	3,287	568	3,015	6,870	---	---	6,870
Capital expenditures	6,363	1,358	14,889	22,610	---	---	22,610

	Wood	Upholstery	Other	Wholesale	Retail	Inter-segment Eliminations	Consolidated
1997							
Net sales	195,743	131,690	119,460	446,893	---	---	446,893
Operating Income (Loss)	26,943	4,820	(87,085)	(55,322)	---	---	(55,322)
Identifiable assets	65,632	12,606	242,087	320,325	---	---	320,325
Depreciation and amortization	3,014	590	2,588	6,192	---	---	6,192
Capital expenditures	7,590	425	2,809	10,824	---	---	10,824

R. Subsequent Event:

Subsequent to yearend, the Company merged all of its eight company owned Bassett Furniture Direct (BFD) stores with a licensee's five BFD stores, and formed a new joint venture know as the Ladin Retail Group (LRG). Bassett contributed the net assets from its retail operations along with \$4.2 million in cash and the Ladins contributed their net assets along with \$.5 million in cash. Bassett owns 51% of the new entity.

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

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated (a Virginia corporation) and subsidiaries as of November 27, 1999 and November 28, 1998, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended November 27, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, financial statements referred to above present fairly, in all material respects, the financial position of Bassett Furniture Industries, Incorporated and subsidiaries as of November 27, 1999 and November 28, 1998, and the results of their operations and their cash flows for each of the three years in the period ended November 27, 1999, in conformity with generally accepted accounting principles.

/s/ Arthur Andersen

Greensboro, North Carolina,  
January 17, 2000.

## OTHER BUSINESS DATA

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

## SELECTED FINANCIAL DATA

	1999	1998	1997	1996	1995
Net sales	\$394,412	\$397,557	\$446,893	\$450,717	\$490,817
Cost of sales	309,316	323,904	396,875	379,259	407,750
Operating profit (loss)	12,474	9,651	(55,322)	(1) 7,306	17,129
Other income	13,744	11,445	13,367	14,982	13,000
Income (loss) before income taxes	26,218	21,096	(41,955)	(1) 22,288	30,129
Income taxes	8,264	5,379	(22,346)	(1) 3,787	7,226
Net income (loss)	17,954	15,717	(19,609)	(1) 18,501	22,903
Diluted earnings (loss) per share	1.44	1.20	(1.50)	(1) 1.39	1.63
Cash dividends declared	9,983	10,393	13,041	10,626	11,197
Cash dividends per share	.80	.80	1.00	.80	.80
Total assets	342,829	321,514	320,325	335,166	346,720
Current ratio	2.39 to 1	3.21 to 1	4.12 to 1	6.42 to 1	5.79 to 1
Book value per share	20.46	20.40	20.01	22.29	21.88
Weighted average number of shares	12,499,481	12,984,639	13,045,789	13,351,585	14,052,794

## QUARTERLY RESULTS OF OPERATIONS

	1999			
	First	Second	Third	Fourth
Net sales	\$ 99,809	\$103,659	\$ 88,803	\$102,141
Gross profit	19,576	22,464	20,224	22,832
Net income	4,415	5,060	4,405	4,074
Basic earnings per share	.34	.40	.36	.34
Diluted earnings per share	.34	.40	.36	.34

	1998			
	First	Second	Third	Fourth
Net sales	\$ 98,333	\$ 98,335	\$ 98,093	\$102,796
Gross profit	17,582	18,527	17,690	19,854
Net income	3,435	3,959	3,127	5,196
Basic earnings per share	.26	.30	.24	.40
Diluted earnings per share	.26	.30	.24	.40

(1) See Note M to the Consolidated Financial Statements for a discussion of restructuring and fixed asset impairment charges

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

RESULTS OF OPERATIONS:

In 1999, Bassett reported a net sales decline of 1% following an 11% decline in 1998. The decline in sales reflects the elimination and disposition of divisions and products that did not adequately contribute to earnings. In April of 1999, the Company sold its Bedding Division, which had revenues of \$12 million in 1999 (prior to the sale), \$39 million in 1998, and \$54 million in 1997. The decline from 1997 to 1998 also resulted from eliminating three divisions (Impact, National/Mt. Airy and Veneer) which had net sales of \$46 million in 1997.

Offsetting these declines were increases in core Bassett branded wholesale furniture sales in both 1998 and 1999. Core wholesale furniture sales have increased 6% each of the past two years driven by the opening of additional Bassett Furniture Direct (BFD) stores. A net 15 BFD stores were opened in 1999 following the opening of 17 stores in 1998, bringing the total BFD stores open at the end of fiscal 1999 to 51. The Company has targeted opening approximately 20 new BFD stores in each of the next five years. Within our core wholesale furniture segment, sales of our products have significantly increased over the past two years, 11% and 19% for 1999 and 1998, respectively, while upholstery product sales have declined 6% and 16% for 1999 and 1998, respectively. We continue to reposition our product offerings and account structure in order to improve both service and profitability.

Gross margin; selling, general, and administrative (S,G&A) expenses; and operating income as a percentage of net sales were as follows for the years ended November 27, 1999, November 28, 1998, and November 30, 1997:

	1999	1998	1997
Gross Margin	21.6%	18.5%	11.2%
S,G&A Expenses	18.4%	16.1%	18.9%
Operating Income	3.2%	2.4%	(12.4%)

The improvement in gross margin from 11.2% in 1997 to 18.5% in 1998 to 21.6% in 1999 reflects both the elimination and disposition of unprofitable divisions and the operational changes made by the Company over the past two years. Results in 1997 and 1998 were negatively impacted by restructuring and nonrecurring charges, substantially all of which were completed in 1998. On a continuing operations basis, margins improved from 17.8% in 1997 to 19.5% in 1998 to 21.7% in 1999 due to consolidation and absorption efficiencies, new investments in technology and equipment, manufacturing process improvements, and product enhancements. The Company is committed to continuing its gross margin improvement initiatives. These initiatives include the consolidation of the J.D. Bassett plant in the Wood Division and the closing of the Dumas plant in the Upholstery Division, additional investments in equipment and technology, and additional engineering efforts to streamline plant production processes.

S,G&A expenses increased from 16.1% of sales in 1998 to 18.4% of sales in 1999 following a decrease in 1998 from 18.9% in 1997. The increase in 1999 is attributable primarily to the Company's entry into the retail furniture business and the related support structure required for this segment (\$10 million). In addition, the Company increased spending on brand building and marketing programs. Spending related to information technology and systems has also increased in each of the last two years. The Company plans to continue to focus its spending on marketing and advertising in order to drive its sales growth. Management expects S,G&A spending in the wholesale furniture segment to approximate 16.5% of wholesale furniture sales over the next five years. Total S,G&A spending will continue to increase as a percentage of sales due to the consolidation of an ever growing retail business.

Other income increased from \$11.4 million in 1998 to \$13.7 million in 1999, following a decrease in 1998 from \$13.4 million in 1997. The increase in 1999 was due principally to better returns on the Company's investment portfolio. Also included in the increase was income from the Company's COLI plan. COLI income is realized as proceeds from policy claims exceed interest on policy loans and changes in the cash surrender value of the policies. The decrease from 1997 to 1998 was due to fewer sales of investment securities and the related gains from these sales. Other income will continue to be an integral component of the Company's future earnings. Management plans to continue to make investments in companies which are strategically aligned with Bassett and the home furnishings industry.

The effective tax rate was 31.5% in 1999 compared to 25.5% in 1998 and (53.3%) in 1997. The unusual rate in 1997 was a result of the restructuring, impaired fixed asset and other non-recurring charges incurred in 1997. The 1999 and 1998 tax rates were lower than the statutory federal income tax rate due to exclusions for tax exempt and undistributed affiliate income and the Company's COLI Plan (1998 only). Note H in the "Notes to Consolidated Financial Statements" contains complete disclosure of the Company's income tax status. The increase in the effective rate for 1999 is due to the final phase-out of the COLI loan interest deduction and the reduction in tax exempt bond income.

For the year ended November 27, 1999, net income was \$18.0 million, or \$1.44 per diluted share, compared to net income of \$15.7 million or \$1.20 per diluted share in fiscal 1998, and a net loss of \$19.6 million or (\$1.50) per diluted share in fiscal 1997.



## SEGMENT INFORMATION:

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

## Wood Division

	1999	1998	1997
Net Sales	\$259,825	\$233,626	\$195,743
Contribution to Profit and Overhead	44,363	36,730	26,943

Wood Division net sales grew 11% in 1999 and 19% in 1998 due to the expansion of the BFD store program, successful new product introductions, and improvements in product styling, quality, and service.

Contribution to profit and overhead is defined by the Company as gross profit less direct divisional operating expenses but excluding any allocation of corporate overhead expenses, interest expense, or income taxes. For the Wood division, contribution to profit and overhead has increased dramatically over the past two years from 13.8% as a percentage of net sales in 1997 to 15.7% in 1998 and 17.1% in 1999. This improvement results from the combination of consolidation and absorption efficiencies and several Company initiatives. The initiatives include investments in equipment and technology, manufacturing process improvements, and targeted price increases.

Two of the Company's wood manufacturing facilities posted notable improvement in their contribution to profit and overhead from 1998 to 1999. The two plants located in Dublin, Georgia, and Mt. Airy, North Carolina, achieved these results for the reasons noted above but also as a result of better plant scheduling practices, a narrower more focused product line, and standardized production processes. In addition, sales of the Company's import products have increased in each of the last two years, improving sales and profitability for the Wood Division.

## Upholstery Division

	1999	1998	1997
Net Sales	\$103,520	\$110,223	\$131,690
Contribution to Profit and Overhead	9,398	8,260	4,820

Net sales for the Upholstery Division have declined in each of the past two years, as the Company continues its overall repositioning of this product segment. Management decided to exit certain distribution channels, which it concluded, were incompatible with the Bassett brand image and its current primary channels of distribution. The Company has decided to focus this segment on its BFD stores, its At Home with Bassett galleries, and several of its major customers.

Contribution to profit and overhead has improved despite the sales decline. For the Upholstery Division, contribution to profit and overhead has increased over the past two years from 3.6% of sales in 1997 to 7.5% in 1998 to 9.1% in 1999. Repositioning the segment away from lower margin accounts and products and into higher quality, more stylish goods combined with operational initiatives have propelled the profit improvement. The operational initiatives include the entry into cellular manufacturing and investments in new cutting and sewing equipment.

## Retail Segment

	1999	1998	1997
Net Sales	\$11,319	---	---
Operating Loss	(2,570)	---	---

The Company owned and operated eight BFD stores in 1999. Delivered sales from these stores, which opened or were purchased at various months during the year, were \$11.3 million. The pretax operating loss (which includes a corporate management allocation) of \$2.6 million resulted from acquiring two underperforming licensed stores during the year, start-up related losses associated with opening the other six stores, and operational inefficiencies incurred during the first year of this new segment.

Note that subsequent to year-end, the Company merged its eight BFD stores with a licensee's five BFD stores, and formed a new joint venture known as the Ladin Retail Group (LRG). Bassett retains a 51% ownership of the joint venture and will be consolidating the results of LRG's operations into future consolidated financial statements.

The change in "Other" operations from 1997 to 1998 to 1999 detailed in Note Q to the Consolidated Financial Statements reflect the elimination of discontinued operations previously discussed, the sale of the bedding division, and the increase in corporate related marketing and support structure spending.

## LIQUIDITY AND CAPITAL RESOURCES:

Cash provided by operating activities was \$16.3 million in 1999 compared with \$4.5 million in 1998 and \$21.3 million in 1997. The increase in 1999 was attributable to better earnings, the timing of certain accounts payable expenditures, and the refund of certain income taxes paid in 1998. In 1998, increases in inventories and receivables negatively impacted operating cash flow.

The Company invested \$47.7 million in property and equipment in 1999. This significant increase in capital spending included amounts for the BFD store real estate, the Company's new enterprise-wide information systems, new manufacturing equipment and a new dining table top manufacturing facility. The Company plans to invest approximately \$30 to \$40 million per year over the next few years to aggressively execute its BFD expansion. The Company's solid financial position with significant liquidity and minimal debt affords it many options. Management intends to examine opportunities to strengthen its balance sheet and increase shareholder value, which could require additional debt financing.

In 1999, the Company liquidated a significant portion of its investment portfolio, primarily tax exempt municipal bonds, and generated \$37.8 million in cash proceeds. These proceeds were utilized to fund capital expenditures and BFD expansion. This follows the decision made by management in 1998 to reinvest a large portion (\$50 million) of its investment portfolio into an investment partnership which has enabled the Company to generate improved investment returns in 1999 compared to 1998.

The Company made two strategic investments in 1999 totaling \$5.7 million for equity interests in Zenith Freight Lines LLC and The Accessory Group LP, two companies which service and support the home furnishings industry.

The Company entered into a \$50 million revolving credit facility in 1999. Management decided to borrow money at competitive rates rather than further liquidate its investment portfolio, which has been generating favorable returns. At the end of fiscal 1999, the Company had borrowed \$18 million against its credit line and expects to continue to borrow against this line in fiscal 2000. The Company also plans to liquidate a portion of its investment portfolio over the next six years.

The Company purchased and retired 793,000 shares of its Common Stock during 1999. These purchases were part of the Company's stock repurchase program, approved in 1998, which allows the Company to repurchase up to 1.3 million shares for an aggregate purchase price not to exceed \$40 million. The average cost of the shares purchased in 1999 was \$21.73, resulting in a total expenditure of \$17.0 million. In 1998, the Company purchased and retired 185,300 shares for \$4.8 million, while in 1997, 60,000 shares were purchased and retired for \$1.4 million. The Company plans to actively continue its share repurchase program in fiscal 2000.

The current ratio for the past two years was 2.39 to 1 and 3.21 to 1, respectively. Working capital was \$79.3 million at November 27, 1999 and \$98.9 million at November 28, 1998. This decrease is due primarily to the Company's change in investment strategies, and the sale of its bedding division in April 1999.

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

## CONTINGENCIES:

The Company is involved in various claims and litigation, including a lawsuit concerning a subsidiary, E. B. Malone Corporation, as well as environmental matters at certain plant facilities, which arise in the normal course of business. The details of these matters are described in Note N in the Notes to Consolidated Financial Statements. Although the final outcome of these legal and environmental matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately \$8 million as the result of COLI interest deductions through 1998. The Internal Revenue Service (IRS), on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. In 1999, the IRS received a favorable Tax Court ruling on one taxpayer regarding the non-deductibility of COLI loan interest. Management understands that this ruling and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in a potential income tax and interest payments which could be material to the Company's future results of operations.

YEAR 2000:

JANUARY 2000 UPDATE:

Through the first month of the year 2000, Bassett's operations throughout the United States are fully functioning and have not experienced any significant problems associated with the Y2K issue. We are pleased by the results of our Year 2000 efforts, and that of our customers, suppliers, and third party service providers thus far, however the Company remains vigilant in its testing and preparations for any follow-on Year 2000 issues that may arise.

YEAR 2000 READINESS OVERVIEW:

The Year 2000 issue results from the inability of many computer systems and applications to recognize and process data after the year 1999. This could cause systems to process critical information incorrectly. Over the past few years, the Company has been steadily reengineering its business processes and information systems to prepare for the conversion to year 2000. Based on our analysis of significant Year 2000 issues, management believes that the Company has taken and is taking appropriate and timely actions. The Company's Year 2000 compliance plan includes three phases discussed in greater detail below. Each significant internal and external information technology and non-information technology system that may possibly be affected by a Year 2000 problem, (hereinafter collectively, the "System[s]") had to be confirmed as Year 2000 compliant in Phase One or be successfully tested through phases Two and Three to be considered Year 2000 ready.

Phase One of the Compliance Plan involved a comprehensive audit to identify all internal and external Systems. Once identified, each System was reviewed and categorized as compliant or non-compliant. In addition, initial contingency plans were developed based on the importance of any non-compliant system. Phase Two involved correcting those Systems identified in Phase One as non-compliant, initial testing (as well as additional testing if needed) of individual internal Systems, a Year 2000 readiness audit of all existing software by an external consultant, and formalization of contingency plans. Phase Three involved comprehensive simultaneous Company wide testing of internal locations and Systems, final confirmation of the readiness of external Systems, and finalization of contingency plans. Testing in Phase Two and Phase Three included setting internal System clocks ahead to simulate the change from 1999 into 2000 and monitoring System performance before, during, and after the simulated date change.

A significant step in moving towards Year 2000 readiness was taken in the second quarter of 1998 when a comprehensive enterprise wide system (which had been installed in over 4,400 companies and is Year 2000 compliant) was purchased. Implementation of the enterprise wide system began immediately thereafter. In 1998, the Company also engaged a consultant, knowledgeable in the enterprise wide system being installed, to advise and assist in the installation and implementation of the system. To further assure readiness, the Company converted all PC's to Year 2000 compliant Pentium chip PC's by December 1999.

As part of Phases One, Two, and Three the Company developed and updated contingency plans and will continue to refine them as test data and other information regarding possible Year 2000 issues develop. Current contingency plans include identifying alternate means of supply, determining appropriate levels of safety stock, contacting customers to coordinate orders, arranging alternate means of placing orders, and printing hard copies of reports that may otherwise be available only on computer. In addition, combined action teams are prepared and trained to assure rapid response if needed. The reasonable worst case scenario is an interruption of normal business operations. If Year 2000 issues present themselves, the amount of lost revenue would depend on the duration of the problem and the amount of deliverable goods in inventory.

The Company also worked with its customers, suppliers and third-party service providers to identify external weaknesses and provide solutions which will prevent the disruption of business activities; it does not believe that it will be significantly affected by direct suppliers of raw materials or supplies that might be non-compliant. The Company's actions included surveying vendors and customers with which it has a material relationship. To date, the Company has not received any responses that indicate the possibility of significant problems. However, the Company cannot guarantee that Year 2000 related systems or hardware issues of its business partners will be corrected in a timely manner or that the failure of its business partners to correct these issues would not have a material adverse effect on its future results of operations or financial condition. The Company does not believe that it will be significantly affected by non-compliance by companies outside the United States.

The Company does not expect the cost of implementation to have a material adverse effect on its future results of operations, liquidity or capital resources. The total cost of the new enterprise system is estimated at \$10 million. This total includes the Year 2000 Project. The new system was not purchased to solely achieve Year 2000 compliance in the Company's information systems. Instead it was purchased to provide management with the information and tools that it needs to better manage the Company. The Year 2000 issue slightly accelerated the timetable for implementation, however. Of the total project cost, \$9 million represents the purchase of new software, new hardware, and related implementation costs, which have been or will be capitalized. As of the end of the fiscal 1999, the Company has spent approximately \$8 million on the project.

## MARKET RISK:

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

The Company's equity securities portfolio, which totaled \$23,057 at November 27, 1999, is diversified among over twenty different medium to large capitalization interests. The Company entered into an equity collar in 1999 to reduce its exposure to fluctuations in the market value of these securities. Subsequent to yearend, management decided to liquidate this financial instrument and enter into a new financial instrument which more clearly correlates to its equity portfolio. Although there are no maturity dates for the Company's equity investments, management has plans to liquidate both its current equity portfolio and the related financial instrument on a scheduled basis over the next five years. See Note E to the Consolidated Financial statements for more information on these investment securities.

The Company's investment in a limited partnership, which totaled \$58,000 at November 27, 1999, invests in various other private limited partnerships which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest, market currency rates, and liquidity.

## SAFE-HARBOR, FORWARD-LOOKING STATEMENTS:

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

- - competitive conditions in the home furnishings industry
- - general economic conditions that are less favorable than expected
- - overall consumer demand for home furnishings
- - new BFD openings
- - cost and availability of raw materials and labor
- - information and technology advances, including Year 2000 issues
- - success of marketing and advertising campaigns
- - future tax legislation, or regulatory or judicial positions related to

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## INVESTOR INFORMATION

## CORPORATE INFORMATION:

The Company's annual report and proxy statement together contain substantially all the information presented in the Form 10-K report filed with the Securities and Exchange Commission. Individuals who wish to receive the Form 10-K or other corporate literature should contact Grover S. Elliott, Vice President, Finance and Investor Relations at 336-725-7996.

## INVESTOR INQUIRIES:

Securities analysts, portfolio managers and other representatives of financial institutions seeking information about the corporation should contact Grover S. Elliott, Vice President, Finance and Investor Relations at 336-725-7996.

## TRANSFER AGENT/STOCKHOLDER INQUIRIES:

Stockholders with inquiries relating to stockholder records, stock transfers, change of ownership, change of address or dividend payments should write to Jane Wilson at the corporate headquarters.

## ANNUAL MEETING:

The Bassett Annual Meeting of Shareholders will be held Tuesday, March 28, 2000, at 11:30 a.m. at the Company's showroom building in Thomasville, North Carolina.

## MARKET AND DIVIDEND INFORMATION:

Bassett's common stock trades on the NASDAQ national market system under the symbol "BSET." The Company had approximately 1,700 registered stockholders at November 27, 1999. The range of per share amounts for high and low market prices and dividends declared for the last two fiscal years are listed below:

Quarter	Market Prices of Common Stock				Dividends Declared	
	1999		1998		1999	1998
	High	Low	High	Low		
First	\$27.00	\$19.87	\$31.25	\$25.63	.20	.20
Second	\$24.31	\$19.50	33.50	29.34	.20	.20
Third	\$24.91	\$20.37	31.88	24.13	.20	.20
Fourth	\$20.25	\$15.87	29.69	19.94	.20	.20

## FORWARD-LOOKING STATEMENTS:

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

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

## WEB SITE:

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

## EXHIBIT 21 - LIST OF SUBSIDIARIES

- (a) Bassett Furniture Industries of North Carolina, Inc. (North Carolina Corporation)
- (b) The E.B. Malone Corporation (Delaware Corporation)
- (c) Bassett Direct Stores Inc. (Virginia Corporation)

## EXHIBIT 23A

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated January 17, 2000 and February 25, 2000 on the financial statements and schedule of Bassett Furniture Industries, Incorporated and the financial statements of Bassett Industries Alternative Asset Fund, L.P., respectively, included in and incorporated by reference in this Form 10-K/A, into the Company's previously filed Registration Statement File Nos. 33-52405, 33-52407 and 333-60327.

/s/ ARTHUR ANDERSEN

Greensboro, North Carolina,  
April 10, 2000.



## CONSENT OF INDEPENDENT AUDITORS

Board of Directors  
Bassett Furniture Industries, Incorporated  
Bassett, Virginia

We consent to incorporation by reference in the Registration Statements (Nos. 33-52405, 33-52407 and 333-60327) on Form S-8 of Bassett Furniture Industries, Incorporated and subsidiaries of our report dated November 22, 1999, relating to the balance sheets of International Home Furnishings Center Inc. as of October 31, 1999 and 1998, and the related statements of income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended October 31, 1999, which report is incorporated by reference in the November 27, 1999 annual report on Form 10-K of Bassett Furniture Industries, Incorporated and subsidiaries.

/s/ Dixon Odom PLLC

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Dixon Odom PLLC

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