

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

FORM 10-Q

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

For the quarterly period ended June 1, 2019

OR

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

For the transition period from _____ to _____

Commission File No. 000-00209

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

Virginia
(State or other jurisdiction
of incorporation or
organization)

54-0135270
(I.R.S. Employer
Identification No.)

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

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

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

| <u>Title of each class</u> | <u>Trading Symbol</u> | <u>Name of exchange on which registered</u> |
|---------------------------------|-----------------------|---|
| Common Stock (\$5.00 par value) | BSET | 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 the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large Accelerated Filer | <input type="checkbox"/> | Accelerated Filer | <input checked="" type="checkbox"/> |
| Non-accelerated Filer | <input type="checkbox"/> | Smaller Reporting Company | <input type="checkbox"/> |
| | | Emerging Growth Company | <input type="checkbox"/> |

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

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

At June 26, 2019, 10,409,751 shares of common stock of the Registrant were outstanding.

PART I - FINANCIAL INFORMATION

| | |
|--|----|
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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
FOR THE PERIODS ENDED JUNE 1, 2019 AND MAY 26, 2018 – UNAUDITED
(In thousands except per share data)

| | Quarter Ended | | Six Months Ended | |
|--|-----------------|-----------------|------------------|-----------------|
| | June 1, 2019 | May 26, 2018 | June 1, 2019 | May 26, 2018 |
| Sales revenue: | | | | |
| Furniture and accessories | \$ 95,824 | \$ 102,675 | \$ 203,181 | \$ 198,798 |
| Logistics | 12,366 | 14,305 | 25,850 | 28,454 |
| Total sales revenue | <u>108,190</u> | <u>116,980</u> | <u>229,031</u> | <u>227,252</u> |
| Cost of furniture and accessories sold | 42,530 | 45,660 | 91,707 | 88,929 |
| Selling, general and administrative expenses excluding new store pre-opening costs | 64,590 | 65,456 | 133,976 | 129,707 |
| New store pre-opening costs | 369 | 201 | 863 | 903 |
| Early retirement program | - | - | 835 | - |
| Income from operations | <u>701</u> | <u>5,663</u> | <u>1,650</u> | <u>7,713</u> |
| Other loss, net | <u>(145)</u> | <u>(233)</u> | <u>(268)</u> | <u>(860)</u> |
| Income before income taxes | 556 | 5,430 | 1,382 | 6,853 |
| Income tax expense | <u>111</u> | <u>1,141</u> | <u>329</u> | <u>3,477</u> |
| Net income | <u>\$ 445</u> | <u>\$ 4,289</u> | <u>\$ 1,053</u> | <u>\$ 3,376</u> |
| Basic earnings per share | <u>\$ 0.04</u> | <u>\$ 0.40</u> | <u>\$ 0.10</u> | <u>\$ 0.32</u> |
| Diluted earnings per share | <u>\$ 0.04</u> | <u>\$ 0.40</u> | <u>\$ 0.10</u> | <u>\$ 0.31</u> |
| Dividends per share | <u>\$ 0.125</u> | <u>\$ 0.11</u> | <u>\$ 0.25</u> | <u>\$ 0.22</u> |

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

PART I – FINANCIAL INFORMATION – CONTINUED
ITEM 1. FINANCIAL STATEMENTS
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 1, 2019 AND MAY 26, 2018 – UNAUDITED
(In thousands)

| | <u>Quarter Ended</u> | | <u>Six Months Ended</u> | |
|--|----------------------|---------------------|-------------------------|---------------------|
| | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>June 1, 2019</u> | <u>May 26, 2018</u> |
| Net income | \$ 445 | \$ 4,289 | \$ 1,053 | \$ 3,376 |
| Other comprehensive income: | | | | |
| Amortization associated with Long Term Cash Awards (LTCA) | 31 | 31 | 62 | 62 |
| Income taxes related to LTCA | (8) | (8) | (16) | (16) |
| Amortization associated with supplemental executive retirement defined benefit plan (SERP) | 46 | 76 | 92 | 152 |
| Income taxes related to SERP | (12) | (19) | (24) | (38) |
| Other comprehensive income, net of tax | 57 | 80 | 114 | 160 |
| Total comprehensive income | <u>\$ 502</u> | <u>\$ 4,369</u> | <u>\$ 1,167</u> | <u>\$ 3,536</u> |

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

PART I – FINANCIAL INFORMATION – CONTINUED
ITEM 1. FINANCIAL STATEMENTS
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 1, 2019 AND NOVEMBER 24, 2018
(In thousands)

| | <u>(Unaudited)</u> <u>June 1,</u> <u>2019</u> | <u>November 24,</u> <u>2018</u> |
|--|---|------------------------------------|
| <u>Assets</u> | | |
| <u>Current assets</u> | | |
| Cash and cash equivalents | \$ 11,581 | \$ 33,468 |
| Short-term investments | 22,643 | 22,643 |
| Accounts receivable, net | 20,906 | 19,055 |
| Inventories | 66,715 | 64,192 |
| Other current assets | 14,652 | 9,189 |
| Total current assets | <u>136,497</u> | <u>148,547</u> |
| Property and equipment, net | 106,089 | 104,863 |
| Deferred income taxes | 3,250 | 3,266 |
| Goodwill and other intangible assets | 28,291 | 28,480 |
| Other | 6,374 | 6,485 |
| Total long-term assets | <u>37,915</u> | <u>38,231</u> |
| Total assets | <u>\$ 280,501</u> | <u>\$ 291,641</u> |
| <u>Liabilities and Stockholders' Equity</u> | | |
| <u>Current liabilities</u> | | |
| Accounts payable | \$ 19,587 | \$ 27,407 |
| Accrued compensation and benefits | 11,299 | 12,994 |
| Customer deposits | 24,910 | 27,157 |
| Other current liabilities and accrued expenses | 11,667 | 14,261 |
| Total current liabilities | <u>67,463</u> | <u>81,819</u> |
| <u>Long-term liabilities</u> | | |
| Post employment benefit obligations | 12,623 | 13,173 |
| Other long-term liabilities | 13,249 | 6,340 |
| Total long-term liabilities | <u>25,872</u> | <u>19,513</u> |

| | | |
|---|-------------------|-------------------|
| Stockholders' equity | | |
| Common stock | 52,262 | 52,638 |
| Retained earnings | 137,127 | 140,009 |
| Accumulated other comprehensive loss | (2,223) | (2,338) |
| Total stockholders' equity | 187,166 | 190,309 |
| Total liabilities and stockholders' equity | \$ 280,501 | \$ 291,641 |

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

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PART I – FINANCIAL INFORMATION – CONTINUED
ITEM 1. FINANCIAL STATEMENTS
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE PERIODS ENDED JUNE 1, 2019 AND MAY 26, 2018 – UNAUDITED
(In thousands)

| | <u>Six Months Ended</u> | |
|---|-------------------------|---------------------|
| | <u>June 1, 2019</u> | <u>May 26, 2018</u> |
| Operating activities: | | |
| Net income | \$ 1,053 | \$ 3,376 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 6,735 | 6,688 |
| Gain on sale of property and equipment | (3) | (136) |
| Deferred income taxes | 23 | 2,183 |
| Other, net | (276) | 1,243 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,824) | 124 |
| Inventories | (3,355) | (3,689) |
| Other current assets | (3,274) | (2,311) |
| Customer deposits | (2,247) | (5,014) |
| Accounts payable and other liabilities | (5,774) | (2,185) |
| Net cash provided by (used in) operating activities | (8,942) | 279 |
| Investing activities: | | |
| Purchases of property and equipment | (8,313) | (7,662) |
| Proceeds from sales of property and equipment | 11 | 2,463 |
| Cash paid for business acquisition | - | (15,556) |
| Other | 343 | (527) |
| Net cash used in investing activities | (7,959) | (21,282) |
| Financing activities: | | |
| Cash dividends | (2,603) | (6,124) |
| Proceeds from the exercise of stock options | 25 | 27 |
| Other issuance of common stock | 159 | 173 |
| Repurchases of common stock | (2,347) | (823) |
| Taxes paid related to net share settlement of equity awards | - | (522) |
| Repayments of notes payable | (220) | (3,128) |
| Net cash used in financing activities | (4,986) | (10,397) |
| Change in cash and cash equivalents | (21,887) | (31,400) |
| Cash and cash equivalents - beginning of period | 33,468 | 53,949 |
| Cash and cash equivalents - end of period | \$ 11,581 | \$ 22,549 |

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

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED
JUNE 1, 2019
(Dollars in thousands except share and per share data)

1. Basis of Presentation

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

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

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

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

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

Our fiscal year, which ends on the last Saturday of November, periodically results in a 53-week year instead of the normal 52 weeks. The current fiscal year ending November 30, 2019 is a 53-week year, with the additional week being included in our first fiscal quarter. Accordingly, the information presented below includes 27 weeks of operations for the six months ended June 1, 2019 as compared with 26 weeks included in the six months ended May 26, 2018.

Lane Venture Acquisition

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

Recently Adopted Accounting Pronouncements

Effective as of the beginning of fiscal 2019, we have adopted Accounting Standards Update No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. ASU 2016-15 addresses how certain cash receipts and cash payments are presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. Among the types of cash flows addressed are payments for costs related to debt prepayments or extinguishments, payments representing accreted interest on discounted debt, payments of contingent consideration after a business combination, proceeds from insurance claims and company-owned life insurance, and distributions from equity method investees, among others. The amendments in ASU 2016-15 are to be adopted retrospectively with comparative amounts in prior period cash flow statements reclassified to conform to the current period presentation. Accordingly, for the six months ended May 26, 2018 we have reclassified investments in Company-owned life insurance of \$527 from cash flows from operating activities to cash flows from investing activities, and we have reclassified \$78 representing the portion of a debt payment attributable to discount accretion from cash flows from financing activities to cash flows from operating activities.

As of the beginning of fiscal 2019, we also adopted Accounting Standards Update No. 2014-09, Revenue – Revenue from Contracts with Customers (Topic 606 or “ASC 606”). Refer to Note 14, Revenue Recognition, for more information regarding the impact of ASC 606 on our financial statements.

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED
JUNE 1, 2019
(Dollars in thousands except share and per share data)

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the three and six months ended June 1, 2019 are not necessarily indicative of results for the full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 24, 2018.

Income Taxes and Impact of the Tax Cuts and Jobs Act

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income could have a significant impact on our effective tax rate for the respective quarter.

On December 22, 2017, The Tax Cuts and Jobs Act (the “Act”) was signed into law. The Act reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018 for all corporate taxpayers. Our effective tax rate for the three and six months ended June 1, 2019 differs from the federal statutory rate of 21% primarily due to the effects of state income taxes and various permanent differences, including the recognition of non-taxable proceeds from Company-owned life insurance.

Because the Act specified the new 21% tax rate beginning on January 1, 2018, we were only subject to the reduced rate for 11 months of 2018. Therefore, we computed our income tax expense for fiscal 2018 using a blended federal statutory rate of 22.2%. Our effective tax rates for the three and six months ended May 26, 2018 of 21.3% and 51.4%, respectively, differ from the blended statutory rate primarily due to a discrete charge (benefit) of (\$155) and \$2,032,

respectively, arising from the re-measurement of our deferred tax assets at the lower statutory rate. Other items impacting our effective tax rate for the three and six months ended May 26, 2018 included the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation of \$16 and \$197, respectively, non-taxable life insurance proceeds of \$266 during the second quarter of 2018, and the Section 199: Domestic Production Activities Deduction, which was eliminated by the Act for our fiscal 2019 tax return.

PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED
JUNE 1, 2019
(Dollars in thousands except share and per share data)

3. Business Combinations

Acquisition of Lane Venture

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

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

The allocation of the \$15,556 all-cash purchase price to the acquired assets and liabilities of the Lane Venture business, was as follows:

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

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

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

| <u>Description</u> | <u>Useful Life</u> <u>In Years</u> | <u>Fair Value</u> |
|----------------------------------|---------------------------------------|-------------------|
| Trade name | Indefinite | \$ 6,848 |
| Customer relationships | 9 | 512 |
| Total acquired intangible assets | | <u>\$ 7,360</u> |

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

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

Acquisition costs related to the Lane Venture acquisition totaled \$26 and \$254 during the three and six months ended May 26, 2018, and are included in selling, general and administrative expenses in the condensed consolidated statements of income. The acquisition costs are primarily related to legal, accounting and valuation services.

JUNE 1, 2019

(Dollars in thousands except share and per share data)

The pro forma results of operations for the acquisition of Lane Venture have not been presented because they are not material to our consolidated results of operations for the three and six months ended May 26, 2018.

4. Financial Instruments and Fair Value Measurements

Financial Instruments

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

Investments

Our short-term investments of \$22,643 at June 1, 2019 and November 24, 2018 consisted of certificates of deposit (CDs). At June 1, 2019, the CDs had original terms averaging 11 months, bearing interest at rates ranging from 0.85% to 2.70%. At June 1, 2019, the weighted average remaining time to maturity of the CDs was approximately 2 months and the weighted average yield of the CDs was approximately 2.45%. Each CD is placed with a federally insured financial institution and all deposits are within federal deposit insurance limits. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at June 1, 2019 and November 24, 2018 approximates their fair value.

Fair Value Measurement

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

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

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

Level 3 Inputs— Instruments with primarily unobservable value drivers.

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

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED
JUNE 1, 2019
(Dollars in thousands except share and per share data)

5. Accounts Receivable

Accounts receivable consists of the following:

| | June 1, 2019 | November 24, 2018 |
|---------------------------------|--------------|----------------------|
| Gross accounts receivable | \$ 21,677 | \$ 19,809 |
| Allowance for doubtful accounts | (771) | (754) |
| Accounts receivable, net | \$ 20,906 | \$ 19,055 |

Activity in the allowance for doubtful accounts for the six months ended June 1, 2019 was as follows:

| | |
|------------------------------|--------|
| Balance at November 24, 2018 | \$ 754 |
| Additions to allowance, net | 17 |
| Balance at June 1, 2019 | \$ 771 |

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

6. Inventories

Domestic furniture inventories are valued at the lower of cost, which is determined using the last-in, first-out (LIFO) method, or market. Imported inventories and those applicable to Lane Venture are valued at the lower of cost, which is determined using the first-in, first-out (FIFO) method, or net realizable value.

Inventories were comprised of the following:

| | June 1, 2019 | November 24, 2018 |
|---|------------------|----------------------|
| Wholesale finished goods | \$ 28,034 | \$ 30,750 |
| Work in process | 512 | 432 |
| Raw materials and supplies | 17,090 | 15,503 |
| Retail merchandise | 31,837 | 27,599 |
| Total inventories on first-in, first-out method | 77,473 | 74,284 |
| LIFO adjustment | (8,456) | (8,326) |
| Reserve for excess and obsolete inventory | (2,302) | (1,766) |
| | <u>\$ 66,715</u> | <u>\$ 64,192</u> |

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

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED
JUNE 1, 2019
(Dollars in thousands except share and per share data)

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

| | Wholesale Segment | Retail Segment | Total |
|------------------------------|----------------------|----------------|-----------------|
| Balance at November 24, 2018 | \$ 1,500 | \$ 266 | \$ 1,766 |
| Additions charged to expense | 1,066 | 208 | 1,274 |
| Write-offs | (569) | (169) | (738) |
| Balance at June 1, 2019 | <u>\$ 1,997</u> | <u>\$ 305</u> | <u>\$ 2,302</u> |

Additions charged to expense for our wholesale segment during the six months ended June 1, 2019 includes a \$390 inventory valuation charge arising from our decision to exit the juvenile furniture line of business.

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2019 and do not anticipate that our methodology is likely to change in the future.

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED
JUNE 1, 2019
(Dollars in thousands except share and per share data)

7. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

| | June 1, 2019 | | |
|-------------------------------------|-----------------------------|-----------------------------|---------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Intangible Assets, Net |
| Intangibles subject to amortization | | | |

| | | | | | | |
|--|-----------|---------------|-----------|----------------|-----------|---------------|
| Customer relationships | \$ | 3,550 | \$ | (958) | \$ | 2,592 |
| Technology - customized applications | | 834 | | (516) | | 318 |
| Total intangible assets subject to amortization | | 4,384 | | (1,474) | | 2,910 |
| Intangibles not subject to amortization: | | | | | | |
| Trade names | | 9,338 | | - | | 9,338 |
| Goodwill | | 16,043 | | - | | 16,043 |
| Total goodwill and other intangible assets | \$ | 29,765 | \$ | (1,474) | \$ | 28,291 |

| November 24, 2018 | | | | | | |
|--|-----------|------------------------------|-----------|---------------------------------|-----------|-------------------------------|
| | | Gross Carrying Amount | | Accumulated Amortization | | Intangible Assets, Net |
| Intangibles subject to amortization | | | | | | |
| Customer relationships | \$ | 3,550 | \$ | (829) | \$ | 2,721 |
| Technology - customized applications | | 834 | | (456) | | 378 |
| Total intangible assets subject to amortization | | 4,384 | | (1,285) | | 3,099 |
| Intangibles not subject to amortization: | | | | | | |
| Trade names | | 9,338 | | - | | 9,338 |
| Goodwill | | 16,043 | | - | | 16,043 |
| Total goodwill and other intangible assets | \$ | 29,765 | \$ | (1,285) | \$ | 28,480 |

There were no accumulated impairment losses on goodwill as of June 1, 2019 or November 24, 2018.

The carrying amounts of goodwill by reportable segment at both June 1, 2019 and November 24, 2018 were as follows:

| | | |
|-----------------------|-----------|---------------|
| Wholesale | \$ | 9,188 |
| Retail | | 1,926 |
| Logistical services | | 4,929 |
| Total goodwill | \$ | 16,043 |

Amortization expense associated with intangible assets during the three and six months ended June 1, 2019 and May 26, 2018 was as follows:

| | Quarter Ended | | Six Months Ended | |
|---------------------------------------|----------------------|---------------------|-------------------------|---------------------|
| | June 1, 2019 | May 26, 2018 | June 1, 2019 | May 26, 2018 |
| Intangible asset amortization expense | \$ 95 | \$ 95 | \$ 190 | \$ 185 |

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Estimated future amortization expense for intangible assets that exist at June 1, 2019 is as follows:

| | | |
|--------------------------|-----------|--------------|
| Remainder of fiscal 2019 | \$ | 189 |
| Fiscal 2020 | | 379 |
| Fiscal 2021 | | 379 |
| Fiscal 2022 | | 279 |
| Fiscal 2023 | | 259 |
| Fiscal 2024 | | 259 |
| Thereafter | | 1,166 |
| Total | \$ | 2,910 |

8. Notes Payable and Bank Credit Facility

Real Estate Notes Payable

Certain of our retail real estate properties have been financed through commercial mortgages with outstanding principal totaling \$72 and \$292 at June 1, 2019 and November 24, 2018, respectively. The mortgages each bear interest at a fixed rate of 6.73%. They are collateralized by the respective properties with net book values totaling approximately \$5,536 and \$5,599 at June 1, 2019 and November 24, 2018, respectively. The entire balance of these mortgages is included in other current liabilities and accrued expenses in the accompanying condensed consolidated balance sheets. These obligations have been paid in full subsequent to June 1, 2019.

Fair Value

We believe that the carrying amount of our notes payable approximates fair value at both June 1, 2019 and November 24, 2018. In estimating the fair value, we utilize current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 4.

Bank Credit Facility

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

At June 1, 2019, we had \$2,798 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$22,202. In addition, we have outstanding standby letters of credit with another bank totaling \$325.

9. Post Employment Benefit Obligations

Defined Benefit Plans

We have an unfunded Supplemental Retirement Income Plan (the "Supplemental Plan") that covers one current and certain former executives. The liability for the Supplemental Plan was \$10,038 and \$10,574 as of June 1, 2019 and November 24, 2018, respectively.

We also have the Bassett Furniture Industries, Incorporated Management Savings Plan (the "Management Savings Plan") which was established in the second quarter of fiscal 2017. The Management Savings Plan is an unfunded, nonqualified deferred compensation plan maintained for the benefit of certain highly compensated or management level employees. As part of the Management Savings Plan, we have made Long Term Cash Awards ("LTC Awards") totaling \$2,000 to certain management employees in the amount of \$400 each. The liability for the LTC Awards was \$1,124 and \$1,078 as of June 1, 2019 and November 24, 2018, respectively.

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

| | June 1, 2019 | November 24, 2018 |
|-------------------------------------|-------------------------|------------------------------|
| Accrued compensation and benefits | \$ 798 | \$ 798 |
| Post employment benefit obligations | 10,364 | 10,854 |
| Total pension liability | <u>\$ 11,162</u> | <u>\$ 11,652</u> |

Components of net periodic pension costs for our defined benefit plans for the three and six months ended June 1, 2019 and May 26, 2018 are as follows:

| | Quarter Ended | | Six Months Ended | |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | June 1, 2019 | May 26, 2018 | June 1, 2019 | May 26, 2018 |
| Service cost | \$ 47 | \$ 49 | \$ 94 | \$ 98 |
| Interest cost | 110 | 105 | 221 | 210 |
| Amortization of prior service costs | 31 | 31 | 63 | 62 |
| Amortization of transition obligation | - | 11 | - | 22 |
| Amortization of loss | 46 | 65 | 92 | 130 |
| Net periodic pension cost | <u>\$ 234</u> | <u>\$ 261</u> | <u>\$ 470</u> | <u>\$ 522</u> |

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

Deferred Compensation Plans

We have an unfunded deferred compensation plan that covers one current executive and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. Our liability under this plan was \$1,798 and \$1,837 as of March 2, 2019 and November 24, 2018, respectively.

We also have an unfunded, nonqualified deferred compensation plan maintained for the benefit of certain highly compensated or management level employees which was established under the Management Savings Plan. Our liability under this plan, including both accrued Company contributions and participant salary deferrals, was \$726 and \$611 as of June 1, 2019 and November 24, 2018, respectively.

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

| | June 1, 2019 | November 24, 2018 |
|---------------------------------------|-------------------------|------------------------------|
| Accrued compensation and benefits | \$ 266 | \$ 266 |
| Post employment benefit obligations | 2,258 | 2,053 |
| Total deferred compensation liability | <u>\$ 2,524</u> | <u>\$ 2,319</u> |

We recognized expense under our deferred compensation arrangements during the three and six months ended June 1, 2019 and May 26, 2018 as follows:

| | <u>Quarter Ended</u> | | <u>Six Months Ended</u> | |
|-------------------------------|----------------------|---------------------|-------------------------|---------------------|
| | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>June 1, 2019</u> | <u>May 26, 2018</u> |
| Deferred compensation expense | <u>\$ 84</u> | <u>\$ 80</u> | <u>\$ 183</u> | <u>\$ 159</u> |

10. Other Operating Gains and Losses

Fiscal 2019

Early Retirement Program

During the first quarter of fiscal 2019, we offered a voluntary early retirement package to certain eligible employees of the Company. Twenty-three employees accepted the offer, which expired on February 28, 2019. These employees are to receive pay equal to one-half their current salary plus benefits over a period of 1 year from the final day of each individual's active employment. Accordingly, we recognized a charge of \$835 during the six months ended June 1, 2019. The unpaid obligation of \$733 is included in other current liabilities and accrued expenses in our condensed consolidated balance sheet as of June 1, 2019.

Fiscal 2018

Sale of Retail Location

In May 2018 we sold the land and building occupied by our Spring, Texas retail store in connection with the eventual relocation of the store to another site in the Houston market. We received net cash proceeds of \$2,463 from the sale, resulting in a gain of \$165 recognized during the three and six months ended May 26, 2018 which is included in income from operations in our accompanying condensed consolidated statements of income.

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11. Commitments and Contingencies

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

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our retail and logistical services segments. We also lease tractors and trailers used in our logistical services segment, and local delivery trucks used in our retail segment. Our real estate lease terms range from 1 to 15 years and generally have renewal options of between 5 and 15 years. Some store leases contain contingent rental provisions based upon sales volume. Our transportation equipment leases have terms ranging from 2 to 7 years with fixed monthly rental payments plus variable charges based upon mileage. The following schedule shows future minimum lease payments under non-cancellable operating leases with terms in excess of one year as of June 1, 2019:

| | <u>Retail Stores</u> | <u>Warehousing & Distribution Centers</u> | <u>Transportation Equipment</u> | <u>All Other</u> | <u>Total</u> |
|-------------------------------------|----------------------|---|-------------------------------------|------------------|-------------------|
| Remainder of fiscal 2019 | \$ 12,308 | \$ 2,893 | \$ 2,240 | \$ 870 | \$ 18,311 |
| Fiscal 2020 | 24,078 | 5,440 | 4,230 | 1,637 | 35,385 |
| Fiscal 2021 | 21,501 | 4,835 | 3,060 | 970 | 30,366 |
| Fiscal 2022 | 19,002 | 4,586 | 2,151 | 487 | 26,226 |
| Fiscal 2023 | 16,808 | 3,182 | 1,263 | - | 21,253 |
| Fiscal 2024 | 12,957 | 1,291 | 958 | - | 15,206 |
| Thereafter | 39,919 | 676 | 354 | - | 40,949 |
| Total future minimum lease payments | <u>\$ 146,573</u> | <u>\$ 22,903</u> | <u>\$ 14,256</u> | <u>\$ 3,964</u> | <u>\$ 187,696</u> |

Improvement allowances received from lessors at the inception of a lease are deferred and amortized over the term of the lease. The unamortized balance of such amounts was \$8,277 and \$6,716 at June 1, 2019 and November 24, 2018, respectively, with the non-current portion of \$7,060 and \$5,715, respectively, included in other long term liabilities in our condensed consolidated balance sheets and the remaining current portion included in other current liabilities and accrued expenses. At June 1, 2019 and November 24, 2018 prepaid rent of \$3,213 and \$245, respectively, was included in other current assets in our condensed consolidated balance sheets.

We also have guaranteed certain lease obligations of licensee operators. Lease guarantees range from 1 to 10 years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,886 and \$2,021 at June 1, 2019 and November 24, 2018, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer or liquidating the collateral (primarily inventory). The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at June 1, 2019 and November 24, 2018 was not material.

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12. Earnings Per Share

The following reconciles basic and diluted earnings per share:

| | Net Income | Weighted Average Shares | Net Income Per Share |
|---|-----------------|----------------------------|-------------------------|
| <u>For the quarter ended June 1, 2019:</u> | | | |
| Basic earnings per share | \$ 445 | 10,433,492 | \$ 0.04 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 26,329 | - |
| Diluted earnings per share | <u>\$ 445</u> | <u>10,459,821</u> | <u>\$ 0.04</u> |
| <u>For the quarter ended May 26, 2018:</u> | | | |
| Basic earnings per share | \$ 4,289 | 10,701,154 | \$ 0.40 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 40,182 | - |
| Diluted earnings per share | <u>\$ 4,289</u> | <u>10,741,336</u> | <u>\$ 0.40</u> |
| <u>For the six months ended June 1, 2019:</u> | | | |
| Basic earnings per share | \$ 1,053 | 10,444,306 | \$ 0.10 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 27,530 | - |
| Diluted earnings per share | <u>\$ 1,053</u> | <u>10,471,836</u> | <u>\$ 0.10</u> |

For the six months ended May 26, 2018:

| | | | | | |
|------------------------------------|----|-------|------------|----|--------|
| Basic earnings per share | \$ | 3,376 | 10,693,815 | \$ | 0.32 |
| Add effect of dilutive securities: | | | | | |
| Options and restricted shares | | - | 53,936 | | (0.01) |
| Diluted earnings per share | \$ | 3,376 | 10,747,751 | \$ | 0.31 |

For the three and six months ended June 1, 2019 and May 26, 2018, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

| | Quarter Ended | | Six Months Ended | |
|-----------------|-----------------|-----------------|------------------|-----------------|
| | June 1, 2019 | May 26, 2018 | June 1, 2019 | May 26, 2018 |
| Unvested shares | 45,653 | 5,292 | 45,653 | 5,292 |

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13. Segment Information

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

- **Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations, which now include Lane Venture (see Note 3, Business Combinations), as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our condensed consolidated statements of income.
- **Retail – Company-owned stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities and capital expenditures directly related to these stores and the Company-owned distribution network utilized to deliver products to our retail customers.
- **Logistical services.** Our logistical services segment reflects the operations of Zenith. In addition to providing shipping and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistical services revenue in our condensed consolidated statements of income. Zenith's total operating costs, including those associated with providing logistical services to the Company as well as to third-party customers, are included in selling, general and administrative expenses and were \$19,841 and \$40,880 for the three and six months ended June 1, 2019, and \$20,940 and \$42,032 for the three and six months ended May 26, 2018, respectively.

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

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

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The following table presents our segment information:

| | Quarter Ended | | Six Months Ended | |
|--------------------------------------|-----------------|-----------------|------------------|-----------------|
| | June 1, 2019 | May 26, 2018 | June 1, 2019 | May 26, 2018 |
| Sales Revenue | | | | |
| Wholesale | \$ 63,131 | \$ 63,788 | \$ 135,912 | \$ 126,888 |
| Retail - Company-owned stores | 62,568 | 68,682 | 132,197 | 133,343 |
| Logistical services | 20,093 | 21,229 | 41,844 | 42,651 |
| Inter-company eliminations: | | | | |
| Furniture and accessories | (29,875) | (29,795) | (64,929) | (61,433) |
| Logistical services | (7,727) | (6,924) | (15,993) | (14,197) |
| Consolidated | \$ 108,190 | \$ 116,980 | \$ 229,031 | \$ 227,252 |
| Income from Operations | | | | |
| Wholesale | \$ 3,173 | \$ 3,039 | \$ 7,355 | \$ 6,103 |
| Retail - Company-owned stores | (2,953) | 1,626 | (5,999) | 113 |
| Logistical services | 252 | 289 | 964 | 619 |
| Inter-company elimination | 229 | 709 | 165 | 878 |
| Early retirement program | - | - | (835) | - |
| Consolidated | \$ 701 | \$ 5,663 | \$ 1,650 | \$ 7,713 |
| Depreciation and Amortization | | | | |
| Wholesale | \$ 827 | \$ 757 | \$ 1,645 | \$ 1,460 |
| Retail - Company-owned stores | 1,544 | 1,603 | 3,049 | 3,201 |
| Logistical services | 994 | 1,024 | 2,041 | 2,027 |
| Consolidated | \$ 3,365 | \$ 3,384 | \$ 6,735 | \$ 6,688 |
| Capital Expenditures | | | | |
| Wholesale | \$ 1,075 | \$ 1,113 | \$ 2,140 | \$ 2,330 |
| Retail - Company-owned stores | 1,373 | 1,861 | 5,390 | 4,478 |
| Logistical services | 313 | 730 | 783 | 854 |
| Consolidated | \$ 2,761 | \$ 3,704 | \$ 8,313 | \$ 7,662 |
| Identifiable Assets | | | | |
| Wholesale | \$ 133,828 | \$ 144,209 | | |
| Retail - Company-owned stores | 101,658 | 96,241 | | |
| Logistical services | 45,015 | 51,191 | | |
| Consolidated | \$ 280,501 | \$ 291,641 | | |

Wholesale shipments by type

| | Quarter Ended | | | | Six Months Ended | | | |
|---------------------------|---------------|--------|--------------|--------|------------------|--------|--------------|--------|
| | June 1, 2019 | | May 26, 2018 | | June 1, 2019 | | May 26, 2018 | |
| Bassett Custom Upholstery | \$ 36,853 | 58.4% | \$ 36,506 | 57.2% | \$ 78,391 | 57.7% | \$ 70,074 | 55.2% |
| Bassett Leather | 4,463 | 7.1% | 5,082 | 8.0% | 10,234 | 7.5% | 11,606 | 9.1% |
| Bassett Custom Wood | 10,526 | 16.7% | 11,184 | 17.5% | 22,201 | 16.3% | 22,171 | 17.5% |
| Bassett Casegoods | 9,979 | 15.8% | 9,948 | 15.6% | 22,619 | 16.6% | 20,745 | 16.3% |
| Accessories | 1,310 | 2.1% | 1,068 | 1.7% | 2,467 | 1.8% | 2,292 | 1.8% |
| Total | \$ 63,131 | 100.0% | \$ 63,788 | 100.0% | \$ 135,912 | 100.0% | \$ 126,888 | 100.0% |

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14. Revenue Recognition

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

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

At retail, transfer occurs and revenue is recognized upon delivery of goods to the customer. We typically collect a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. These deposits are carried on our balance sheet as a current liability until delivery is fulfilled and amounted to \$24,910 and \$27,157 as of June 1, 2019 and November 24, 2018, respectively. Substantially all of the customer deposits held at November 24, 2018 related to performance obligations satisfied during the current period and have therefore been recognized in revenue for the six months ended June 1, 2019. Estimates for returns and allowances have been recorded as a reduction of revenue based on our historical return patterns. We also sell furniture protection plans to our retail customers on behalf of a third party which is responsible for the performance obligations under the plans. Revenue from the sale of these plans is recognized upon delivery of the goods net of amounts payable to the third party service provider.

For our logistical services segment, line-haul freight revenue is recognized as services are performed and are billed to the customer upon the completion of delivery to the destination. Because the customer receives the benefits of these services as the freight is in transit from point of origin to destination, we recognize revenue using a percentage of completion method based on our estimate the amount of time freight has been in transit as of the reporting date compared with our estimate total required time for the deliveries. We recognize an asset for the amount of line-haul revenue earned but not yet billed which is included in other current assets. The balance of this asset was \$472 at June 1, 2019 and \$512 at the beginning of the first quarter of fiscal 2019. Warehousing services revenue is based upon warehouse space occupied by a customer's goods and inventory movements in and out of a warehouse and is recognized as such services are provided and billed to the customer concurrently in the same period. All invoices for logistical services are due 30 days from invoice date.

Sales commissions are expensed as part of selling, general and administrative expenses at the time revenue is recognized because the amortization period would have been one year or less. Sales commissions at wholesale are accrued upon the shipment of goods. Sales commissions at retail are accrued at the time a sale is written (i.e. – when the customer's order is placed) and are carried as prepaid commissions in other current assets until the goods are delivered and revenue is recognized. At June 1, 2019 and November 24, 2018, our balance of prepaid commissions included in other current assets was \$2,418 and \$2,739, respectively. We do not incur sales commissions in our logistical services segment.

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

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

- We exclude from revenue amounts collected from customers for sales tax, which is consistent with our policy prior to the adoption of ASC 606.
- We do not adjust the promised amount of consideration for the effects of a significant financing component since the period of time between transfer of our goods or services and the collection of consideration from the customer is less than 1 year.

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- We do not disclose the value of unsatisfied performance obligations because the transfer of goods or services is made within 1 year of the placement of customer orders.

See Note 13, Segment Information, for disaggregated revenue information.

15. Changes to Stockholders' Equity

The following changes in our stockholders' equity occurred during the three and six months ended June 1, 2019 and May 26, 2018:

| | Quarter Ended | | Six Months Ended | |
|--|------------------|------------------|------------------|------------------|
| | June 1, 2019 | May 26, 2018 | June 1, 2019 | May 26, 2018 |
| Common Stock: | | | | |
| Beginning of period | \$ 52,598 | \$ 53,776 | \$ 52,638 | \$ 53,690 |
| Issuance of common stock | 64 | 61 | 281 | 254 |
| Purchase and retirement of common stock | (400) | (101) | (657) | (208) |
| End of period | <u>\$ 52,262</u> | <u>\$ 53,736</u> | <u>\$ 52,262</u> | <u>\$ 53,736</u> |
| Common Shares Issued and Outstanding: | | | | |
| Beginning of period | 10,519,640 | 10,755,291 | 10,527,636 | 10,737,950 |
| Issuance of common stock | 12,729 | 12,165 | 56,201 | 50,806 |

| | | | | |
|---|------------|------------|------------|------------|
| Purchase and retirement of common stock | (80,024) | (20,334) | (131,492) | (41,634) |
| End of period | 10,452,345 | 10,747,122 | 10,452,345 | 10,747,122 |
| Additional Paid-in Capital: | | | | |
| Beginning of period | \$ - | \$ 499 | \$ - | \$ 962 |
| Issuance of common stock | 21 | 56 | (97) | (53) |
| Purchase and retirement of common stock | (242) | (477) | (379) | (1,136) |
| Stock based compensation | 221 | 304 | 476 | 609 |
| End of period | \$ - | \$ 382 | \$ - | \$ 382 |
| Retained Earnings: | | | | |
| Beginning of period | \$ 138,687 | \$ 137,827 | \$ 140,009 | \$ 139,378 |
| Cumulative effect of a change in accounting principal | - | - | (21) | - |
| Reclassification of certain tax effects from accumulated other comprehensive loss | - | - | - | 545 |
| Net income for the period | 445 | 4,289 | 1,053 | 3,376 |
| Purchase and retirement of common stock | (693) | - | (1,311) | - |
| Cash dividends | (1,312) | (1,182) | (2,603) | (2,365) |
| End of period | \$ 137,127 | \$ 140,934 | \$ 137,127 | \$ 140,934 |
| Accumulated Other Comprehensive Loss: | | | | |
| Beginning of period | \$ (2,280) | \$ (3,036) | \$ (2,338) | \$ (2,570) |
| Reclassification of certain tax effects from accumulated other comprehensive loss | - | - | - | (545) |
| Amortization of pension costs, net of tax | 57 | 80 | 115 | 159 |
| End of period | \$ (2,223) | \$ (2,956) | \$ (2,223) | \$ (2,956) |

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED
JUNE 1, 2019

(Dollars in thousands except share and per share data)

16. Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842). The guidance in ASU 2016-02 (as subsequently amended by ASU 2018-01, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01) requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. As with previous guidance, there continues to be a differentiation between finance leases and operating leases, however this distinction now primarily relates to differences in the manner of expense recognition over time and in the classification of lease payments in the statement of cash flows. Lease assets and liabilities arising from both finance and operating leases will be recognized in the statement of financial position. ASU 2016-02 leaves the accounting for leases by lessors largely unchanged from previous GAAP. The transitional guidance for adopting the requirements of ASU 2016-02 calls for a modified retrospective approach that includes a number of optional practical expedients that entities may elect to apply. In addition, ASU 2018-11 provides for an additional (and optional) transition method by which entities may elect to initially apply the transition requirements in Topic 842 at that Topic's effective date with the effects of initially applying Topic 842 recognized as a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption and without retrospective application to any comparative prior periods presented. Also, ASU 2018-20 provides certain narrow-scope improvements to Topic 842 as it relates to lessors. The guidance in ASU 2016-02 will become effective for us as of the beginning of our 2020 fiscal year. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our consolidated financial statements, which we expect will have a material effect on our statement of financial position (refer to Note 11 for information regarding our leases currently classified as operating leases under ASC Topic 840). We have acquired a lease accounting software package and are currently in the process of entering lease data into the system and testing outputs against the requirements of Topic 842. We currently anticipate that we will adopt the guidance of ASU 2016-02 as of the beginning of our 2020 fiscal year using the optional transition method as provided by ASU 2018-11.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 eliminates Step 2 from the goodwill impairment test. Under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments in ASU 2017-04 will

become effective for us as of the beginning of our 2021 fiscal year. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

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

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
JUNE 1, 2019
(Dollars in thousands except share and per share data)

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

Our fiscal year, which ends on the last Saturday of November, periodically results in a 53-week year instead of the normal 52 weeks. The current fiscal year ending November 30, 2019 is a 53-week year, with the additional week being included in our first fiscal quarter. Accordingly, the information presented below includes 27 weeks of operations for the six months ended June 1, 2019 as compared to 26 weeks included in the six months ended May 26, 2018.

Overview

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

With 103 BHF stores at June 1, 2019 we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 30 independent sales representatives who have stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

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

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

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

On December 21, 2017, we purchased certain assets and assumed certain liabilities of Lane Venture from Heritage Home Group, LLC for \$15,556 in cash. Lane Venture is a manufacturer and distributor of premium outdoor furniture, and is now being operated as a component of our wholesale segment. This acquisition marked our entry into the market for outdoor furniture and we believe that Lane Venture has provided a foundation for us to become a significant participant in this category. We plan to distribute this brand outside of our Bassett store network with plans to introduce a Bassett-branded line in the stores in the first quarter of fiscal 2020. See Note 3 to our consolidated financial statements for additional details regarding this acquisition.

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JUNE 1, 2019

(Dollars in thousands except share and per share data)

At June 1, 2019, our BHF store network included 70 Company-owned stores and 33 licensee-owned stores. During the second quarter of fiscal 2019, we opened one new store in Sarasota, Florida.

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

| Location | Type | Size Sq. Ft. | Planned Opening |
|------------------------|-----------|-----------------|--------------------|
| <i>New Stores:</i> | | | |
| Princeton, NJ | Corporate | 13,000 | Q4 2019 |
| Thornton, CO | Licensee | 23,000 | Q1 2020 |
| <i>Repositionings:</i> | | | |
| Palm Beach, FL | Corporate | 15,000 | Q1 2020 |

Following the planned openings shown above, we expect to significantly reduce the pace of the BHF network expansion and focus on maximizing profitable sales volume through our existing stores.

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

We continue to invest in our digital effort to improve our customers' journey from the time they begin on our website to the final step of delivering the goods to their homes. Today's customers expect their digital experiences and communications to be personalized, highly-relevant and catered to match their specific needs and preferences. We are in the process of establishing a centralized customer care center that will track each customer's path from initial engagement through point of sale and ultimately to their post-delivery experience with the furniture using customer relationship management (CRM) software. We believe that the data captured during the customer's journey will provide valuable insights and result in driving operational best practices in the months and years ahead.

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

JUNE 1, 2019

(Dollars in thousands except share and per share data)

Results of Operations – Periods ended June 1, 2019 compared with the periods ended May 26, 2018:

Net sales of furniture and accessories, logistics revenue, cost of furniture and accessories sold, selling, general and administrative (SG&A) expense, other charges and income from operations were as follows for the three and six month periods ended June 1, 2019 and May 26, 2018:

| | Quarter Ended | | Change | | Six Months Ended* | | Change | | | | | |
|---|---------------|--------------|------------|---------|-------------------|--------------|------------|---------|------------|--------|------------|--------|
| | June 1, 2019 | May 26, 2018 | Dollars | Percent | June 1, 2019 | May 26, 2018 | Dollars | Percent | | | | |
| Sales revenue: | | | | | | | | | | | | |
| Furniture and accessories | \$ 95,824 | 88.6% | \$ 102,675 | 87.8% | \$ (6,851) | -6.7% | \$ 203,181 | 88.7% | \$ 198,798 | 87.5% | \$ 4,383 | 2.2% |
| Logistics revenue | 12,366 | 11.4% | 14,305 | 12.2% | (1,939) | -13.6% | 25,850 | 11.3% | 28,454 | 12.5% | (2,604) | -9.2% |
| Total sales revenue | 108,190 | 100.0% | 116,980 | 100.0% | (8,790) | -7.5% | 229,031 | 100.0% | 227,252 | 100.0% | 1,779 | 0.8% |
| Cost of furniture and accessories sold | | | | | | | | | | | | |
| SG&A expenses | 42,530 | 39.3% | 45,660 | 39.0% | (3,130) | -6.9% | 91,707 | 40.0% | 88,929 | 39.1% | 2,778 | 3.1% |
| New store pre-opening costs | 64,590 | 59.7% | 65,456 | 56.0% | (866) | -1.3% | 133,976 | 58.5% | 129,707 | 57.1% | 4,269 | 3.3% |
| Other charges | 369 | 0.3% | 201 | 0.2% | 168 | 83.6% | 863 | 0.3% | 903 | 0.4% | (40) | -4.4% |
| Income from operations | - | 0.0% | - | 0.0% | - | 100.0% | 835 | 0.4% | - | 0.0% | 835 | 100.0% |
| Income from operations | \$ 701 | 0.6% | \$ 5,663 | 4.8% | \$ (4,962) | -87.6% | \$ 1,650 | 0.8% | \$ 7,713 | 3.4% | \$ (6,063) | -78.6% |

*27 weeks for fiscal 2019 as compared with 26 weeks for fiscal 2018.

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for the three and six months ended June 1, 2019 as compared with the prior year periods.

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

JUNE 1, 2019

(Dollars in thousands except share and per share data)

Segment Information

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

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

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

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

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

JUNE 1, 2019

(Dollars in thousands except share and per share data)

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

| | Quarter Ended June 1, 2019 | | | | |
|---|----------------------------|------------|-----------|-----------------|--------------|
| | Wholesale | Retail | Logistics | Eliminations | Consolidated |
| Sales revenue: | | | | | |
| Furniture & accessories | \$ 63,131 | \$ 62,568 | \$ - | \$ (29,875) (1) | \$ 95,824 |
| Logistics | - | - | 20,093 | (7,727) (2) | 12,366 |
| Total sales revenue | 63,131 | 62,568 | 20,093 | (37,602) | 108,190 |
| Cost of furniture and accessories sold | | | | | |
| | 41,491 | 30,778 | - | (29,739) (3) | 42,530 |
| SG&A expense | 18,467 | 34,374 | 19,841 | (8,092) (4) | 64,590 |
| New store pre-opening costs | | | | | |
| | - | 369 | - | - | 369 |
| Income from operations | \$ 3,173 | \$ (2,953) | \$ 252 | \$ 229 | \$ 701 |

| | Quarter Ended May 26, 2018 | | | | |
|---|----------------------------|-----------|-----------|-----------------|--------------|
| | Wholesale | Retail | Logistics | Eliminations | Consolidated |
| Sales revenue: | | | | | |
| Furniture & accessories | \$ 63,788 | \$ 68,682 | \$ - | \$ (29,795) (1) | \$ 102,675 |
| Logistics | - | - | 21,229 | (6,924) (2) | 14,305 |
| Total sales revenue | 63,788 | 68,682 | 21,229 | (36,719) | 116,980 |
| Cost of furniture and accessories sold | | | | | |
| | 42,821 | 32,929 | - | (30,090) (3) | 45,660 |
| SG&A expense | 17,928 | 33,926 | 20,940 | (7,338) (4) | 65,456 |
| New store pre-opening costs | | | | | |
| | - | 201 | - | - | 201 |
| Income from operations | \$ 3,039 | \$ 1,626 | \$ 289 | \$ 709 | \$ 5,663 |

Six Months Ended June 1, 2019*

| | Wholesale | Retail | Logistics | Eliminations | Consolidated |
|---|------------|------------|-----------|-----------------|--------------|
| Sales revenue: | | | | | |
| Furniture & accessories | \$ 135,912 | \$ 132,197 | \$ - | \$ (64,928) (1) | \$ 203,181 |
| Logistics | - | - | 41,844 | (15,994) (2) | 25,850 |
| Total sales revenue | 135,912 | 132,197 | 41,844 | (80,922) | 229,031 |
| Cost of furniture and accessories sold | | | | | |
| | 90,341 | 65,729 | - | (64,363) (3) | 91,707 |
| SG&A expense | 38,216 | 71,604 | 40,880 | (16,724) (4) | 133,976 |
| New store pre-opening costs | | | | | |
| | - | 863 | - | - | 863 |
| Income from operations (5) | \$ 7,355 | \$ (5,999) | \$ 964 | \$ 165 | \$ 2,485 |

Six Months Ended May 26, 2018*

| | Wholesale | Retail | Logistics | Eliminations | Consolidated |
|---|------------|------------|-----------|-----------------|--------------|
| Sales revenue: | | | | | |
| Furniture & accessories | \$ 126,888 | \$ 133,343 | \$ - | \$ (61,433) (1) | \$ 198,798 |
| Logistics | - | - | 42,651 | (14,197) (2) | 28,454 |
| Total sales revenue | 126,888 | 133,343 | 42,651 | (75,630) | 227,252 |
| Cost of furniture and accessories sold | | | | | |
| | 85,465 | 64,923 | - | (61,459) (3) | 88,929 |
| SG&A expense | 35,320 | 67,404 | 42,032 | (15,049) (4) | 129,707 |
| New store pre-opening costs | | | | | |
| | - | 903 | - | - | 903 |
| Income from operations | \$ 6,103 | \$ 113 | \$ 619 | \$ 878 | \$ 7,713 |

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
JUNE 1, 2019

(Dollars in thousands except share and per share data)

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

| | Quarter Ended | | Six Months Ended* | |
|----------------------------------|---------------|--------------|-------------------|--------------|
| | June 1, 2019 | May 26, 2018 | June 1, 2019 | May 26, 2018 |
| Intercompany logistical services | \$ (7,727) | \$ (6,924) | \$ (15,994) | \$ (14,197) |
| Intercompany rents | (365) | (414) | (730) | (852) |
| Total SG&A expense elimination | \$ (8,092) | \$ (7,338) | \$ (16,724) | \$ (15,049) |

- (5) Excludes the effects of the early retirement program, which is not allocated to our segments.

*27 weeks for fiscal 2019 as compared with 26 weeks for fiscal 2018.

Wholesale Segment

Results for the wholesale segment for the three and six months ended June 1, 2019 and May 26, 2018 are as follows:

| | Quarter Ended | | | | Change | | | | Six Months Ended* | | | | Change | |
|------------------------|---------------|--------|--------------|--------|----------|-------|-----------|--------|-------------------|--------|--------------|-------|---------|---------|
| | June 1, 2019 | | May 26, 2018 | | Dollars | | Percent | | June 1, 2019 | | May 26, 2018 | | Dollars | Percent |
| Net sales | \$63,131 | 100.0% | \$63,788 | 100.0% | \$ (657) | -1.0% | \$135,912 | 100.0% | \$126,888 | 100.0% | \$ 9,024 | 7.1% | | |
| Gross profit | 21,640 | 34.3% | 20,967 | 32.9% | 673 | 3.2% | 45,571 | 33.5% | 41,423 | 32.6% | 4,148 | 10.0% | | |
| SG&A expenses | 18,467 | 29.3% | 17,928 | 28.1% | 539 | 3.0% | 38,216 | 28.1% | 35,320 | 27.8% | 2,896 | 8.2% | | |
| Income from operations | \$ 3,173 | 5.0% | \$ 3,039 | 4.8% | \$ 134 | 4.4% | \$ 7,355 | 5.4% | \$ 6,103 | 4.8% | \$ 1,252 | 20.5% | | |

*27 weeks for fiscal 2019 as compared with 26 weeks for fiscal 2018.

The 1.0% decrease in the net sales for the second quarter of 2019 as compared to the second quarter of 2018 was primarily driven by a 6.6% decrease in furniture shipments to the open market (outside the Bassett Home Furnishings network), partially offset by a \$298 increase in Lane Venture shipments. Shipments to the Bassett Home Furnishings network were essentially flat as compared to the prior year quarter. Gross margin for the wholesale segment was 34.3% for the second quarter of 2019 as compared to 32.9% for the prior year quarter. This increase was primarily driven by higher margins in the domestic custom upholstery operations as price increases implemented during the third quarter of 2018 offset the increased raw material costs experienced late in 2017 and early 2018. Wholesale SG&A for the second quarter of 2019 increased to 29.3% as compared to 28.1% for the second quarter of 2018. This increase was primarily driven by higher over-the-road freight costs along with higher marketing and other brand development costs, partially offset by lower incentive compensation costs.

PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
JUNE 1, 2019
(Dollars in thousands except share and per share data)

Year-to-date Analysis of Results - Wholesale

On an average weekly basis (normalizing for 27 weeks compared to 26 weeks), net sales increased \$3,990 or 3.1%. This increase was primarily driven by a \$2,304 increase in Lane Venture shipments over the prior year period when we were then in the process of integrating the newly acquired operations into the Company, along with a 2.0% increase in shipments to the BHF network partially offset by a 0.6% decrease in furniture shipments to the open market (outside the BHF network). Gross margin for the wholesale segment was 33.5% for the first half of 2019 as compared to 32.6% for the prior year period. This increase was primarily driven by higher margins in domestic custom upholstery operations as price increases implemented during the third quarter of 2018 offset the increased raw material costs experienced late in 2017 and early 2018. This margin improvement was partially offset by lower margins in the imported casegoods operation due to a \$390 inventory valuation charge associated with our exit from the juvenile line of business. In addition, both the upholstery and wood operations were negatively impacted by higher labor costs due to higher employee health care expenses from unfavorable claim experience, primarily in the first quarter of 2019. The increase in SG&A as a percentage of sales was primarily driven by higher marketing and other brand development costs and higher employee health care expenses from unfavorable claim experience, primarily in the first quarter of 2019, partially offset by lower incentive compensation.

Wholesale shipments by type:

| | <u>Quarter Ended</u> | | <u>Change</u> | | <u>Six Months Ended*</u> | | <u>Change</u> | | | | | |
|-------------------|----------------------|---------------------|-----------------|----------------|--------------------------|---------------------|------------------|----------------|------------------|---------------|-----------------|-------------|
| | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>Dollars</u> | <u>Percent</u> | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>Dollars</u> | <u>Percent</u> | | | | |
| Bassett Custom | | | | | | | | | | | | |
| Upholstery | \$36,853 | 58.4% | \$36,506 | 57.2% | \$ 347 | 1.0% | \$ 78,391 | 57.7% | \$ 70,074 | 55.2% | \$ 8,317 | 11.9% |
| Bassett Leather | 4,463 | 7.1% | 5,082 | 8.0% | (619) | -12.2% | 10,234 | 7.5% | \$ 11,606 | 9.1% | (1,372) | -11.8% |
| Bassett Custom | | | | | | | | | | | | |
| Wood | 10,526 | 16.7% | 11,184 | 17.5% | (658) | -5.9% | 22,201 | 16.3% | 22,171 | 17.5% | 30 | 0.1% |
| Bassett Casegoods | 9,979 | 15.8% | 9,948 | 15.6% | 31 | 0.3% | 22,619 | 16.6% | 20,745 | 16.3% | 1,874 | 9.0% |
| Accessories | 1,310 | 2.1% | 1,068 | 1.7% | 242 | 22.7% | 2,467 | 1.8% | 2,292 | 1.8% | 175 | 7.6% |
| Total | <u>\$63,131</u> | <u>100.0%</u> | <u>\$63,788</u> | <u>100.0%</u> | <u>\$ (657)</u> | <u>-1.0%</u> | <u>\$135,912</u> | <u>100.0%</u> | <u>\$126,888</u> | <u>100.0%</u> | <u>\$ 9,024</u> | <u>7.1%</u> |

*27 weeks for fiscal 2019 as compared with 26 weeks for fiscal 2018.

Wholesale Backlog

The dollar value of wholesale backlog, representing orders received but not yet shipped to dealers and Company stores, was \$14,373 at June 1, 2019 as compared with \$15,525 at May 26, 2018.

PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
JUNE 1, 2019
(Dollars in thousands except share and per share data)

Retail – Company-owned Stores Segment

Results for the retail segment for the three and six months ended June 1, 2019 and May 26, 2018 are as follows:

| | <u>Quarter Ended</u> | | <u>Change</u> | | <u>Six Months Ended*</u> | | <u>Change</u> | | | | | |
|-----------|----------------------|---------------------|----------------|----------------|--------------------------|---------------------|----------------|----------------|-----------|--------|------------|-------|
| | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>Dollars</u> | <u>Percent</u> | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>Dollars</u> | <u>Percent</u> | | | | |
| Net sales | \$62,568 | 100.0% | \$68,682 | 100.0% | \$ (6,114) | -8.9% | \$132,197 | 100.0% | \$133,343 | 100.0% | \$ (1,146) | -0.9% |

| | | | | | | | | | | | | |
|-------------------------------|-------------------|--------------|-----------------|-------------|-------------------|------------|-------------------|--------------|---------------|-------------|-------------------|------------|
| Gross profit | 31,790 | 50.8% | 35,753 | 52.1% | (3,963) | -11.1% | 66,468 | 50.3% | 68,420 | 51.3% | (1,952) | -2.9% |
| SG&A expenses | 34,374 | 54.9% | 33,926 | 49.4% | 448 | 1.3% | 71,604 | 54.2% | 67,404 | 50.5% | 4,200 | 6.2% |
| New store pre-opening costs | 369 | 0.6% | 201 | 0.3% | 168 | 83.6% | 863 | 0.7% | 903 | 0.7% | (40) | -4.4% |
| Income (loss) from operations | <u>\$ (2,953)</u> | <u>-4.7%</u> | <u>\$ 1,626</u> | <u>2.4%</u> | <u>\$ (4,579)</u> | <u>N/M</u> | <u>\$ (5,999)</u> | <u>-4.5%</u> | <u>\$ 113</u> | <u>0.1%</u> | <u>\$ (6,112)</u> | <u>N/M</u> |

Results for comparable stores[†] (59 and 57 stores for the three and six month periods, respectively) are as follows:

| | Quarter Ended | | Change | | Six Months Ended* | | Change | | | | | |
|-------------------------------|-------------------|--------------|-----------------|-------------|-------------------|--------------|-------------------|--------------|-----------------|-------------|-------------------|------------|
| | June 1, 2019 | May 26, 2018 | Dollars | Percent | June 1, 2019 | May 26, 2018 | Dollars | Percent | | | | |
| Net sales | \$56,325 | 100.0% | \$66,136 | 100.0% | \$ (9,811) | -14.8% | \$118,279 | 100.0% | \$127,884 | 100.0% | \$ (9,605) | -7.5% |
| Gross profit | 28,610 | 50.8% | 34,449 | 52.1% | (5,839) | -16.9% | 59,531 | 50.3% | 65,707 | 51.4% | (6,176) | -9.4% |
| SG&A expenses | 30,285 | 53.8% | 32,030 | 48.4% | (1,745) | -5.4% | 62,128 | 52.5% | 62,822 | 49.1% | (694) | -1.1% |
| Income (loss) from operations | <u>\$ (1,675)</u> | <u>-3.0%</u> | <u>\$ 2,419</u> | <u>3.7%</u> | <u>\$ (4,094)</u> | <u>N/M</u> | <u>\$ (2,597)</u> | <u>-2.2%</u> | <u>\$ 2,885</u> | <u>2.3%</u> | <u>\$ (5,482)</u> | <u>N/M</u> |

[†] “Comparable” stores include only those locations that have been open and operated by the Company for all of each respective comparable period.

Results for all other stores are as follows:

| | Quarter Ended | | Change | | Six Months Ended* | | Change | | | | | |
|-----------------------------|-------------------|---------------|-----------------|---------------|-------------------|--------------|-------------------|---------------|-------------------|---------------|-----------------|--------------|
| | June 1, 2019 | May 26, 2018 | Dollars | Percent | June 1, 2019 | May 26, 2018 | Dollars | Percent | | | | |
| Net sales | \$ 6,243 | 100.0% | \$ 2,546 | 100.0% | \$ 3,697 | 145.2% | \$13,918 | 100.0% | \$ 5,459 | 100.0% | \$ 8,459 | 155.0% |
| Gross profit | 3,180 | 50.9% | 1,304 | 51.2% | 1,876 | 143.9% | 6,937 | 49.8% | 2,713 | 49.7% | 4,224 | 155.7% |
| SG&A expenses | 4,089 | 65.5% | 1,896 | 74.5% | 2,193 | 115.7% | 9,476 | 68.1% | 4,582 | 83.9% | 4,894 | 106.8% |
| New store pre-opening costs | 369 | 5.9% | 201 | 7.9% | 168 | 83.6% | 863 | 6.2% | 903 | 16.5% | (40) | -4.4% |
| Loss from operations | <u>\$ (1,278)</u> | <u>-20.5%</u> | <u>\$ (793)</u> | <u>-31.1%</u> | <u>\$ (485)</u> | <u>61.2%</u> | <u>\$ (3,402)</u> | <u>-24.4%</u> | <u>\$ (2,772)</u> | <u>-50.8%</u> | <u>\$ (630)</u> | <u>22.7%</u> |

*27 weeks for fiscal 2019 as compared with 26 weeks for fiscal 2018.

Quarterly Analysis of Results - Retail

The decrease in net sales for the 70 Company-owned BHF stores was driven by a 14.8% decline in sales for the 59 comparable stores, partially offset by a \$3,697 increase in non-comparable store sales as we have opened 11 stores over the last 18 months.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores decreased by 7.4% for the second quarter of 2019 as compared to the second quarter of 2018.

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
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(Dollars in thousands except share and per share data).

The decrease in comparable store gross margins was primarily due to increased wholesale costs as a result of tariffs on Chinese products instituted in late 2018 along with higher costs of freight, both of which were passed on in a wholesale price increase in January 2019. Although most of our goods are domestically made, and most of our other goods are imported from countries outside of China, the most significant impact from the tariffs has been in the cost of the fabric that we use in our upholstered furniture manufactured in the United States. We implemented a price increase late in the quarter to mitigate these cost increases.

The increase in SG&A expenses for comparable stores as a percentage of sales to 53.8% was primarily due to a de-leveraging of fixed costs from lower sales volumes, inefficiencies in the warehouse and home delivery operation and higher financing costs as more of our retail customers chose to finance their purchases through our third-party credit provider. These increases were partially offset by various fixed cost decreases that resulted from changes to our cost structure.

The \$485 increase in the operating loss from non-comparable stores for the second quarter of 2019 includes new store pre-opening costs of \$369 compared to \$201 for the prior year period. We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$400 to \$600 per store. During the second quarter of 2019 we incurred \$299 of post-opening losses associated with the three new stores opened during the first and second quarters of 2019 compared to \$411 of post-opening losses associated with other locations during the second quarter of 2018.

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

The decrease in net sales for the 70 Company-owned BHF stores was driven by a 7.5% decrease for the 57 comparable stores from the first half of fiscal 2018, partially offset by a \$8,459 increase in non-comparable store sales as we have opened 13 stores over the last 21 months. On an average weekly basis (normalizing for the extra week in the first half of 2019), comparable store sales decreased 10.9%.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores decreased by 6.1% for the first half of 2019 as compared to the first half of 2018. On an average weekly basis, comparable store written sales decreased 9.6%.

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

The increase in SG&A expenses for comparable stores as a percentage of sales to 52.5% was primarily due to a de-leveraging of fixed costs from lower sales volumes, inefficiencies in the warehouse and home delivery operation, higher employee health care expenses from unfavorable claim experience primarily in the first quarter of 2019 and higher financing costs as more of our retail customers chose to finance their purchases through our third-party credit provider. These increases were partially offset by various fixed cost decreases that resulted from changes to our cost structure.

PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
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The \$630 increase in the operating loss from non-comparable stores for the first half of 2019 includes new store pre-opening costs of \$863 compared to \$903 for the prior year period. We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$400 to \$600 per store. During the first half of 2019 we incurred \$1,128 of post-opening losses associated with the five new stores opened during the first half of 2019 compared to \$1,151 of post-opening losses associated with other locations during the first half of 2018.

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

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers, was \$30,910, or an average of \$442 per open store, at June 1, 2019 as compared with a retail backlog of \$28,697, or an average of \$448 per open store, at May 26, 2018.

Logistical Services Segment

Results for our logistical services segment for the three and six months ended June 1, 2019 and May 26, 2018 are as follows:

| | <u>Quarter Ended</u> | | <u>Change</u> | | <u>Six Months Ended*</u> | | | | <u>Change</u> | | | |
|-----------------------------|----------------------|---------------------|----------------|----------------|--------------------------|---------------------|----------------|----------------|---------------|--------|----------|-------|
| | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>Dollars</u> | <u>Percent</u> | <u>June 1, 2019</u> | <u>May 26, 2018</u> | <u>Dollars</u> | <u>Percent</u> | | | | |
| Logistical services revenue | \$ 20,093 | 100.0% | \$ 21,229 | 100.0% | \$ (1,136) | -5.4% | \$ 41,844 | 100.0% | \$ 42,651 | 100.0% | \$ (807) | -1.9% |
| Operating expenses | 19,841 | 98.7% | 20,940 | 98.6% | (1,099) | -5.2% | 40,880 | 97.7% | 42,032 | 98.5% | (1,152) | -2.7% |
| Income from operations | \$ 252 | 1.3% | \$ 289 | 1.4% | \$ (37) | -12.8% | \$ 964 | 2.3% | \$ 619 | 1.5% | \$ 345 | 55.7% |

*27 weeks for fiscal 2019 as compared with 26 weeks for fiscal 2018.

Quarterly Analysis of Operations – Logistical Services

The decrease in revenues was primarily due to the previously announced discontinuation of home delivery services to third-party customers. The slight increase in Zenith's operating expenses as a percent of sales was primarily due to reduced efficiencies in the middle mile operation due to lower freight volumes, partially offset by reduced expenses in the home delivery operation.

Year-to-date Analysis of Operations – Logistical Services

On an average weekly basis (normalizing for the extra week in the first half of fiscal 2019), revenues for Zenith decreased \$2,357 or 5.5%. This decrease was primarily due to the previously announced discontinuation of home delivery services to third-party customers. The decrease in Zenith's operating expenses as a percent of sales was primarily due to reduced expenses in the home delivery operation.

Other Items Affecting Net Income

Early Retirement Program

During the first quarter of fiscal 2019, we offered an early retirement package to certain eligible employees of the Company. Twenty-three employees accepted the offer, which expired on February 28, 2019. These employees are to receive pay equal to one-half their current salary plus benefits over a period of one year from the final day of each individual's active employment. Accordingly, we recognized a charge of \$733 during the six months ended June 1, 2019. The unpaid obligation of \$835 at June 1, 2019 will substantially be paid out within one year.

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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(Dollars in thousands except share and per share data)

Other Loss, Net

Other loss, net, for the three months ended June 1, 2019 was \$145 as compared to \$233 for the three months ended May 26, 2018. The decreased net loss is primarily attributable to lower net costs associated with Company-owned life insurance and increased interest income due to rising yields on our short-term investments compared to the prior year period.

Other loss, net, for the six months ended June 1, 2019 was \$268 as compared to \$860 for the six months ended May 26, 2018. The decreased net loss is primarily attributable to larger total death benefits received in fiscal 2019 from life insurance policies covering former executives, increased interest income due to rising yields on our short-term investments compared to the prior year period and lower interest expense due to overall lower levels of debt.

Income Taxes and Impact of Tax Cuts and Jobs Act

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income could have a significant impact on our effective tax rate for the respective quarter.

On December 22, 2017, The Tax Cuts and Jobs Act (the "Act") was signed into law. The Act reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018 for all corporate taxpayers. Our effective tax rate for the three and six months ended June 1, 2019 differs from the federal statutory rate of 21% primarily due to the effects of state income taxes and various permanent differences, including the recognition of non-taxable proceeds from Company-owned life insurance.

Because the Act specified the new 21% tax rate beginning on January 1, 2018, we were only subject to the reduced rate for 11 months of 2018. Therefore, we computed our income tax expense for fiscal 2018 using a blended federal statutory rate of 22.2%. Our effective tax rates for the three and six months ended May 26, 2018 of 21.3% and 51.4%, respectively, differ from the blended statutory rate primarily due to a discrete charge (benefit) of (\$155) and \$2,032, respectively, arising from the re-measurement of our deferred tax assets at the lower statutory rate. Other items impacting our effective tax rate for the three and six months ended May 26, 2018 included the effects of state income taxes and various permanent differences including the favorable impacts of excess tax benefits on stock-based compensation of \$16 and \$197, respectively, non-taxable life insurance proceeds of \$266 during the second quarter of 2018, and the Section 199: Domestic Production Activities Deduction, which was eliminated by the Act for our fiscal 2019 tax return.

Liquidity and Capital Resources

Cash Flows

Although we generated \$6,792 in operating cash flow for the second quarter of 2019, cash used in operations for the first half of 2019 was \$8,942 compared to \$279 provided by operations for the first half of 2018, representing an increase in cash used of \$9,221. This increase use of cash is primarily due to increased investment in inventory due to opening new stores, other changes in working capital due in part to the timing impact of the additional week in the current fiscal year and lower comparable store sales on an average weekly basis resulting in reduced cash flows.

Our overall cash position decreased by \$21,887 during the first half of 2019. In addition to the cash used in operations, we used \$7,959 of cash in investing activities, primarily consisting of capital expenditures associated with retail store expansion and relocations. Net cash used in financing activities was \$4,986, including dividend payments of \$2,603 and stock repurchases of \$2,347 under our existing share repurchase plan, of which \$15,637 remains authorized at June 1, 2019. With cash and cash equivalents and short-term investments totaling \$34,224 on hand at June 1, 2019, expected future operating cash flows, expected reduced capital expenditures from fewer store openings and the availability under our credit line noted below, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Debt and Other Obligations

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

future. The credit facility will mature in December 2021. At June 1, 2019, we had \$2,798 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$22,202. In addition, we have outstanding standby letters of credit with another bank totaling \$325.

PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
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At June 1, 2019 we had outstanding principal totaling \$72 under real estate notes payable. These obligations have been paid in full subsequent to June 1, 2019.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services and retail segments. We had obligations of \$187,696 at June 1, 2019 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terms under these lease guarantees range from approximately one to five years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,886 at June 1, 2019. See Note 11 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.

Investment in Retail Real Estate

We have a substantial investment in real estate acquired for use as retail locations. To the extent such real estate is occupied by Company-owned retail stores, it is included in property and equipment, net, in the accompanying condensed consolidated balance sheets and is considered part of our retail segment. The net book value of such retail real estate occupied by Company-owned stores was \$19,691 at June 1, 2019. All other retail real estate that we own, consisting of locations formerly leased to our licensees and now leased to others, is included in other assets in the accompanying condensed consolidated balance sheets. The net book value of such real estate, which is considered part of our wholesale segment, was \$1,603 at June 1, 2019.

The following table summarizes our total investment in retail real estate owned at June 1, 2019:

| | Number of Locations | Aggregate Square Footage | Net Book Value |
|--|------------------------|-----------------------------|-------------------|
| Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1) | 9 | 223,570 | \$ 19,691 |
| Investment real estate leased to others, included in other assets | 2 | 41,021 | 1,603 |
| Total Company investment in retail real estate | 11 | 264,591 | \$ 21,294 |

(1) Includes two properties encumbered under mortgages totalling \$72 at June 1, 2019.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our Annual Report on Form 10-K for the fiscal year ended November 24, 2018.

PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
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Off-Balance Sheet Arrangements

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

Contingencies

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

financial position or future results of operations. See Note 11 to our condensed consolidated financial statements for further information regarding certain contingencies as of June 1, 2019.

Item 3. Quantitative and Qualitative Disclosure about Market Risk:

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

We are exposed to market risk from changes in the cost of raw materials used in our manufacturing processes, principally wood, woven fabric, and foam products. The cost of foam products, which are petroleum-based, is sensitive to changes in the price of oil.

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

We have potential exposure to market risk related to conditions in the commercial real estate market. Our retail real estate holdings of \$1,603 at June 1, 2019 for stores formerly operated by licensees as well as our holdings of \$19,691 at June 1, 2019 for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties during periods of weakness in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of \$1,886 which we have guaranteed on behalf of licensees as of June 1, 2019, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

Item 4. Controls and Procedures:

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

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PART I-FINANCIAL INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES
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Safe-harbor, forward-looking statements:

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

- competitive conditions in the home furnishings industry
- general economic conditions, including the strength of the housing market in the United States
- overall retail traffic levels and consumer demand for home furnishings
- ability of our customers and consumers to obtain credit
- Bassett store openings and store closings and the profitability of the stores (independent licensees and Company-owned retail stores)
- ability to implement our Company-owned retail strategies and realize the benefits from such strategies, including our initiatives to expand and improve our digital marketing capabilities, as they are implemented
- fluctuations in the cost and availability of raw materials, fuel, labor and sourced products, including those which may result from the imposition of new or increased duties, tariffs, retaliatory tariffs and trade limitations with respect to foreign-sourced products
- results of marketing and advertising campaigns
- effectiveness and security of our information and technology systems
- future tax legislation, or regulatory or judicial positions
- ability to efficiently manage the import supply chain to minimize business interruption
- concentration of domestic manufacturing, particularly of upholstery products, and the resulting exposure to business interruption from accidents, weather and other events and circumstances beyond our control

- general risks associated with providing freight transportation and other logistical services through our wholly-owned subsidiary, Zenith Freight Lines, LLC

Additionally, other risks that could cause actual results to differ materially from those contemplated by such forward-looking statements are set forth in Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for fiscal 2018.

You should keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only as of the date on which such forward-looking statement is made. New risks and uncertainties arise from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this discussion after the date hereof, except as may be required by law. In light of these risks and uncertainties, you should keep in mind that the events described in any forward-looking statement made in this report or elsewhere, might not occur.

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PART II - OTHER INFORMATION
BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES
JUNE 1, 2019
(Dollars in thousands except share and per share data)

Item 1. Legal Proceedings

None

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

The following table summarizes the stock repurchase activity for the three months ended June 1, 2019 and the approximate dollar value of shares that may yet be purchased pursuant to our stock repurchase program:

| | Total Shares Purchased | | Average Price Paid | | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|-------------------------|---------------------------------------|----|-------------------------------|---|---|----|---|
| March 3 - April 6, 2019 | - | \$ | - | - | - | \$ | 16,973 |
| April 7 - May 4, 2019 | 16,930 | \$ | 17.37 | - | 16,930 | \$ | 16,678 |
| May 5 - June 1, 2019 | 63,094 | \$ | 16.51 | - | 63,094 | \$ | 15,637 |

(1) The Company is authorized to repurchase Company stock under a plan which was originally announced in 1998. On October 3, 2018, the Board of Directors increased the remaining limit of the repurchase plan to \$20,000. At June 1, 2019, \$15,637 remains available for stock repurchases under the plan.

Item 3. Defaults Upon Senior Securities

None.

Item 6. Exhibits

a. Exhibits:

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

Exhibit 3b – [By-laws as amended to date are incorporated herein by reference to Exhibit 3 to Form 8-K filed with the SEC on January 22, 2019.](#)

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

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

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

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

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

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PART II - OTHER INFORMATION-CONTINUED
BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES

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(Dollars in thousands except share and per share data)

Exhibit 101.INS XBRL Instance

Exhibit 101.SCH XBRL Taxonomy Extension Schema

Exhibit 101.CAL XBRL Taxonomy Extension Calculation

Exhibit 101.DEF XBRL Taxonomy Extension Definition

Exhibit 101.LAB XBRL Taxonomy Extension Labels

Exhibit 101.PRE XBRL Taxonomy Extension Presentation

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

BASSETT FURNITURE INDUSTRIES, INCORPORATED

/s/ ROBERT H. SPILMAN, JR.

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

July 2, 2019

/s/ J. MICHAEL DANIEL

J. Michael Daniel, Senior Vice President and Chief Financial Officer

July 2, 2019

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CERTIFICATIONS

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

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

July 2, 2019

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

CERTIFICATIONS

I, J. Michael Daniel, certify that:

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

July 2, 2019

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

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

In connection with the Quarterly Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-Q for the period ending June 1, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert H. Spilman, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

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

July 2, 2019

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

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

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

In connection with the Quarterly Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-Q for the period ending June 1, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Michael Daniel, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

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

July 2, 2019

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

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