

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

FORM 10-K

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

For the fiscal year ended November 25, 2000

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of registrant as specified in its charter)

VIRGINIA

54-0135270

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

24055

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

540/629-6000

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

Title of each class:

Name of each exchange  
on which registered

Common Stock (\$5.00 par value)

NASDAQ

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

[ ] Yes [X] No

Form 10-K (a) amendment No. 2 for the year ended November 27, 1999 was  
filed April 11, 2000, subsequent to the March 31, 2000 filing date

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

The aggregate market value of the voting and non-voting common equity held  
by non-affiliates of the registrant as of February 20, 2001 was  
\$168,658,727.

The number of shares of the Registrant's common stock outstanding on  
February 20, 2001 was 11,732,781.

## DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 25, 2000 (the "Annual Report") are incorporated by reference into Parts I and II of this Form 10-K.
- (2) Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2001 Annual Meeting of Stockholders to be held March 27, 2001, filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

## PART I

## ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

## GENERAL DEVELOPMENT OF BUSINESS

Bassett Furniture Industries, Incorporated (the "Company") was incorporated under the laws of the Commonwealth of Virginia in 1930. The executive offices are located in Bassett, Virginia.

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

In an effort to structure manufacturing capacity to current business demands and in a more efficient manner, the Company made a decision in late 2000 to consolidate production in our Wood Division. This included transferring certain products to different facilities, reducing one facility to rough-end operations only, and eliminating approximately 300 salaried and hourly positions. As a result, the Company recorded a restructuring charge in 2000 of \$6,680, of which, \$5,800 related to the write-down of property and equipment and \$880 related to severance and related employee benefits costs.

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

During 1999 the Company expanded its BFD retail store concept by adding five corporate owned stores to its existing network of licensee operated stores. Additionally, the Company took over operations of two financially troubled BFD stores operated by licensees.

During 1999, the Company sold substantially all of the assets of its Bedding Division to Premier Bedding Group LLC ("PBG"). The net assets sold, which totaled \$8,400, were exchanged for \$6,500 in cash and a \$1,900 convertible note receivable. Refer to Note B of the Consolidated Financial Statements included in the Annual Report for more information about the bedding sale.

During 1997, the Company commenced the restructuring of certain of its operations and recorded restructuring and impaired asset charges of \$20,646. The restructuring plan was the result of management's decision to focus on its core Bassett product line and efforts to improve operating efficiencies. The principal actions of the plan included the closure or sale of fourteen manufacturing facilities, elimination of three product lines (National/Mt. Airy, Impact and veneer production) and the severance of approximately 1,000 employees.

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

## OPERATING SEGMENTS

The Company's primary business is in wholesale home furnishings. The wholesale home furnishings business is involved principally in the manufacture, sale and distribution of furniture products to a network of independently owned stores and stores owned by an affiliate of the Company. The wholesale business consists primarily of two operating segments, wood and upholstery.

Refer to Note R of the Consolidated Financial Statements included in the Annual Report for more information about segment information for 1998, 1999 and 2000 and refer to the Management's Discussion and Analysis section of the Annual Report for additional discussion on this topic.

**DESCRIPTION OF BUSINESS**

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

The wood segment is engaged in the manufacture and sale of wood furniture, including bedroom and dining suites and accent pieces, to independent retailers and a retailer, which is an affiliate of the Company. The wood segment accounted for 70%, 66% and 59% of total net sales during 2000, 1999 and 1998, respectively. The Company currently has nine wood manufacturing facilities. The upholstery segment is involved in the manufacture and sale of upholstered frames and cut upholstery items having a variety of frame and fabric options, including sofas, chairs, and love seats. The Company currently has three upholstery manufacturing facilities. The upholstery segment accounted for 27%, 27% and 28% of total net sales during 2000, 1999 and 1998, respectively.

Raw materials used by the Company are generally available from numerous sources and are obtained principally from domestic sources. The Company has experienced slight raw materials cost pressures, namely certain lumber species, in 2000.

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

The furniture industry in which the Company competes is not considered to be a seasonal industry. However, working capital levels will fluctuate based on overall business conditions, and desired service levels. Further, the Company's transition to more BFD stores has led to increased levels of inventories and accounts receivable.

Sales to one customer (JC Penney Company) amounted to approximately 16% of gross sales in 2000, 16% and 15% of gross sales in 1999 and 1998, respectively. Additionally, sales to LRG Furniture, LLC (LRG), an affiliate of the Company, were 7% of total sales in 2000. The Company's backlog of orders believed to be firm was at \$22,000 at November 25, 2000 and \$32,000 at November 27, 1999. It is expected that the November 25, 2000 backlog will be filled within the 2001 fiscal year.

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

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

In management's view, the Company has complied in all material respects with all federal, state and local standards in the area of safety, health and pollution and environmental controls. Compliance with these standards did result in a charge to earnings in 1997 and capital spending in 1998 and

1999, but otherwise, has not had a material adverse effect on past earnings or competitive position. The Company is involved in environmental matters at certain of its plant facilities, which arise in the normal course of business. Although the final outcome of these environmental matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

The Company had approximately 4,100 employees at November 25, 2000.

The Company has several investments in affiliated companies, including a minority interest in International Home Furnishings Center, Inc. (IHFC) which is a lessor of permanent exhibition space to furniture and accessory manufacturers. The IHFC financial statements are included on pages F-1 to F-13. The Company owns a majority interest in The Bassett Industries Alternative Asset Fund, LP, which invests in a variety of other private partnerships, employing a combination of investment strategies. The Bassett Industries Alternative Asset Fund's year ended on December 31, 2000, as such its financial statements have not been included in this Form 10-K. Form 10-K will be amended to include such statements when available. The Company owns a majority interest in LRG Furniture, LLC, (LRG), which is a retailer of home furnishings. The LRG financial statements are included on pages F-14 to F-24.

#### FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The Company has no foreign operations, and its export sales were approximately \$4.9 million, \$10.6 million, and \$14.3 million in 2000, 1999, and 1998 respectively.

#### ITEM 2. PROPERTIES

At November 25, 2000 the Company owned the following manufacturing facilities, by segment:

##### Wood Segment:

J. D. Bassett Manufacturing Company  
Bassett, VA

Bassett Superior Lines  
Bassett, VA

Bassett Chair Company  
Bassett, VA

Bassett Table Company  
Bassett, VA

Bassett Furniture Industries  
Macon, GA

Bassett Dining Table Top  
Martinsville, VA

Bassett Furniture Industries  
Dublin, GA

Bassett Furniture Industries  
Mt. Airy, NC

Bassett Fiberboard  
Bassett, VA

## Upholstery Segment:

Bassett Upholstery \*\*  
Claremont, NC

Bassett Upholstery Division  
Newton, NC

Bassett Upholstery Division  
Hiddenite, NC

Bassett Upholstery  
Los Angeles, CA

## Other:

Weiman Upholstery  
Christiansburg, VA

The Company owned the real estate of Bassett Furniture Direct retail stores approximating 25,000 square feet each in the following cities:

## Real Estate:

Greenville, SC  
Concord, NC  
Greensboro, NC  
Fredericksburg, VA  
Knoxville, TN  
Gulfport, MS  
Chesterfield, VA

In addition, the Company owns leasehold improvements in Hickory, NC and Arlington, TX. All of the properties noted above are operated by Bassett Furniture Direct licensees.

The Company also owns its general corporate office building, three warehouses, and an outlet store all located in Bassett, Virginia.

The Company also owns a showroom in Thomasville, North Carolina.\*\*

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

\*\* Denotes facilities that were held for sale at November 25, 2000.

The following facilities were sold or disposed of during 2000:

Bassett Upholstery Division  
Dumas, AR

E. B. Malone Corporation (Former Bedding Division)  
Lake Wales, FL  
(2 plants located in VA, and WA)

## ITEM 3. LEGAL PROCEEDINGS

A suit was filed in June 1997, in California against the Company, two major retailers and certain current and former employees of the Company. Following the dismissal of the class action allegations contained in such suit, the suit consisted of damage claims by nine named plaintiffs, together with restitution claims for other purchasers under California Business & Professions Code 17200 which were dismissed subsequent to the end of the fiscal year.

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately \$8,000 as the result of COLI interest deductions through 1998. The Internal Revenue Service, on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. The IRS has received favorable rulings on the non-deductibility of COLI loan interest. Management understands that these rulings and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in potential income tax and interest payments which could be material to the Company's future results of operations.

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

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

None.

## ITEM 4b. EXECUTIVE OFFICERS OF THE REGISTRANT

John E. Bassett III, 42, served from 1988 to 1997 as the Vice President and General Manager of Bassett Table and as Vice President of Wood Manufacturing since 1997.

Grover S. Elliott, 60, was the Chief Financial Officer for Cochrane Furniture from 1993 until 1996 and has been with the Company as Vice President of Finance and Investor Relations since 1996.

Jay R. Hervey, Esq., 41, was an Associate with the Richmond Office of McGuireWoods, LLP from 1992 through 1997 and has been the General Counsel, Corporate Vice President and Secretary for the Company since 1997.

Dennis S. Hoy, 42, was a furniture buyer with Marlo Furniture from 1987 until 1996 and has been with the Company since 1996, as Casegoods and Merchandise Manager and as Vice President of Merchandising. In 1999, he was promoted to Vice President and General Manager, Upholstery.

Jack R. Johnson, Jr., 40, has been a sales representative for the Company since 1989 and joined the Company as the Vice President of In-store Licensing in 1999. In 2000, he was promoted to the Vice President of Retail and Marketing.

Thomas E. Prato, 45, has been with the Company since 1987 in Advertising and Sales Management and has been the Vice President of Sales since 1998.

Steven P. Rindskopf, 45, was the Vice President of Human Resources for The Bali Company (a division of the Sara Lee Corporation) from 1993 until 1997, the Owner and Operator of the Master's Loft (Bookstore & Cafe) Company in 1997, and has been with the Company as Vice President, Administration and Human Resources since 1997.

Barry C. Safrit, 38, was with CHF Industries from 1995 until 1998 as Controller and as Chief Financial Officer and joined the Company as Vice President and Chief Accounting Officer in 1998 and was promoted to Chief Financial Officer in 2001.

Keith R. Sanders, 56, was with Ethan Allen from 1995 until 1998 as the Vice President of Manufacturing and Vice President of Upholstery and has been the Vice President of Upholstery Manufacturing for the Company from 1998 to 1999. In 1999, he was promoted to Executive Vice President, Operations.

Robert H. Spilman, Jr., 44, has been with the Company since 1984. He was the Company's Executive Vice President of Marketing and Merchandising from 1994 until 1997 and served as President and Chief Operating Officer from 1997 to 2000. In 2000, he was promoted to Chief Executive Officer and President.

## PART II

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

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

## ITEM 6. SELECTED FINANCIAL DATA

The information for the five years ended November 25, 2000, contained in "Other Business Data" in the Annual Report is incorporated herein by reference thereto.

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

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

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

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

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements and notes to consolidated financial statements of the Registrant and its subsidiaries contained in the Annual Report are incorporated herein by reference thereto. In addition, financial statements of the registrant's significant non-consolidated subsidiaries are included in this Form 10-K on pages F-1 to F-13 and F-14 to F-24.

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

None.

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained on pages 3 through 5 and page 12 of the Proxy Statement under the "Election of Directors" and "Section 16 (a) Beneficial Ownership Reporting Compliance" is incorporated herein by reference thereto. Please see section entitled "Executive Officers of the Registrant" in Item 4b of Part I of this report for information concerning executive officers.

## ITEM 11. EXECUTIVE COMPENSATION

The information contained on pages 6 through 12 of the Proxy Statement under the captions "Organization, Compensation and Nominating Committee Report," "Stockholder Return Performance Graph," "Executive Compensation," "Supplemental Retirement Income Plan," "Deferred Compensation Agreement," and "Director Compensation" is incorporated herein by reference thereto.



## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

## PART IV

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

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

Consolidated Balance Sheets--November 25, 2000 and November 27, 1999

Consolidated Statements of Income--Years Ended November 25, 2000, November 27, 1999 and November 28, 1998

Consolidated Statements of Stockholders' Equity--Years Ended November 25, 2000, November 27, 1999 and November 28, 1998

Consolidated Statements of Cash Flows-- Years Ended November 25, 2000, November 27, 1999 and November 28, 1998

Notes to Consolidated Financial Statements

Report of Independent Public Accountants

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

LRG Furniture, LLC Financial Statements are included herein on pages F-14 to F-24.

(2) Financial Statement Schedule:  
Schedule II - Analysis of Valuation and Qualifying Accounts for the years ended November 25, 2000, November 27, 1999, and November 28, 1998

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

3B. By-laws as amended are incorporated herein by reference to the Form 10-K for the fiscal year ended November 27, 1999.

4. \$70 million Credit Agreement with a Bank Group dated October 25, 2000, is filed herewith.

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

- \*\* 10B. Bassett Executive Deferred Compensation Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 1997.
- \*\* 10C. Bassett Supplemental Retirement Income Plan is incorporated herein by reference to Form 10-K for the fiscal year ended November 30, 1997.
- \*\* 10D. Bassett 1993 Stock Plan for Non-Employee Directors as amended is filed herewith.
- \*\* 10E. Bassett 1997 Employee Stock Plan is incorporated herein by reference to the Registrant's Registration Statement on Form S-8 ( no. 333-60327) filed on July 31, 1998.
- 13. Portions of the Registrant's Annual Report to Stockholders for the year ended November 25, 2000.
- 21. List of subsidiaries of the Registrant is filed herewith.
- 23A. Consent of Independent Public Accountants is filed herewith.
- 23B. Consent of Independent Auditors is filed herewith.

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

- (b) No reports on Form 8-K were filed during the last quarter of the Registrant's 2000 fiscal year.

SIGNATURES

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

BASSETT FURNITURE INDUSTRIES, INCORPORATED (Registrant)

By: /s/ PAUL FULTON Date: 2/22/01  
-----  
Paul Fulton  
Chairman of the Board of Directors

By: /s/ ROBERT H. SPILMAN JR. Date: 2/22/01  
-----  
Robert H. Spilman Jr.  
President and Chief Executive Officer  
Director

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

By: /s/ AMY W. BRINKLEY Date: 2/22/01  
-----  
Amy W. Brinkley  
Director

By: /s/ PETER W. BROWN Date: 2/22/01  
-----  
Peter W. Brown  
Director

By: /s/ WILLIE D. DAVIS Date: 2/22/01  
-----  
Willie D. Davis  
Director

By: /s/ ALAN T. DICKSON Date: 2/22/01  
-----  
Alan T. Dickson  
Director

By: /s/ HOWARD H. HAWORTH Date: 2/22/01  
-----  
Howard H. Haworth  
Director

By: /s/ MICHAEL E. MURPHY Date: 2/22/01  
-----  
Michael E. Murphy  
Director

By: /s/ DAVID A. STONECIPHER Date: 2/22/01  
-----  
David A. Stonecipher  
Director

By: /s/ BARRY C. SAFRIT Date: 2/22/01  
-----  
Barry C. Safrit  
Vice President and Chief Financial Officer

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

CERTAIN EXHIBITS

YEAR ENDED NOVEMBER 25, 2000

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

BASSETT, VIRGINIA

INDEX TO EXHIBITS

INTERNATIONAL HOME FURNISHINGS CENTER, INC.

FINANCIAL STATEMENTS

YEARS ENDED OCTOBER 31, 2000, 1999 AND 1998

-----  
TABLE OF CONTENTS

	Page No. -----
INDEPENDENT AUDITORS' REPORT.....	1
FINANCIAL STATEMENTS	
Balance Sheets.....	2
Statements of Income.....	3
Statements of Stockholders' Equity (Deficit).....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of International Home Furnishings Center, Inc. as of October 31, 2000 and 1999 and the related statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended October 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Home Furnishings Center, Inc. at October 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2000 in conformity with generally accepted accounting principles.

/s/ DIXON ODOM PLLC

High Point, North Carolina  
November 29, 2000

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
BALANCE SHEETS  
OCTOBER 31, 2000 AND 1999

ASSETS	2000	1999
<hr/>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,859,447	\$ 8,004,521
Restricted cash (Note C)	2,275,974	2,275,974
Short-term investments	94,489	90,778
Receivables		
Trade	2,646,756	2,253,583
Interest	9,279	14,627
Deferred income tax asset	600,000	610,000
Prepaid expenses	717,172	806,229
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	11,203,117	14,055,712
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT, at cost		
Land and land improvements	3,293,772	3,293,772
Buildings, exclusive of theater complex	75,391,981	75,439,170
Furniture and equipment	3,717,945	3,631,421
Construction in progress	11,569,301	-
	<hr/>	<hr/>
	93,972,999	82,364,363
Accumulated depreciation	(46,022,092)	(43,926,570)
	<hr/>	<hr/>
	47,950,907	38,437,793
	<hr/>	<hr/>
OTHER ASSETS		
Theater complex, at cost less amortization (Note G)	933,599	976,854
Deferred financing costs, net of accumulated amortization of \$187,943 and \$104,413 at October 31, 2000 and 1999, respectively	396,766	480,296
	<hr/>	<hr/>
	1,330,365	1,457,150
	<hr/>	<hr/>
TOTAL ASSETS	\$ 60,484,389	\$ 53,950,655
	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 3,994,972	\$ 780,010
Accrued property taxes	1,702,341	1,667,283
Other accrued expenses	693,418	811,121
Rents received in advance	1,502,952	1,613,689
Current maturities of long-term debt	9,995,880	9,295,564
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	17,889,563	14,167,667
	<hr/>	<hr/>
LONG-TERM DEBT	45,658,704	55,654,584
	<hr/>	<hr/>
OTHER LONG-TERM LIABILITIES		
Supplemental retirement benefits	1,745,023	1,504,227
Deferred income tax liability	1,090,000	1,454,000
	<hr/>	<hr/>
	2,835,023	2,958,227
	<hr/>	<hr/>
COMMITMENTS (Notes G and L)		
STOCKHOLDERS' DEFICIT		
Common stock, \$5 par value, 1,000,000 shares authorized, 527,638 shares issued and outstanding in 2000 and 1999	2,638,190	2,638,190
Additional paid-in capital	169,360	169,360
Accumulated deficit	(8,706,451)	(21,637,373)
	<hr/>	<hr/>
	(5,898,901)	(18,829,823)
	<hr/>	<hr/>
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 60,484,389	\$ 53,950,655
	<hr/> <hr/>	<hr/> <hr/>



INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 STATEMENTS OF INCOME  
 YEARS ENDED OCTOBER 31, 2000, 1999 AND 1998

	2000	1999	1998
	-----	-----	-----
OPERATING REVENUES			
Rental income	\$ 31,620,514	\$ 31,684,174	\$ 31,046,712
Other revenues	6,922,474	6,472,825	6,333,233
	-----	-----	-----
TOTAL OPERATING REVENUES	38,542,988	38,156,999	37,379,945
	-----	-----	-----
OPERATING EXPENSES			
Compensation and benefits	4,242,802	4,084,283	3,648,331
Market and promotional	2,593,966	2,558,772	2,554,960
Maintenance and building costs	858,194	862,804	743,347
Depreciation expense	2,179,109	2,202,723	2,187,359
Rent	152,234	152,234	138,835
Property taxes and insurance	1,997,121	1,987,898	2,012,249
Utilities	1,655,730	1,652,068	1,769,612
Other operating costs	535,776	617,201	472,929
	-----	-----	-----
TOTAL OPERATING EXPENSES	14,214,932	14,117,983	13,527,622
	-----	-----	-----
INCOME FROM OPERATIONS	24,328,056	24,039,016	23,852,323
	-----	-----	-----
NONOPERATING INCOME			
Interest income	808,703	929,317	802,224
Dividend income	4,652	3,692	4,188
	-----	-----	-----
TOTAL NONOPERATING INCOME	813,355	933,009	806,412
	-----	-----	-----
NONOPERATING EXPENSES			
Interest expense	4,109,489	4,936,077	1,517,248
	-----	-----	-----
TOTAL NONOPERATING EXPENSES	4,109,489	4,936,077	1,517,248
	-----	-----	-----
INCOME BEFORE INCOME TAXES	21,031,922	20,035,948	23,141,487
	-----	-----	-----
PROVISION FOR INCOME TAXES	8,101,000	7,770,000	9,103,000
	-----	-----	-----
NET INCOME	\$ 12,930,922	\$ 12,265,948	\$ 14,038,487
	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE	\$ 24.51	\$ 23.25	\$ 26.61
	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	527,638	527,638	527,638
	=====	=====	=====

See accompanying notes to financial statements.

Page 3

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
 YEARS ENDED OCTOBER 31, 2000, 1999 AND 1998

	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Total
BALANCE, NOVEMBER 1, 1997	\$ 2,638,190	\$ 169,360	\$ 41,566,702	\$ 44,374,252
Net income	-	-	14,038,487	14,038,487
Dividends paid (\$144.64 per common share)	-	-	(76,317,560)	(76,317,560)
BALANCE (DEFICIT), OCTOBER 31, 1998	2,638,190	169,360	(20,712,371)	(17,904,821)
Net income	-	-	12,265,948	12,265,948
Dividends paid (\$25.00 per common share)	-	-	(13,190,950)	(13,190,950)
BALANCE (DEFICIT), OCTOBER 31, 1999	2,638,190	169,360	(21,637,373)	(18,829,823)
Net income	-	-	12,930,922	12,930,922
BALANCE (DEFICIT), OCTOBER 31, 2000	\$ 2,638,190	\$ 169,360	\$ (8,706,451)	\$ (5,898,901)

See accompanying notes to financial statements.

Page 4

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 STATEMENTS OF CASH FLOWS  
 YEARS ENDED OCTOBER 31, 2000, 1999 AND 1998

	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 12,930,922	\$ 12,265,948	\$ 14,038,487
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,301,760	2,325,374	2,247,363
Provision for losses on accounts receivable	6,341	1,360	5,286
Gain on disposal of assets	(3,134)	-	(1,000)
Deferred income taxes	(354,000)	(500,000)	(77,000)
Change in assets and liabilities			
Increase in trade and interest receivables	(394,166)	(68,728)	(290,003)
(Increase) decrease in prepaid expenses	89,057	(750,264)	227,098
Increase (decrease) in accounts payable and accrued expenses	207,521	(139,200)	582,272
Increase (decrease) in rents received in advance	(110,737)	134,806	(19,689)
Increase in supplemental retirement benefits	240,796	541,136	159,350
	-----	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,914,360	13,810,432	16,872,164
	-----	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in restricted cash	-	-	(2,275,974)
Purchase and construction of property and equipment	(8,764,159)	(337,457)	(484,257)
Proceeds from sale of property and equipment	4,000	-	1,000
Purchase of short-term investments	(3,711)	(7,135)	(5,199)
	-----	-----	-----
NET CASH USED BY INVESTING ACTIVITIES	(8,763,870)	(344,592)	(2,764,430)
	-----	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long-term debt	-	-	75,000,000
Principal payments on long-term debt	(9,295,564)	(8,667,074)	(1,382,778)
Payment of deferred financing costs	-	-	(584,709)
Dividends paid	-	(13,190,950)	(76,317,560)
	-----	-----	-----
NET CASH USED BY FINANCING ACTIVITIES	(9,295,564)	(21,858,024)	(3,285,047)
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,145,074)	(8,392,184)	10,822,687
CASH AND CASH EQUIVALENTS, BEGINNING	8,004,521	16,396,705	5,574,018
	-----	-----	-----
CASH AND CASH EQUIVALENTS, ENDING	\$ 4,859,447	\$ 8,004,521	\$ 16,396,705
	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid during the year for:			
Income taxes	\$ 8,357,298	\$ 9,049,420	\$ 8,965,827
	=====	=====	=====
Interest, net of amount capitalized	\$ 4,166,000	\$ 4,988,768	\$ 1,069,696
	=====	=====	=====
<b>SUPPLEMENTAL SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES</b>			
Accounts payable incurred for acquisition of property and equipment	\$ 2,924,796	\$ -	\$ -
	=====	=====	=====

See accompanying notes to financial statements.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2000, 1999 AND 1998

---

NOTE A - DESCRIPTION OF BUSINESS

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

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

Rental Income

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

Cash and Cash Equivalents

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

Investment Securities

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

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

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2000, 1999 AND 1998

---

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment and Depreciation

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

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

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

Deferred Financing Costs

Costs associated with obtaining the term loan disclosed in Note E have been deferred and are being amortized on the straight-line method over the term of the related debt. Amortization expense charged to operations during the years ended October 31, 2000, 1999 and 1998 was \$83,530, \$83,530 and \$20,883, respectively.

Income Taxes

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

Earnings Per Common Share

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

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2000, 1999 AND 1998

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement Plans

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

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

Use of Estimates

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

NOTE C - RESTRICTED CASH

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

NOTE D - INVESTMENT IN DEBT AND MARKETABLE EQUITY SECURITIES

The following is a summary of the Company's investment in available-for-sale securities as of October 31, 2000 and 1999:

	2000			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
State and local governments	\$ 3,825,717	\$ -	\$ -	\$ 3,825,717
Equity securities	94,489	-	-	94,489
	<u>\$ 3,920,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,920,206</u>

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2000, 1999 AND 1998

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

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

Available-for-sale securities are classified in the following balance sheet captions as of October 31, 2000 and 1999:

	2000	1999
Cash and cash equivalents	\$ 3,825,717	\$ 6,103,547
Short-term investments	94,489	90,778
	-----	-----
	\$ 3,920,206	\$ 6,194,325
	=====	=====

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

NOTE E - LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2000 and 1999:

	2000	1999
Term note payable, principal and interest are due in monthly installments of \$1,137,987 through August 1, 2005, with interest included at 7.06%, collateralized by land and buildings with a carrying value of \$47,584,004 at October 31, 2000	\$ 55,654,584	\$ 64,950,148
Less current maturities	9,995,880	9,295,564
	-----	-----
	\$ 45,658,704	\$ 55,654,584
	=====	=====

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2000, 1999 AND 1998

NOTE E - LONG-TERM DEBT (CONTINUED)

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

Year Ending October 31,	
2001	\$ 9,995,880
2002	10,735,336
2003	11,529,494
2004	12,378,440
2005	11,015,434
	-----
	\$ 55,654,584
	=====

Total interest cost incurred for the years ended October 31, 2000, 1999 and 1998 was \$4,303,766, \$4,936,077 and \$1,517,248, respectively. Of the interest cost for the year ended October 31, 2000, \$194,277 was capitalized as part of the building construction costs. There was no interest capitalized in the years ended October 31, 1999 and 1998.

NOTE F - INCOME TAXES

The provision for income taxes consists of the following for the years ended October 31, 2000, 1999 and 1998:

	2000	1999	1998
	-----	-----	-----
Federal:			
Current	\$ 6,975,000	\$ 6,765,000	\$ 7,450,000
Deferred	(287,000)	(395,000)	(62,000)
	-----	-----	-----
	6,688,000	6,370,000	7,388,000
	-----	-----	-----
State:			
Current	1,480,000	1,505,000	1,730,000
Deferred	(67,000)	(105,000)	(15,000)
	-----	-----	-----
	1,413,000	1,400,000	1,715,000
	-----	-----	-----
TOTAL	\$ 8,101,000	\$ 7,770,000	\$ 9,103,000
	=====	=====	=====



INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2000, 1999 AND 1998

NOTE F - INCOME TAXES (CONTINUED)

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

	2000	1999	1998
	-----	-----	-----
Income taxes computed at the federal statutory rate	\$ 7,360,000	\$ 7,013,000	\$ 8,100,000
State taxes, net of federal benefit	918,000	910,000	1,115,000
Nontaxable investment income	(112,000)	(180,000)	(196,000)
Other, net	(65,000)	27,000	84,000
	-----	-----	-----
	\$ 8,101,000	\$ 7,770,000	\$ 9,103,000
	=====	=====	=====

The components of deferred income taxes consist of the following:

	2000	1999	1998
	-----	-----	-----
Deferred income tax assets:			
Rents received in advance	\$ 600,000	\$ 610,000	\$ 592,000
Supplemental retirement benefits	700,000	602,000	384,000
	-----	-----	-----
TOTAL DEFERRED TAX ASSETS	1,300,000	1,212,000	976,000
Deferred income tax liabilities:			
Depreciation	(1,790,000)	(2,056,000)	(2,320,000)
	-----	-----	-----
TOTAL NET DEFERRED TAX LIABILITIES	\$ (490,000)	\$ (844,000)	\$ (1,344,000)
	=====	=====	=====

NOTE G - LAND LEASE COMMITMENT

During 1975, the Company completed construction of an eleven-story exhibition building. The building is constructed on land leased from the City of High Point, North Carolina under a noncancelable lease. The lease is for an initial term of fifty years with three options to renew for periods of ten years each and a final renewal option for nineteen years. Annual rental under the lease is \$152,234 as of October 31, 2000 and is subject to adjustment at the end of each five-year period, such adjustment being computed as defined in the lease agreement. As part of the lease agreement, the Company constructed a theater complex for public use and office space for use by the City of High Point on the lower levels of the building. Annual rental cash payments over the initial fifty-year lease term are being reduced by \$39,121 which represents amortization of the cost of the theater and office complex constructed for the City of High Point. At the termination of the lease, the building becomes the property of the City of High Point. Under the terms of the lease, the Company is responsible for all expenses applicable to the exhibition portion of the building. The City of High Point is responsible for all expenses applicable to the theater complex and office space constructed for use by the City.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2000, 1999 AND 1998

NOTE H - RETIREMENT EXPENSE

Amounts expensed under the Company's retirement plans amounted to \$394,166, \$691,698 and \$268,856 for the years ended October 31, 2000, 1999 and 1998, respectively, including \$240,796, \$541,136 and \$159,350 under the supplemental retirement benefits plan for the years ended October 31, 2000, 1999 and 1998, respectively.

NOTE I - RENTALS UNDER OPERATING LEASES

The Company's leasing operations consist principally of leasing exhibition space. Property on operating leases consists of substantially all of the asset "buildings, exclusive of theater complex" included on the balance sheets. Accumulated depreciation on this property amounted to \$42,943,916 and \$40,937,431 at October 31, 2000 and 1999, respectively. Leases are typically for five-year periods and contain provisions to escalate rentals based upon either the increase in the consumer price index or increases in ad valorem taxes, utility rates and charges, minimum wage imposed by federal and state governments, maintenance contracts for elevators and air conditioning, maintenance of common areas, social security payments, increases resulting from collective bargaining contracts, if any, and such other similar charges and rates required in operating the Company. Tenants normally renew their leases.

The following is a schedule of minimum future rentals under noncancelable operating leases as of October 31, 2000, exclusive of amounts due under escalation provisions of lease agreements:

Year Ending October 31,		
2001	\$	28,398,012
2002		24,874,514
2003		20,149,245
2004		15,359,863
2005		3,960,572
		-----
Total minimum future rentals	\$	92,742,206
		=====

Rental income includes contingent rentals under escalation provisions of leases of \$823,536, \$1,322,521 and \$1,401,867 for the years ended October 31, 2000, 1999 and 1998, respectively. Rental income from related parties amounted to \$2,374,813, \$1,980,775 and \$1,894,219 for the years ended October 31, 2000, 1999 and 1998, respectively.

NOTE J - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash deposits in excess of federally insured limits and trade accounts receivable from customers predominantly in the Home Furnishings Industry. As of October 31, 2000, the Company's bank balances exceeded federally insured limits by \$1,105,376. The Company's trade accounts receivable are generally collateralized by merchandise in leased exhibition spaces which is in the Company's possession.

INTERNATIONAL HOME FURNISHINGS CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2000, 1999 AND 1998

---

NOTE K - STOCKHOLDERS' DEFICIT

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

NOTE L - CONSTRUCTION PLANS

At October 31, 2000, a project to add additional exhibition space to the existing facilities was in progress. Construction is expected to be completed in time for tenants to utilize the additional exhibition space for the April 2001 International Home Furnishings Market. The cost of the construction is estimated to approximate \$14,217,000 and is being funded with operating cash flows. As of October 31, 2000, \$11,569,301 of this amount had been incurred. The assessment of the cost and the timetable for completion are management's estimates, and it is reasonably possible that actual and estimated results will differ materially.

LRG FURNITURE, LLC

Financial Statements

As of November 30, 2000 and 1999

Together with Report of Independent Public Accountants

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of  
LRG Furniture, LLC:

We have audited the accompanying balance sheets of LRG FURNITURE, LLC (a Virginia limited liability company) as of November 30, 2000 and 1999, and the related statements of operations and changes in members' equity (deficit) and cash flows for the year ended November 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LRG Furniture, LLC as of November 30, 2000 and 1999, and the results of its operations and its cash flows for the year ended November 30, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Greensboro, North Carolina  
February 16, 2001

## LRG FURNITURE, LLC

## BALANCE SHEETS -- NOVEMBER 30, 2000 AND 1999 (NOTE 1)

ASSETS	2000	1999
-----	----	----
CURRENT ASSETS:		
Cash	\$ 4,191,154	\$ 6,015,023
Accounts receivable, net of allowances of \$104,000 and \$458,000 in 2000 and 1999, respectively	681,167	753,085
Merchandise inventories	11,785,997	9,540,006
Prepaid expenses	106,310	161,115
	-----	-----
Total current assets	16,764,628	16,469,229
PROPERTY AND EQUIPMENT:		
Computer equipment	343,577	166,986
Store fixtures	268,302	117,610
Office furniture, fixtures and equipment	1,222,508	982,226
Leasehold improvements	1,590,578	1,540,561
Vehicles	115,692	115,692
	-----	-----
	3,540,657	2,923,075
Less - Accumulated depreciation	(345,033)	0
	-----	-----
	3,195,624	2,923,075
	-----	-----
OTHER ASSETS, NET (NOTE 2)	825,775	874,747
	-----	-----
	\$ 20,786,027	\$ 20,267,051
	=====	=====
LIABILITIES AND MEMBERS' EQUITY (DEFICIT)		
-----		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 4)	\$ 1,548,636	\$ 0
Accounts payable	10,970,062	9,970,300
Customer deposits	2,983,731	4,493,651
Accrued liabilities	1,082,781	950,611
	-----	-----
Total current liabilities	16,585,210	15,414,562
	-----	-----
LONG-TERM DEBT (NOTE 4)	3,299,364	0
	-----	-----
NOTES PAYABLE TO MEMBERS (NOTE 4)	7,808,000	2,175,000
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTES 5, 6 AND 7)		
MEMBERS' (DEFICIT) EQUITY	(6,906,547)	2,677,489
	-----	-----
	\$ 20,786,027	\$ 20,267,051
	=====	=====

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

## LRG FURNITURE, LLC

STATEMENT OF OPERATIONS AND CHANGES IN MEMBERS' EQUITY (DEFICIT)  
FOR THE YEAR ENDED NOVEMBER 30, 2000 (NOTE 1)

SALES	\$ 63,058,739
COST OF GOODS SOLD	34,849,470
	-----
Gross profit	28,209,269
OPERATING AND GENERAL EXPENSES	37,294,558
	-----
Loss from operations	(9,085,289)
OTHER EXPENSE - INTEREST, NET	498,747
	-----
NET LOSS	(9,584,036)
MEMBERS' EQUITY, BEGINNING OF YEAR	2,677,489
	-----
MEMBERS' DEFICIT, END OF YEAR	\$ (6,906,547)
	=====

The accompanying notes to financial statements are an integral part of this statement.

## LRG FURNITURE, LLC

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED NOVEMBER 30, 2000 (NOTE 1)

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (9,584,036)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	345,033
Amortization	53,568
Changes in current assets and liabilities:	
Accounts receivable	71,918
Inventories	(2,245,991)
Prepaid expenses	54,805
Accounts payable and accrued liabilities	1,131,932
Customer deposits	(1,509,920)
Other	(4,596)
	-----
Net cash used in operating activities	(11,687,287)
	-----
CASH FLOWS USED IN INVESTING ACTIVITIES - Purchases of property and equipment	(617,582)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Net proceeds from long-term debt	4,848,000
Net proceeds from notes payable to Members	5,633,000
	-----
Net cash provided by financing activities	10,481,000
	-----
NET DECREASE IN CASH	(1,823,869)
CASH, BEGINNING OF YEAR	6,015,023
	-----
CASH, END OF YEAR	\$ 4,191,154
	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION - CASH PAID DURING THE YEAR FOR INTEREST	\$ 393,886
	=====

The accompanying notes to financial statements are an integral part  
of this statement.



## LRG FURNITURE, LLC

NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2000 AND 1999

## 1. HISTORY AND ORGANIZATION

LRG Furniture, LLC (the Company) was formed as a limited liability company under the laws of Virginia on November 29, 1999. The Company was formed as a joint venture between Bassett Furniture Industries, Inc. (Bassett) and Bassett Direct Plus Texas, LLC (BDPT) (collectively referred to herein as the Members). Pursuant to the joint venture, Bassett contributed cash of \$4,215,000, reimbursement for excessive customer deposit liability of \$1,800,000 and other identifiable assets, at net book value of \$8,593,000 offset by liabilities of \$8,948,000. Concurrently, BDPT contributed, at net book value, other identifiable assets of \$5,659,000 offset by liabilities of \$8,642,000. As a result of these transactions, Bassett and BDPT were credited with 51% and 49%, respectively, of the resulting combined equity of \$2,677,000.

The Company began operations on November 29, 1999, and had minimal activity between inception and November 30, 1999, its first fiscal year-end. As such, the financial statements for the period from November 29, 1999 (inception), to November 30, 1999, are not material for a fair presentation of the Company's results of operations and financial position and have not been presented herein.

## 2. OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## OPERATIONS

The Company operates retail furniture stores in North Carolina, South Carolina, Tennessee, Virginia, Nevada and Texas. These stores operate under the "Bassett Furniture Direct" name and substantially all of their purchases are from Bassett and its affiliates.

## USE OF ESTIMATES

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

## CASH

Cash includes cash on hand and cash in banks.

## REVENUE RECOGNITION AND CONCENTRATION OF CREDIT RISK

The Company recognizes revenue upon the delivery of products to its customers. In the current year, there is no concentration of credit risk to any one customer. Return allowances are provided for estimated losses associated with anticipated future returns of products sold by the Company. Actual returns could differ from management's estimates making it reasonably possible that a change in these estimates could occur in the near term.

#### MERCHANDISE INVENTORIES

Merchandise inventories are stated at the lower of first-in, first-out (FIFO) cost or market. Allowances are established to reduce the cost of excess and obsolete inventories to their estimated net realizable value.

#### PROPERTY AND EQUIPMENT

Property and equipment are carried at cost. Depreciation is provided using the straight-line method over the following estimated useful lives:

Computer equipment	3-5 years
Store fixtures	7 years
Office furniture, fixtures and equipment	7 years
Leasehold improvements	15-20 years
Vehicles	5 years

When property is sold or retired, the cost and accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the statement of operations and changes in members' equity. Expenditures for maintenance and repairs are charged to operations as incurred.

#### OTHER ASSETS

Other assets are substantially made up of refundable deposits with various utilities and property lessors and a lease contract that has terms that are favorable to its local market value. The deposits are refundable at the discretion of the utility or lessor as applicable and the favorable lease contract is amortized over the lease term, which is 15 years. Accumulated amortization related to this favorable lease contract was \$53,568 and \$0 in 2000 and 1999, respectively.

#### LONG-LIVED ASSETS

The Company applies Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which requires that long-lived assets and certain identifiable intangible assets to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event assets are impaired, losses are recognized based on the excess carrying amounts over the estimated undiscounted cash flows for the asset. SFAS No. 121 also requires that assets to be disposed of be reported at the lower of the carrying amount or the fair market value less selling costs. At November 30, 2000, the Company noted an impairment loss related to one store for \$97,000 (Note 10). No other impairment losses have been identified by the Company as of November 30, 2000.

#### PREOPENING EXPENSES

Preopening expenses, which consist primarily of payroll and occupancy costs, are expensed as incurred. Preopening expenses were \$449,534 in 2000.

#### ADVERTISING COSTS

The Company expenses advertising costs as incurred. Advertising expense was \$1,949,344 in 2000.

-3-

**CUSTOMER DEPOSITS**

Customer deposits relate to amounts paid by customers to the Company at the time they order goods. These deposits are applied to the ultimate sales price once goods are shipped to the customer, and are recognized as revenue at that time.

**INCOME TAXES**

The Company is treated as a pass-through entity for federal income tax purposes. As a result, the Company is not subject to income tax, but rather the liability for income taxes from the taxable income generated by the Company is the obligation of the owners of the Company. The Company is treated similarly for state income tax purposes and, under current law in the states in which the Company is conducting business, the Company is not subject to state income taxes. Accordingly, no provision or benefit for federal and state income taxes has been recorded in the accompanying financial statements.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2000, the Financial Accounting Standards Board issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." This statement amends the accounting and reporting standards of Statement No. 133 for certain derivative instruments and certain hedging activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company has adopted the provisions of this statement in 2001 and has determined that the impact of adopting the statement is immaterial.

**3. CONTINUING OPERATIONS**

The Company has experienced significant losses from operations during 2000. The Company incurred a net loss in 2000 of \$9,584,000, and has Members' deficit of \$6,907,000 as of November 30, 2000. Management has implemented a profit improvement program that includes evaluation and realignment of the Company's business to improve profitability. This program has resulted in significant operational changes, overall downsizing of the Company's administrative and operating overhead and disposals of selected stores (Note 10). As a result of these actions, the Company expects to reduce its losses substantially in 2001.

The Members have historically provided, and are currently providing, sufficient financial support to the Company to fund the Company's obligations and working capital requirements as those obligations become due. The Members loaned a total of \$7,808,000 to the Company in 2000 (Note 4).

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business, rather than through a process of forced liquidation. Management of Bassett has committed to provide the necessary level of financial support to the Company to enable it to pay its obligations as they become due through November 30, 2002. Bassett, however, is not legally obligated to provide such support. Accordingly, the accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

-4-

## 4. LONG-TERM DEBT AND NOTES PAYABLE TO MEMBERS

Long-term debt and notes payable to Members at November 30, 2000, consists of the following:

Unsecured notes with a bank, payable in monthly installments as discussed below from January 2001 to September 2003, plus interest payable monthly at prime plus 0.5%, as defined in the agreement (10% at November 30, 2000)	\$ 4,848,000
Unsecured notes payable to Bassett, interest at 8% per year, entire outstanding balance due November 1, 2004	6,000,000
Unsecured note payable to BDPT, interest payable quarterly at 8% per year, entire outstanding balance due November 30, 2003	1,808,000
	-----
Total long-term debt	12,656,000
Less - Current maturities of long-term debt	1,548,636
	-----
	\$11,107,364

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

2001	\$ 1,548,636
2002	2,154,624
2003	2,952,740
2004	6,000,000
	-----
	\$12,656,000
	=====

At various dates from March 16, 2000, to August 15, 2000, the Company entered into a total of eight unsecured notes with a bank for \$606,000 each for a total of \$4,848,000. Each note has deferred principal payments of \$22,444 beginning 9 months from the close of each note and continuing for 27 months thereafter. The proceeds of these notes were used primarily to pay for new store opening inventory. Repayment of these loans is guaranteed by Bassett.

On June 1, 2000, and August 1, 2000, the Company entered into two unsecured notes with Bassett for \$1,000,000 and \$5,000,000, respectively. Both of these notes have the same terms and both have deferred principal and interest payments, all payable November 1, 2004.

On November 30, 2000, the Company entered into an unsecured note with BDPT for \$1,808,000. This unsecured note contains various restrictive covenants, which include, among others, limitations on loans and contingent liabilities except in the normal course of business. As of November 30, 2000, the Company was in compliance with all of these covenants.

## 5. LEASE COMMITMENTS

The Company's administrative offices and retail locations are leased under noncancellable operating lease agreements that expire from 2001 to 2020. Most of these leases contain renewal options of 3 to 35 years. Certain of the lease agreements for retail locations require the payment of contingent rentals based on a percentage of sales above stipulated levels. No contingent rental expense was incurred during 2000. Certain of the lease agreements contain rent escalation clauses. Total rent expense for 2000 was \$6,201,000. The Company leases certain of these locations from the Members. Rent expense related to locations owned or leased from the Members was \$3,823,000 in 2000.

-6-

Future minimum lease commitments for the office and retail locations under operating leases having initial or remaining terms in excess of one year are as follows:

	MEMBERS -----	OPERATING -----	TOTAL -----
2001	\$ 3,349,516	\$ 2,251,090	\$ 5,600,606
2002	3,386,603	2,259,449	5,646,052
2003	3,386,603	2,232,428	5,619,031
2004	3,386,603	1,606,085	4,992,688
2005	3,386,603	1,493,235	4,879,838
Thereafter	33,955,694	7,680,462	41,636,156
	-----	-----	-----
	\$50,851,622	\$17,522,749	\$68,374,371
	=====	=====	=====

Subsequent to November 30, 2000, the Company entered into a lease agreement for one new store that was purchased by the Company from a third-party "Bassett Furniture Direct" licensee (Note 10). This lease is a month-to-month lease and as such does not appear in the future minimum lease commitments above.

Also subsequent to November 30, 2000, the Company sold three stores to third parties and these third parties assumed the leases related to these stores (Note 10). As such, the lease commitments related to these three stores are not included in the future minimum lease commitments above.

#### 6. OTHER RELATED-PARTY TRANSACTIONS

Substantially all purchases of merchandise inventories are made from Bassett and its affiliates. These related entities sell products to the Company at prices equal to their normal selling prices to unrelated entities. Accounts payable due to these related parties was \$10,534,450 and \$2,462,152 in 2000 and 1999, respectively.

Interest expense on borrowings from related parties as described in Note 4 was \$173,333 in 2000 and was accrued at November 30, 2000.

The Company paid salaries to related parties for administrative and executive services for \$300,000 in 2000.

#### 7. BENEFIT PLAN

##### EMPLOYEE SAVINGS PLAN

The Company maintains a qualified 401(k) employee savings plan covering substantially all full-time employees. Under the plan, employees may elect to contribute up to 15% of their compensation annually. Under the plan, the Company is not required to make contributions to the plan and no contributions were made in 2000.

**8. COMMITMENTS AND CONTINGENCIES****EMPLOYMENT AGREEMENTS**

The Company has certain obligations under various employment agreements through November 30, 2004, that stipulate, among other things, certain levels of compensation, bonus potential, other miscellaneous benefits and severance arrangements. Potential contingent liabilities under these arrangements approximate \$450,000.

**LITIGATION**

The Company is involved in various legal proceedings encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

**9. MEMBERS' EQUITY (DEFICIT)**

The Members' equity (deficit) account in the accompanying balance sheets reflects the initial capital contributed by the Members of \$2,677,489 and all losses of the Company since inception. No distributions have been made to the Members since inception. Under the terms of the Limited Liability Company Agreement (the LLC Agreement), profits and losses and any distributions of the Company are allocated to its members based upon the Members' relative ownership interests in the Company and are made at the sole discretion of the Board of Managers. Both members have two positions each in the Board of Managers. There is a single class of members with the same rights, powers, duties, obligations, preferences and privileges. Each member's liability is limited to the sum of its capital contributions, its share of any undistributed assets of the Company, and any amounts previously distributed to it from the Company.

As stated in the Articles of Organization, the latest date on which the Company is to dissolve is November 30, 2019.

**10. SUBSEQUENT EVENTS**

In December 2000, the Company sold its retail store operation in Columbia, South Carolina, to a local furniture retailer. The transaction involved the sale of inventory, property, equipment and leasehold improvements. The buyer also assumed the customer deposit liability and the future lease commitments for the store facility. The Company incurred a loss of \$97,000 primarily related to the disposal of property and equipment. As management made the decision to dispose of this store before year-end and had knowledge that the book value of the property exceeded fair value at year-end, management accrued for these impaired assets in the accompanying financial statements.

The Company sold its retail furniture store in Knoxville, Tennessee, in January 2001. Substantially all of the inventory in that location had been sold through a liquidation sale that began in September 2000. The lease for this location has been assumed by a third party, who will operate the store as a "Bassett Furniture Direct" store going forward. No significant gain or loss was realized due to this transaction.

On December 15, 2000, the Company purchased assets and assumed liabilities of a third party "Bassett Furniture Direct" licensee in Louisville, Kentucky. As part of the transaction, Bassett purchased the related building and is leasing it to the Company on a month-to-month basis. The Company will operate the facility as a retail furniture store on an ongoing basis.

## INDEX TO FORM 10-K SCHEDULE

Exhibit No.

-----

- F - 25 Report of Independent Public Accountants
- F - 26 Bassett Furniture Industries, Inc. Schedule II -  
Analysis of Valuation and Qualifying Accounts for the  
years ended November 25, 2000, November 27, 1999 and  
November 28, 1998.



## Report of Independent Public Accountants

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

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements included in the Bassett Furniture Industries, Incorporated Annual Report to Stockholders incorporated by reference in this Form 10-K, and have issued our report thereon dated January 15, 2001. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule on page F-26 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Greensboro, North Carolina,  
January 15, 2001.

## BASSETT FURNITURE INDUSTRIES, INC.

## Schedule II

Analysis of Valuation and Qualifying Accounts For the  
 Years Ended November 25, 2000, November 27, 1999 and November 28, 1998  
 (in thousands)

	Balance Beginning Of Period	Additions Charged to Cost and Expenses	Deductions	Other	Balance End Of Period
	-----				
	(1)				
For the Year Ended November 28, 1998:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	\$1,984	\$692	\$(476)	---	\$2,200
	=====				
Restructuring reserve	\$6,249	---	\$(3,760)	---	\$2,489
	=====				
For the Year Ended November 27, 1999:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	\$2,200	\$680	\$(322)	---	\$2,558
	=====				
Restructuring reserve	\$2,489	---	\$(1,173)	---	\$1,316
	=====				
For the Year Ended November 25, 2000:					
Reserve deducted from assets to which it applies-					
Allowance for doubtful accounts	\$2,558	\$4,150	\$(58)	---	\$6,650
	=====				
Restructuring reserve	\$1,316	\$880	\$(853)	---	\$1,343
	=====				

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

## Exhibit No.

-----

4	\$70 million Credit Agreement with a Bank Group dated October 25, 2000
10D	Bassett 1993 Stock Plan for Non-Employee Directors as amended.
13	Portions of the Bassett Furniture Industries, Incorporated Annual Report to Stockholders for the year ended November 25, 2000
21	List of subsidiaries of registrant
23A	Consent of Independent Public Accountants
23B	Consent of Independent Auditors

\$70,000,000.00

CREDIT AGREEMENT

dated as of

October 25, 2000

among

BASSETT FURNITURE INDUSTRIES, INCORPORATED,

The Initial Guarantors Listed Herein,

The Banks Listed Herein

and

BRANCH BANKING AND TRUST COMPANY,  
as Agent

## CREDIT AGREEMENT

AGREEMENT dated as of October 25, 2000 among BASSETT FURNITURE INDUSTRIES, INCORPORATED, BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, INC., THE E.B. MALONE CORPORATION, BASSETT DIRECT STORES, INC., BASSETT DIRECT NC, LLC, BASSETT DIRECT SC, LLC, the BANKS listed on the signature pages hereof and BRANCH BANKING AND TRUST COMPANY, as Agent.

The parties hereto agree as follows:

## ARTICLE I

## DEFINITIONS

SECTION 1.01. Definitions. The terms as defined in this Section 1.01 shall, for all purposes of this Agreement and any amendment hereto (except as herein otherwise expressly provided or unless the context otherwise requires), have the meanings set forth herein:

"Account Debtor" shall mean the person who is obligated on any of the Accounts Receivable Collateral or otherwise is obligated as a purchaser or lessee of any of the Inventory Collateral.

"Accounts Receivable Collateral" shall mean all rights of the Borrower and the Guarantors to payment for goods sold or leased, or to be sold or to be leased, or for services rendered or to be rendered, howsoever evidenced or incurred, including, without limitation, all accounts, instruments, chattel paper and general intangibles, all returned or repossessed goods and all books, records, computer tapes, programs and ledger books arising therefrom or relating thereto, whether now owned or hereafter acquired or arising.

"ACL Agreement" means any credit line sweep services agreement now or hereafter entered into between the Agent and Borrower and all amendments and modifications thereto.

"Acquisition" means the acquisition of (i) a controlling equity interest in another Person (including the purchase of an option, warrant or convertible or similar type security to acquire such a controlling interest at the time it becomes exercisable by the holder thereof), whether by purchase of such equity interest or upon exercise of an option or warrant for, or conversion of securities into, such equity interest, or (ii) assets of another Person which constitute all or any material part of the assets of such Person or of a line or lines of business conducted by such Person.

"Adjusted Monthly Libor Index" has the meaning set forth in Section 2.06(c).

"Advance" shall mean an advance made to the Borrower under this Agreement pursuant to Article II. An Advance is a "Prime Rate Advance" if such Advance is part of a Prime Rate Loan or a "Euro-Dollar Advance" if such Advance is part of a Euro-Dollar Loan.

"Affiliate" of any Person means (i) any other Person which directly, or indirectly through one or more intermediaries, controls such Person, (ii) any other Person which directly, or indirectly through one or more intermediaries, is controlled by or is under common control with such Person, or (iii) any other Person of which such Person owns, directly or indirectly, 20% or more of the common stock or equivalent equity interests. As used herein, the term "control" means possession, directly or indirectly, of the power

to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"Agent" means Branch Banking and Trust Company, in its capacity as agent for the Banks hereunder, and its successors and permitted assigns in such capacity.

"Agent's Letter Agreement" means that certain letter agreement, dated as of August 24, 2000, between the Borrower and the Agent relating to the structure of the Loan, and certain fees from time to time payable by the Borrower to the Agent, together with all amendments and modifications thereto.

"Agreement" means this Credit Agreement, together with all amendments and supplements hereto.

"Anniversary Date" means October 25, 2001 and each anniversary of the Closing Date thereafter.

"Annual Maintenance Capital Expenditures" shall mean, with respect to any period of four fiscal quarters the greater of: (1) the actual Capital Expenditures of the Borrower and its Consolidated Subsidiaries during such period for maintenance purposes of existing assets; or (2) seventy-five percent (75%) of Depreciation and Amortization for such period.

"Applicable Margin" has the meaning set forth in Section 2.06(a).

"Assignee" has the meaning set forth in Section 9.07(c).

"Assignment and Acceptance" means an Assignment and Acceptance executed in accordance with Section 9.07(c) in the form attached hereto as Exhibit J.

"Assignment of Claims Acts" shall mean The Assignment of Claims Act of 1940, as may be amended from time to time, and any Federal, State, county or municipal statute, regulation, ordinance, constitution or charter, now or hereafter existing, similar in effect thereto, as determined by the Agent in its sole discretion.

"Authority" has the meaning set forth in Section 8.02.

"Bank" means each bank listed on the signature pages hereof as having a Commitment and the Swing Line Lender, and their respective successors and assigns.

"Bassett Asset Fund" means Bassett Industries Alternative Asset Fund, LP, a Delaware limited partnership.

"Bassett Asset Fund Investment Policy" shall mean the Investment Policy attached hereto as Schedule 1.01 - Investment Policy.

"BB&T" means Branch Banking and Trust Company, and its successors.

"BFD Stores" means existing and future retail furniture stores operating under the "Bassett Furniture Direct" program of the Borrower or the "At Home with Bassett" program of the Borrower, as such programs are in effect on the Closing Date.

"Borrower" means Bassett Furniture Industries, Incorporated, a Virginia corporation, and its successors and permitted assigns.

"Borrowing" means a borrowing hereunder consisting of Advances made to the Borrower at the same time by the Banks pursuant to Article II.

"Borrowing Base" shall mean, based on the most recent Borrowing Base Certification Report which as of the date of a determination of the Borrowing Base has been received by the Agent, the sum of (i) an amount equal to 75% (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the face dollar amount of Eligible Accounts as at the date of determination; and (ii) an amount equal to: (A) 5% of the LIFO Reserve, as of the date of the determination of the Borrowing Base, subtracted from (B) 40% (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the dollar amount of the Eligible Inventory, valued at the lower of its cost or market value (as determined by the Agent in its sole discretion), as at the date of determination. The Agent shall also be entitled to hold and subtract any reserve against the Borrowing Base it deems necessary as security for payment of the Notes, the obligations of the Guarantors under Article X of this Agreement, and the obligations of the Borrower under the Letter of Credit Agreements.

"Borrowing Base Certification Report" means a report in the form attached hereto as Exhibit E, and otherwise satisfactory to the Agent, certified by the chief financial officer or other authorized officer of the Borrower and the Guarantors regarding the Inventory Collateral and the Accounts Receivable Collateral of the Borrower and the Eligible Guarantors.

"Capital Expenditures" means for any period the sum of all capital expenditures incurred during such period by the Borrower and its Consolidated Subsidiaries, as determined in accordance with GAAP.

"Capital Stock" means any nonredeemable capital stock of the Borrower or any Consolidated Subsidiary (to the extent issued to a Person other than the Borrower), whether common or preferred.

"CERCLA" means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. and its implementing regulations and amendments.

"CERCLIS" means the Comprehensive Environmental Response Compensation and Liability Information System established pursuant to CERCLA.

"Change of Law" shall have the meaning set forth in Section 8.02.

"Closing Certificate" has the meaning set forth in Section 3.01(e).

"Closing Date" means October 25, 2000.

"Code" means the Internal Revenue Code of 1986, as amended, or any successor Federal tax code. Any reference to any provision of the Code shall also be deemed to be a reference to any successor provision or provisions thereof.

"Collateral" shall have the meaning set forth in the Security Agreement.

"Collateral Documents" means, collectively, the Pledge Agreement and the Security Agreement.

"Collateral Locations" shall mean the Executive Offices and those additional locations set forth and described on Schedule 1.01 - Collateral Locations, under the heading "Collateral Locations."

"Collateral Reserve Account" shall mean a non-interest bearing, demand deposit account which the Borrower and Guarantors may be required to open and maintain with the Agent for the benefit of the Secured Parties pursuant to the requirements of Section 2.14.

"Committed Contingent BFD Liabilities" shall mean at any date any and all written commitments or other agreements pursuant to which the Borrower or any Consolidated Subsidiary has agreed to Guaranty any indebtedness, liabilities or obligations of any Person as lessee under a lease of a "BFD Store"; provided, however, Committed Contingent BFD Liabilities shall expressly exclude obligations arising under any such written commitment or other agreement under which the Borrower and any Consolidated Subsidiary that is a party thereto has the unilateral: (1) and unqualified right to terminate such written commitment or other agreement at any time; or (2) right to terminate such written commitment or other agreement in the event that the guaranty contemplated thereby will result in Default or Event of Default under this Agreement.

"Commitment" means, with respect to each Bank, (i) the amount set forth opposite the name of such Bank on the signature pages hereof, or (ii) as to any Bank which enters into an Assignment and Acceptance (whether as transferor Bank or as Assignee thereunder), the amount of such Bank's Commitment after giving effect to such Assignment and Acceptance, in each case as such amount may be reduced from time to time pursuant to Sections 2.08 and 2.09.

"Compliance Certificate" has the meaning set forth in Section 5.01(d).

"Comprehensive Fixed Charge Coverage Ratio" shall be determined as of the end of each Fiscal Quarter and shall mean the ratio of: (A)(i) Consolidated Comprehensive EBITDA for the period of four consecutive Fiscal Quarters most recently ended on or prior to such date, plus all obligations of the Borrower or any of its Consolidated Subsidiaries as lessee under operating leases, for the period of four consecutive Fiscal Quarters most recently ended on or prior to such date, less (ii) the sum of the aggregate taxes on income paid by the Borrower and its Consolidated Subsidiaries during such period of four consecutive Fiscal Quarters most recently ended on or prior to such date, all Dividends paid or declared by the Borrower and its Consolidated Subsidiaries during such period, plus Annual Maintenance Capital Expenditures during such period, to (B) the sum of: (i) Consolidated Fixed Charges for the period of four consecutive fiscal quarters most recently ended on or prior to such date, plus (ii) all payments during such period by the Borrower or any of its Consolidated Subsidiaries under Guaranteed BFD Leases.

"Consolidated Comprehensive EBITDA" shall be determined as of the end of each Fiscal Quarter and shall mean: (1) EBITDA, of the Borrower and its Consolidated Subsidiaries, for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters, minus (2) non-recurring or non-cash income of the Borrower and its Consolidated Subsidiaries for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters, all as determined in accordance with GAAP. For purposes of clarification and not in limitation of the foregoing, subitem (2) shall include (and thereby the following shall be subtracted from EBITDA) without limitation to the extent the following were included in computing Consolidated Net Income for such period: (i) non-recurring capital gains realized by the Borrower or any Subsidiary of the Borrower from Investments or the Bassett Asset Fund; and (ii) any other amounts realized by the Borrower or any Subsidiary that exceeds the actual, recurring earnings arising from any Investment including without limitation the Bassett Asset Fund or IHFC. In the event earnings of any Person that is not a Consolidated Subsidiary of the Borrower are remitted to the Borrower or any Consolidated Subsidiary of the Borrower such earnings shall not be included in Consolidated Comprehensive EBITDA until actually paid to the Borrower or such Consolidated Subsidiary and upon such payment shall be allocated among the Fiscal Quarter then ended and the immediately preceding three Fiscal Quarters on the basis that such earnings were reported by the Borrower and its Consolidated Subsidiary.



"Consolidated Fixed Charges" for any period means the sum of (i) Consolidated Interest Expense for such period, (ii) all payments of principal in respect of Debt (excluding principal payments made with respect to any revolving line of credit) of the Borrower or any of its Consolidated Subsidiaries for such period, and (iii) all payment obligations of the Borrower and its Consolidated Subsidiaries for such period under all operating leases and rental agreements.

"Consolidated Interest Expense" for any period means interest, whether expensed or capitalized, in respect of Debt of the Borrower or any of its Consolidated Subsidiaries outstanding during such period.

"Consolidated Net Income" means, for any period, the Net Income of the Borrower and its Consolidated Subsidiaries determined on a consolidated basis, but excluding (i) extraordinary items and (ii) any equity interests of the Borrower or any Subsidiary of the Borrower in the unremitted earnings of any Person that is not a Subsidiary of the Borrower.

"Consolidated Operating EBITDA" shall be determined as of the end of each Fiscal Quarter and shall mean the Consolidated Operating Profits, for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters, plus the Depreciation and Amortization for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters, all as determined in accordance with GAAP.

"Consolidated Operating Profits" means, for any period, the Operating Profits of the Borrower and its Consolidated Subsidiaries arising from their respective wholesale furniture sales.

"Consolidated Subsidiary" means at any date any Subsidiary or other entity the accounts of which, in accordance with GAAP, would be consolidated with those of the Borrower in its consolidated and consolidating financial statements as of such date.

"Consolidated Total Assets" means, at any time, the total assets of the Borrower and its Consolidated Subsidiaries, determined on a consolidated basis, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, prepared in accordance with GAAP.

"Consolidated Total Capitalization" means, at any time, the sum of (A) the amount equal to: (i) Stockholders' Equity, less (ii) the aggregate outstanding amount of any and all loans or advances by the Borrower or any Consolidated Subsidiary to any Person, plus (B) Consolidated Total Debt, provided, that for purposes of this definition only, in determining Consolidated Total Debt, clauses (viii), (ix) (but only to the extent clause (ix) includes Debt that is not a Contingent BFD Liability) and (x) of the definition of Debt contained in this Agreement shall be disregarded.

"Consolidated Total Debt" means at any date the sum of: (1) all Debt of the Borrower and its Consolidated Subsidiaries, (2) all obligations (absolute or contingent) of the Borrower and its Consolidated Subsidiaries to reimburse any bank or other Person in respect of amounts which are available to be drawn or have been drawn under a letter of credit or similar instrument, and (3) all Contingent BFD Liabilities, all as determined in accordance with GAAP.

"Contingent BFD Borrowing Base" shall mean, based on the most recent Contingent BFD Liabilities Borrowing Base Certification Report which as of the date of a determination has been received by the Agent, the sum of: (1) an amount equal to seventy-five percent (75%) (or such lesser percentage as shall be mutually agreed upon by the Agent and Borrower from time to time) of the fair market value of Eligible Investment Securities, and (2) an amount equal to seventy-five percent (75%) (or such lesser percentage as shall be agreed upon by the Agent and Borrower from time to time) of the fair market value

(determined in a manner consistent with the practices of the Bassett Asset Fund on November 27, 1999) of the Borrower's ownership interest in the cash and investments owned by the Bassett Asset Fund.

"Contingent BFD Liabilities" shall mean at any date, without duplication: (i) all indebtedness, liabilities and obligations of any Person in connection with or arising from the acquisition, development, construction or ownership of a "BFD Store" Guaranteed by the Borrower or any of its Consolidated Subsidiaries (or with respect to which the Borrower or any Consolidated Subsidiary has provided a written commitment or agreement to issue such a Guaranty); (ii) all indebtedness, liabilities and obligations of any Person in connection with or arising from the initial working capital and purchase of inventory and fixtures for a BFD Store Guaranteed by the Borrower or any of its Consolidated Subsidiaries (or with respect to which the Borrower or any Consolidated Subsidiary has provided a written commitment or agreement to issue such a Guaranty); and (iii) the Applicable Percentage of all payments scheduled to be made by any Person, as lessee under a Guaranteed BFD Lease; provided, however, if the guaranty issued by the Borrower or Consolidated Subsidiary in connection with a Guaranteed BFD Lease is applicable only during a specified period of time, the amount included in this subitem (iii) of the definition of Contingent BFD Liabilities shall be: (1) limited to the Applicable Percentage of all payments scheduled to be made by any Person as lessee under a Guaranteed BFD Lease during the period during which such guaranty by the Borrower or Consolidated Subsidiary, as the case may be, is effective; and (2) shall be included in the determination of Contingent BFD Liabilities only during the portion of the lease term that such guaranty by the Borrower or Consolidated Subsidiary, as the case may be, is effective. As used herein, "Applicable Percentage" shall mean: (i) 75% if the Person whose obligations under the Guaranteed BFD Lease are guaranteed is an Affiliate of the Borrower or any Consolidated Subsidiary; and (ii) 50% if the Person whose obligations under the Guaranteed BFD Lease are guaranteed is not an Affiliate of the Borrower or any Consolidated Subsidiary.

"Contingent BFD Liabilities Borrowing Base Certification Report" shall mean a report in the form attached hereto as Exhibit L, and otherwise satisfactory to the Agent, certified by the chief financial officer or other authorized officer of the Borrower and the Guarantors.

"Controlled Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414 of the Code.

"Cost of Acquisition" means, with respect to any Acquisition, as at the date of entering into any agreement therefor, the sum of the following (without duplication): (i) the value of the capital stock, warrants or options to acquire capital stock of Borrower or any Subsidiary to be transferred in connection therewith, (ii) the amount of any cash and fair market value of other property (excluding property described in clause (i) and the unpaid principal amount of any debt instrument) given as consideration, (iii) the amount (determined by using the face amount or the amount payable at maturity, whichever is greater) of any Debt incurred, assumed or acquired by the Borrower or any Subsidiary in connection with such Acquisition, (iv) all additional purchase price amounts in the form of earnouts and other contingent obligations that should be recorded on the financial statements of the Borrower and its Subsidiaries in accordance with GAAP, (v) all amounts paid in respect of covenants not to compete, consulting agreements that should be recorded on financial statements of the Borrower and its Subsidiaries in accordance with GAAP, and other affiliated contracts in connection with such Acquisition, (vi) the aggregate fair market value of all other consideration given by the Borrower or any Subsidiary in connection with such Acquisition, and (vii) out of pocket transaction costs for the services and expenses of attorneys, accountants and other consultants incurred in effecting such transaction, and other similar transaction costs so incurred. For purposes of determining the Cost of Acquisition for any transaction, (A) the capital stock of the Borrower shall be valued (I) in the case of capital stock that is then designated as a national market system security by the National Association of Securities Dealers, Inc. ("NASDAQ") or is listed on a national securities exchange, the average of the last reported bid and ask quotations or the last prices reported thereon, and (II) with respect to any other shares of capital stock, as determined by the

Board of Directors of the Borrower and, if requested by the Agent, determined to be a reasonable valuation by the independent public accountants referred to in Section 5.01(a), (B) the capital stock of any Subsidiary shall be valued as determined by the Board of Directors of such Subsidiary and, if requested by the Agent, determined to be a reasonable valuation by the independent public accountants referred to in Section 5.01(a), and (C) with respect to any Acquisition accomplished pursuant to the exercise of options or warrants or the conversion of securities, the Cost of Acquisition shall include both the cost of acquiring such option, warrant or convertible security as well as the cost of exercise or conversion.

"Debt" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee under capital leases, (v) all obligations of such Person to reimburse any bank or other Person in respect of amounts payable under a banker's acceptance, (vi) all Redeemable Preferred Stock of such Person (in the event such Person is a corporation), (vii) all obligations (absolute or contingent) of such Person to reimburse any bank or other Person in respect of amounts which are available to be drawn or have been drawn under a letter of credit or similar instrument, (viii) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person, (ix) all Debt of others Guaranteed by such Person, (x) all obligations of such Person with respect to interest rate protection agreements, foreign currency exchange agreements or other hedging agreements (valued as the termination value thereof computed in accordance with a method approved by the International Swap Dealers Association and agreed to by such Person in the applicable hedging agreement, if any); and (xi) the principal portion of all obligations of such Person under any synthetic lease, tax retention operating lease, off-balance sheet loan or similar off-balance sheet financing product where such transaction is considered borrowed money indebtedness for tax purposes but is classified as an operating lease under GAAP.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived in writing, become an Event of Default.

"Default Rate" means, with respect to the Loan or any Swing Line Advance, on any day, the sum of 2% plus the then highest interest rate (including the Applicable Margin) which may be applicable to the Loan or any Swing Line Advance hereunder (irrespective of whether any such type of Loan is actually outstanding hereunder).

"Defaulted Contingent BFD Liability" means: (1) a default, event of default or failure to perform any covenant or obligation has occurred and continues beyond any applicable cure period under any indebtedness, liability or obligation with respect to which the Borrower or any Consolidated Subsidiary has executed a guaranty creating a Contingent BFD Liability; or (2) the Borrower or any Consolidated Subsidiary has made a payment or performed an obligation under the guaranty provided by such Person in connection with any such Contingent BFD Liability.

"Depreciation and Amortization" means for any period an amount equal to the sum of all depreciation and amortization expenses of the Borrower and its Consolidated Subsidiaries for such period, as determined in accordance with GAAP.

"Dividends" means for any period the sum of all dividends paid or declared during such period in respect of any Capital Stock and Redeemable Preferred Stock (other than dividends paid or payable in the form of additional Capital Stock).

"Dollars" or "\$" means dollars in lawful currency of the United States of America.

"Domestic Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in North Carolina are authorized or required by law to close.

"Domestic Subsidiary" means any Subsidiary which is organized under the laws of any state or territory of the United States of America.

"EBITDA" means and includes, for any Fiscal Quarter for which the amount thereof is to be determined, the sum of (i) Consolidated Net Income for such period; (ii) Consolidated Interest Expense for such period; (iii) income taxes and other taxes measured by income or profits in respect of the Borrower and its Consolidated Subsidiaries for such period, but only to the extent such taxes were deducted in computing Consolidated Net Income for such period, consolidated in accordance with GAAP; and (iv) Depreciation and Amortization for such period.

"Eligible Accounts" means those Receivables of the Borrower and the Eligible Guarantors included in the Accounts Receivable Collateral, each of which meets the following requirements: (i) such Receivable arose in the ordinary course of such Borrower's or Eligible Guarantor's business; (ii) the right to payment is actually owing to a Borrower or Eligible Guarantor by such Borrower's or Eligible Guarantor's Account Debtors and has been fully earned by completed performance and, if goods are involved, the goods have been shipped by such Borrower or Eligible Guarantor, as the case may be; (iii) the Receivable includes only that portion thereof not subject to any offset, defense, counterclaim, credit, allowance or adjustment; (iv) such Borrower's or Eligible Guarantor's, as the case may be, title to such Receivable is absolute and is subject to no prior assignment, claim, lien or security interest; (v) the full amount reflected on such Borrower's or Eligible Guarantor's, as the case may be, books and on any invoice or statement delivered to the Agent related to such Receivable is owing to such Borrower or Eligible Guarantor, as the case may be, and no partial payment has been made thereon; (vi) (1) such Receivable is due and payable not more than 60 days from the original invoice date; (2) no more than 60 days have elapsed from the due date; and (3) the Receivable is otherwise consistent with the terms offered by the Borrower and the Eligible Guarantors to their respective customers on the Closing Date; provided, however, this subitem (vi) shall not exclude a Receivable from constituting an Eligible Account if such Receivable (an "Opening Order Receivable") is existing on the Closing Date and: (1) the Receivable represents the Account Debtor's initial purchase of inventory for a new retail store; (2) the Receivable is payable in equal monthly installments, and in full within 15 months from the invoice date; (3) no such monthly installment applicable to such Receivable is more than 1 day past due; (4) the amount of such Receivable is less than \$600,000; (5) the aggregate amount of all Opening Order Receivables included within the total Eligible Accounts does not exceed \$4,000,000 (but only Opening Order Receivables in excess of such amount shall be excluded); and (6) each of the other requirements of an Eligible Account is satisfied; (vii) such Receivable did not arise out of a contract or purchase order containing provisions prohibiting assignment thereof or the creation of a security interest therein, and such Borrower or Eligible Guarantor, as the case may be, has received no note, trade acceptance, draft or other instrument with respect to such Receivable or in payment thereof; (viii) such Borrower or Eligible Guarantor, as the case may be, has received no notice of the death of the Account Debtor or of the dissolution, termination of existence, insolvency, bankruptcy, appointment of receiver for any part of the property of, or assignment for the benefit of creditors made by, the Account Debtor; (ix) such Receivable is not payable by an Account Debtor affiliated with any Borrower or any Guarantor or with any shareholder, director, or officer of a Borrower or Guarantor, as determined by the Agent in its sole discretion (for purposes of clarification and not in limitation of the foregoing, Receivables payable by LRG Furniture, LLC shall not constitute Eligible Accounts as a result of this subitem (ix)); (x) such Receivable is not payable by any Account Debtor located outside the United States, unless such Receivable is payable in the full amount of the face value of such Receivable in United States dollars and is supported by an irrevocable letter of credit in form and substance acceptable to the Agent, in its sole discretion, and issued by a bank satisfactory to the Agent, in its sole discretion (and, if requested by the Agent, such letter of credit or the proceeds thereof, as the Agent in its sole discretion, shall require, have been assigned to the Agent); (xi) such Receivable is not payable by the United States of America or any political subdivision or agency thereof, unless the Agent,

Banks, the Borrower and the Eligible Guarantors have complied with the Assignment of Claims Act with respect to such Receivable (including, without limitation, the execution and delivery of a notice of assignment); (xii) the Account Debtor for such Receivable is not located in the State of New Jersey unless the Borrower or Eligible Guarantors, as the case may be, have filed a Notice of Business Activities Report with the New Jersey Division of Taxation for the then current year; (xiii) such Receivable is not payable by any Account Debtor having 50% or more in face value of its then existing accounts with the Borrower or Eligible Guarantors ineligible hereunder; (xiv) such Receivable is not payable by any Account Debtor whose total accounts, in face amount, with the Borrower and Eligible Guarantors exceed 15% or more of the total aggregate amount of the Eligible Receivables, but only to the extent of such excess; and (xv) the Receivable has not otherwise been excluded by the Agent, which it reserves the right to do in its sole discretion. No presumption shall exist that a Receivable once classified by the Agent as an "Eligible Receivable" shall continue to be so classified. In no event shall (1) an Opening Order Receivable created or arising after the Closing Date be included within the Eligible Accounts; and (2) a Receivable be included within the Eligible Accounts if such Receivable is not in accordance with the policy of the Borrower and Eligible Guarantors in existence on the Closing Date as to the extension of 30, 45 and 60 day terms to specified types of customers unless any such change to such policy is approved in writing by the Required Banks.

"Eligible Guarantor" means Bassett Furniture Industries of North Carolina, Inc. and The E.B. Malone Corporation.

"Eligible Inventory" means that portion of the Inventory Collateral consisting of raw material or finished goods (excluding any and all work in process) in the possession and control of a Borrower or an Eligible Guarantor which meets the following requirements: (i) such Inventory Collateral is in good and saleable condition, is not obsolete and is subject to internal control and management procedures conducted by a Borrower or an Eligible Guarantor, as the case may be, and satisfactory to the Agent in its sole discretion; (ii) such Inventory Collateral meets all standards imposed by any governmental agency, or department or division thereof, having regulatory authority over such Inventory Collateral, its use and/or sale; (iii) such Inventory Collateral has not been consigned to any Person; (iv) such Inventory Collateral is subject to the Agent's perfected security interest and to no other liens or security interests and is located at the Collateral Locations; (v) such Inventory Collateral does not bear, incorporate or is otherwise subject to any trademark, patent or copyright which is not owned by the Borrower or Eligible Guarantor, unless such trademark, patent or copyright is licensed to the Borrower or Eligible Guarantor on terms and conditions satisfactory to the Agent; and (vi) no warehouse receipt has been issued with respect to such Inventory Collateral unless the warehouseman issuing such warehouse receipt is satisfactory to the Agent in its sole discretion, the Agent has received and reviewed such warehouse receipt, and such warehouse receipt has been transferred or assigned to the Agent in a manner satisfactory to the Agent. No presumption shall exist that Inventory Collateral once classified by the Agent as "Eligible Inventory" shall continue to be so classified.

"Eligible Investment Securities" shall mean: (1) marketable investment securities publicly traded on a national securities exchange and described on Schedule 4.22-A; and (2) debt instruments which are described on Schedule 4.22-A or described in Sections 5.13(i) through (iv) inclusive.

"Environmental Authority" means any foreign, federal, state, local or regional government that exercises any form of jurisdiction or authority under any Environmental Requirement.

"Environmental Authorizations" means all licenses, permits, orders, approvals, notices, registrations or other legal prerequisites for conducting the business of a Loan Party or any Subsidiary of a Loan Party required by any Environmental Requirement.

"Environmental Judgments and Orders" means all judgments, decrees or orders arising from or in any way associated with any Environmental Requirements, whether or not entered upon consent

or written agreements with an Environmental Authority or other entity arising from or in any way associated with any Environmental Requirement, whether or not incorporated in a judgment, decree or order.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges or releases of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes into the environment, including, without limitation, ambient air, surface water, groundwater or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, petroleum or petroleum products, chemicals or industrial, toxic or hazardous substances or wastes or the clean-up or other remediation thereof.

"Environmental Liabilities" means any liabilities, whether accrued, contingent or otherwise, arising from and in any way associated with any Environmental Requirements.

"Environmental Notices" means notice from any Environmental Authority or by any other person or entity, of possible or alleged noncompliance with or liability under any Environmental Requirement, including without limitation any complaints, citations, demands or requests from any Environmental Authority or from any other person or entity for correction of any violation of any Environmental Requirement or any investigations concerning any violation of any Environmental Requirement.

"Environmental Proceedings" means any judicial or administrative proceedings arising from or in any way associated with any Environmental Requirement.

"Environmental Releases" means releases as defined in CERCLA or under any applicable state or local environmental law or regulation.

"Environmental Requirements" means any legal requirement relating to health, safety or the environment and applicable to a Loan Party, any Subsidiary of a Loan Party or the Properties, including but not limited to any such requirement under CERCLA or similar state legislation and all federal, state and local laws, ordinances, regulations, orders, writs, decrees and common law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor law. Any reference to any provision of ERISA shall also be deemed to be a reference to any successor provision or provisions thereof.

"Euro-Dollar Business Day" means any Domestic Business Day on which dealings in Dollar deposits are carried out in the London interbank market.

"Euro-Dollar Loan" means the Loan during Interest Periods when the Loan bears or is to bear interest at a rate based upon the London Interbank Offered Rate.

"Euro-Dollar Reserve Percentage" has the meaning set forth in Section 2.06.

"Event of Default" has the meaning set forth in Section 6.01.

"Executive Offices" shall mean with respect to a Borrower or an Eligible Guarantor, the address and location corresponding to such Borrower's or Eligible Guarantor's name set forth on Schedule 1.01 - Collateral Locations under the heading "Executive Offices."

"Federal Funds Rate" means, for any day, the rate per annum (rounded upward, if necessary, to the next higher 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate charged to BB&T on such day on such transactions as determined by the Agent.

"Financing" shall mean (i) any transaction or series of transactions for the incurrence by a Loan Party of any Debt or for the establishment of a commitment to make advances which would constitute Debt of a Loan Party, which Debt is not by its terms subordinate and junior to other Debt of a Loan Party, (ii) an obligation incurred in a transaction or series of transactions in which assets of a Loan Party are sold and leased back, or (iii) a sale of accounts or other receivables or any interest therein, other than a sale or transfer of accounts or receivables attendant to a sale permitted hereunder of an operating division.

"Fiscal Month" means any fiscal month of the Borrower.

"Fiscal Quarter" means any fiscal quarter of the Borrower.

"Fiscal Year" means any fiscal year of the Borrower.

"Foreign Subsidiary" means any Subsidiary which is not a Domestic Subsidiary.

"GAAP" means generally accepted accounting principles applied on a basis consistent with those which, in accordance with Section 1.02, are to be used in making the calculations for purposes of determining compliance with the terms of this Agreement.

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to secure, purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to provide collateral security, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Guaranteed BFD Leases" means any and all leases of "BFD Stores" with respect to which the Borrower or any of its Consolidated Subsidiaries have Guaranteed the indebtedness, liabilities or obligations of any Person as lessee thereunder.

"Guaranteed Obligations" means any and all liabilities, indebtedness and obligations of any and every kind and nature, heretofore, now or hereafter owing, arising, due or payable from the Borrower to the Banks (including, without limitation, the Swing Line Lender), the Issuing Bank, the Agent, or any of them, arising under or evidenced by this Agreement, the Notes, the Letter of Credit Agreements, the Collateral Documents or any other Loan Document.

"Guarantors" shall mean collectively: (a) the Initial Guarantors; and (b) all Material Domestic Subsidiaries acquired, formed or otherwise in existence after the Closing Date.

"Hazardous Materials" includes, without limitation, (a) solid or hazardous waste, as defined in the Resource Conservation and Recovery Act of 1980, 42 U.S.C. Section 6901 et seq. and its implementing regulations and amendments, or in any applicable state or local law or regulation, (b) any "hazardous substance", "pollutant" or "contaminant", as defined in CERCLA, or in any applicable state or local law or regulation, (c) gasoline, or any other petroleum product or by-product, including crude oil or any fraction thereof, (d) toxic substances, as defined in the Toxic Substances Control Act of 1976, or in any applicable state or local law or regulation and (e) insecticides, fungicides, or rodenticides, as defined in the Federal Insecticide, Fungicide, and Rodenticide Act of 1975, or in any applicable state or local law or regulation, as each such Act, statute or regulation may be amended from time to time.

"IHFC" means International Home Furnishings Center Inc., a North Carolina corporation.

"Initial Guarantors" shall mean collectively (i) Bassett Furniture Industries of North Carolina, Inc., a North Carolina corporation, (ii) The E.B. Malone Corporation, a Delaware corporation, (iii) Bassett Direct Stores, Inc., a Virginia corporation, (iv) Bassett Direct NC, LLC, a Virginia limited liability company, and (v) Bassett Direct SC, LLC, a Virginia limited liability company.

"Interest Payment Date" shall mean the first day of each month.

"Interest Period" means a calendar month; provided that: (a) the initial Interest Period shall mean the period commencing on the Closing Date and ending on October 31, 2000, provided that the London Interbank Offered Rate shall be determined as if such Interest Period commenced on October 1, 2000; and (b) the last Interest Period under this Agreement shall end on the Termination Date.

"Inventory Collateral" shall mean all inventory of the Borrower and Guarantors, or in which the Borrower or Guarantor has rights, whether now owned or hereafter acquired, wherever located, including, without limitation, all goods of the Borrower and Guarantors held for sale or lease or furnished or to be furnished under contracts of service, all goods held for display or demonstration, goods on lease or consignment, returned and repossessed goods, all raw materials, work-in-process, finished goods and supplies used or consumed in the business of the Borrower or any Guarantor, together with all documents, documents of title, dock warrants, dock receipts, warehouse receipts, intellectual property, bills of lading or orders for the delivery of all, or any portion, of the foregoing.

"Investment" means any investment in any Person, whether by means of purchase or acquisition of obligations or securities of such Person, capital contribution to such Person, loan or advance to such Person, making of a time deposit with such Person, Guarantee or assumption of any obligation of such Person or otherwise.

"Issuing Bank" shall mean BB&T.

"Lending Office" means, as to each Bank, its office located at its address set forth on the signature pages hereof (or identified on the signature pages hereof as its Lending Office) or such other office as such Bank may hereafter designate as its Lending Office by notice to the Borrower and the Agent.

"Letter of Credit" means the letters of credit issued by the Issuing Bank pursuant to Section 2.03(a) and "Letter of Credit" means any one of such Letters of Credit, as any of such letters of credit may be extended, renewed, replaced or amended from time to time.



"Letter of Credit Advance" means an advance made by the Issuing Bank pursuant to Section 2.03(c).

"Letter of Credit Agreement" means any agreement entered into by the Borrower and the Issuing Bank pursuant to which a Letter of Credit is issued, as amended, modified or restated from time to time.

"Letter of Credit Commitment" means, with respect to each Bank, (i) the amount designated as the Letter of Credit Commitment set forth opposite the name of such Bank on the signature pages hereof, or (ii) as to any Bank which enters into an Assignment and Acceptance (whether as transferor Bank or as Assignee thereunder), the amount of such Bank's Letter of Credit Commitment after giving effect to such Assignment and Acceptance, in each case as such amount may be reduced from time to time pursuant to Sections 2.08 and 2.09.

"Lien" means, with respect to any asset, any mortgage, deed to secure debt, deed of trust, lien, pledge, charge, security interest, security title, preferential arrangement which has the practical effect of constituting a security interest or encumbrance, servitude or encumbrance of any kind in respect of such asset to secure or assure payment of a Debt or a Guarantee, whether by consensual agreement or by operation of statute or other law, or by any agreement, contingent or otherwise, to provide any of the foregoing. For the purposes of this Agreement, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"LIFO Reserve" means, at any time, the LIFO reserve of the Borrower and its Consolidated Subsidiaries, as set forth on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries prepared in accordance with GAAP.

"Loan" means the aggregate outstanding Advances made by the Banks to the Borrower under this Agreement. The Loan (excluding Swing Line Advances) shall at all times be a Euro-Dollar Loan, unless such Loan is to be a Prime Rate Loan pursuant to Article VIII herein.

"Loan Documents" means this Agreement, the Notes, the Collateral Documents, the Letter of Credit Agreements, the Letters of Credit, any other document evidencing, relating to or securing the Loan, the Swing Line Advances or the Letters of Credit, and any other document or instrument delivered from time to time in connection with this Agreement, the Notes, the Letter of Credit Agreements, the Swing Line Advances, the Letters of Credit, the Collateral Documents or the Loan, as such documents and instruments may be amended or supplemented from time to time.

"Loan Parties" means collectively the Borrower and each Guarantor that is now or hereafter a party to any of the Loan Documents.

"London Interbank Offered Rate" has the meaning set forth in Section 2.06(c).

"Margin Stock" means "margin stock" as defined in Regulations T, V or X of the Board of Governors of the Federal Reserve System, as in effect from time to time, together with all official rulings and interpretations issued thereunder.

"Material Adverse Effect" means, with respect to any event, act, condition or occurrence of whatever nature (including any adverse determination in any litigation, arbitration, or governmental investigation or proceeding), whether singly or in conjunction with any other related event or events, act or acts, condition or conditions, occurrence or occurrences, a material adverse change in, or a material adverse effect upon, any of (a) the financial condition, operations, business, properties or prospects of the Borrower and its Consolidated Subsidiaries, taken as a whole, (b) the rights and remedies of the Agent or

the Banks under the Loan Documents, or the ability of the Borrower or any other Loan Party to perform its obligations under the Loan Documents to which it is a party, as applicable, or (c) the legality, validity or enforceability of any Loan Document.

"Material Subsidiary" means collectively each Domestic Subsidiary that is a member of the Material Subsidiary Group. As used herein, "Material Subsidiary Group" as at any date means one or more Domestic Subsidiaries (determined in accordance with this definition) which account for (or in the case of a recently formed or acquired Domestic Subsidiary would so account for on a pro forma historical basis), when combined with the Borrower, at least (A) 90% of Consolidated Total Assets as measured as at the end of the then most recently ended Fiscal Year or (B) 90% of Consolidated Net Income (before taxes) for either of the two most recently ended Fiscal Years. A Domestic Subsidiary shall be a "Material Subsidiary" if such Domestic Subsidiary is included in any of the following groups: (1) the Domestic Subsidiaries (determined in accordance with the terms of the following sentence) accounting for the Consolidated Total Assets measured under part (A) of the preceding sentence, but not the Consolidated Net Income measured under part (B) of the preceding sentence; or (2) the Domestic Subsidiaries (determined in accordance with the terms of the following sentence) accounting for the Consolidated Net Income measured under part (B) of the preceding sentence, but not the Consolidated Total Assets measured under part (A) of the preceding sentence; or (3) the Domestic Subsidiaries (determined in accordance with the terms of the following sentence) accounting for the Consolidated Net Income measured under part (B) of the preceding sentence and the Consolidated Total Assets measured under part (A) of the preceding sentence. The determination of the Domestic Subsidiaries comprising the Material Subsidiary Group as of any date shall be made on the basis of a group (selected by the Borrower) consisting of the smallest number of Domestic Subsidiaries necessary to satisfy groups (1), (2) or (3), as the case may be, above.

"Multiemployer Plan" shall have the meaning set forth in Section 4001(a)(3) of ERISA.

"Net Income" means, as applied to any Person for any period, the aggregate amount of net income of such Person, after taxes, for such period, as determined in accordance with GAAP.

"Notes" means the Swing Line Note and the promissory notes of the Borrower, substantially in the form of Exhibit A hereto, evidencing the obligation of the Borrower to repay the Advances, together with all amendments, consolidations, modifications, renewals and supplements thereto and "Note" means any one of such Notes.

"Notice of Borrowing" has the meaning set forth in Section 2.02.

"Obligations" means the collective reference to all indebtedness, obligations and liabilities to the Agent, the Issuing Bank, the Swing Line Lender and the Banks, existing on the date of this Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, of the Loan Parties under this Agreement, the Letter of Credit Agreement or any other Loan Document.

"Officer's Certificate" has the meaning set forth in Section 3.01(f).

"Operating Profits" means, as applied to any Person for any period, the operating income of such Person for such period, as determined in accordance with GAAP.

"Participant" has the meaning set forth in Section 9.07(b).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Person" means an individual, a corporation, a limited liability company, a partnership (including without limitation, a joint venture), an unincorporated association, a trust or any other entity or organization, including, but not limited to, a government or political subdivision or an agency or instrumentality thereof.

"Plan" means at any time an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either (i) maintained by a member of the Controlled Group for employees of any member of the Controlled Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the Controlled Group is then making or accruing an obligation to make contributions or has within the preceding 5 plan years made contributions.

"Pledge Agreement" means that certain Pledge Agreement, executed by the Pledgors for the benefit of the Agent, as agent for the Secured Parties, in accordance with Section 5.29.

"Pledgors" means the pledgor(s) under the Pledge Agreement, either collectively or individually, as the context shall require.

"Prime Rate" refers to that interest rate so denominated and set by BB&T from time to time as an interest rate basis for borrowings. The Prime Rate is but one of several interest rate bases used by BB&T. BB&T lends at interest rates above and below the Prime Rate.

"Prime Rate Loan" means: (1) the Loan during Interest Periods when the Loan bears or is to bear interest at a rate based upon the Prime Rate; and (2) the Swing Line Advances.

"Properties" means all real property owned, leased or otherwise used or occupied by a Loan Party or any Subsidiary of a Loan Party, wherever located.

"Pro Rata Share" of any amount means, with respect to any Bank at any time, the product of such amount times a fraction the numerator of which is the amount of such Bank's Commitment at such time and the denominator of which is the aggregate amount of the Commitments of all of the Banks at such time.

"Quarterly Payment Date" means March 31, June 30, September 30 and December 31 of each year.

"Rate Determination Date" has the meaning set forth in Section 2.06(a).

"Receivables" shall have the meaning assigned to the term "Accounts" in the Security Agreement.

"Redeemable Preferred Stock" of any Person means any preferred stock issued by such Person which is at any time prior to the Termination Date either (i) mandatorily redeemable (by sinking fund or similar payments or otherwise) or (ii) redeemable at the option of the holder thereof.

"Required Banks" means at any time Banks having at least 66 2/3% of the aggregate amount of the Commitments or, if the Commitments are no longer in effect, Banks holding at least 66 2/3% of the aggregate outstanding principal amount of the Notes, Letter of Credit Advances and Undrawn Amounts.

"Restricted Payment" means (i) any dividend or other distribution on any shares of the Borrower's capital stock (except dividends payable solely in shares of its capital stock) or (ii) any payment

on account of the purchase, redemption, retirement or acquisition of (a) any shares of the Borrower's capital stock (except shares acquired upon the conversion thereof into other shares of its capital stock) or (b) any option, warrant or other right to acquire shares of the Borrower's capital stock.

"Secured Parties" shall have the meaning set forth in the Security Agreement.

"Security Agreement" means that certain General Security Agreement dated of even date herewith, by and between the Borrower and Guarantors for the benefit of the Agent, as agent for the Secured Parties.

"Stockholders' Equity" means, at any time, the shareholders' equity of the Borrower and its Consolidated Subsidiaries, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries prepared in accordance with GAAP, but excluding any Redeemable Preferred Stock of the Borrower or any of its Consolidated Subsidiaries. Shareholders' equity generally would include, but not be limited to (i) the par or stated value of all outstanding Capital Stock, (ii) capital surplus, (iii) retained earnings, and (iv) various deductions such as (A) purchases of treasury stock, (B) valuation allowances, (C) receivables due from an employee stock ownership plan, (D) employee stock ownership plan debt guarantees, and (E) translation adjustments for foreign currency transactions.

"Subsidiary" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by the Borrower.

"Swing Line Advance" means an advance made by the Swing Line Lender pursuant to Section 2.15 hereof.

"Swing Line Lender" means BB&T.

"Swing Line Note" means the promissory note of the Borrower, substantially in the form of Exhibit M hereto, evidencing the obligation of the Borrower to repay the Swing Line Advance, together with all amendments, consolidations, modifications, renewals and supplements thereto.

"Taxes" has the meaning set forth in Section 2.12(c).

"Termination Date" means November 30, 2003.

"Third Parties" means all lessees, sublessees, licensees and other users of the Properties, excluding those users of the Properties in the ordinary course of the Borrower's business and on a temporary basis.

"Total Unused Commitments" means at any date, an amount equal to: (A) the aggregate amount of the Commitments of all of the Banks at such time, less (B) the sum of: (i) the aggregate outstanding principal amount of the Advances of all of the Banks at such time; (ii) the aggregate outstanding principal amount of all Letter of Credit Advances; (iii) the aggregate outstanding principal amount of all Swing Line Advances; and (iv) the aggregate Undrawn Amounts.

"Transferee" has the meaning set forth in Section 9.07(d).

"UCC Recording Offices" means those certain locations and recording offices set forth on Schedule 1.01 - Collateral Locations, under the heading "UCC Recording Offices".

"Undrawn Amount" means, with respect to any Letter of Credit, at any time, the

maximum amount available to be drawn under such Letter of Credit at such time and "Undrawn Amounts" means, at any time, the sum of all Undrawn Amounts at such time.

"Unused Commitment" means at any date, with respect to any Bank, an amount equal to its Commitment less the sum of: (i) aggregate outstanding principal amount of its Advances; (ii) such Bank's Pro Rata Share of the aggregate outstanding principal amount of all Letter of Credit Advances; (iii) such Bank's Pro Rata Share of the aggregate outstanding principal amount of all Swing Line Advances; and (iv) such Bank's Pro Rata Share of the Undrawn Amounts.

"Wholly Owned Subsidiary" means any Subsidiary all of the shares of capital stock or other ownership interests of which (except directors' qualifying shares) are at the time directly or indirectly owned by the Borrower.

SECTION 1.02. Accounting Terms and Determinations. Unless otherwise specified herein, all terms of an accounting character used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with GAAP, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants or otherwise required by a change in GAAP) with the most recent audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries delivered to the Banks, unless with respect to any such change concurred in by the Borrower's independent public accountants or required by GAAP, in determining compliance with any of the provisions of this Agreement or any of the other Loan Documents: (i) the Borrower shall have objected to determining such compliance on such basis at the time of delivery of such financial statements, or (ii) the Required Banks shall so object in writing within 30 days after the delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 5.01 hereof, shall mean the financial statements referred to in Section 4.04).

SECTION 1.03. Use of Defined Terms. All terms defined in this Agreement shall have the same meanings when used in any of the other Loan Documents, unless otherwise defined therein or unless the context shall otherwise require.

SECTION 1.04. Terminology. All personal pronouns used in this Agreement, whether used in the masculine, feminine or neuter gender, shall include all other genders; the singular shall include the plural and the plural shall include the singular. Titles of Articles and Sections in this Agreement are for convenience only, and neither limit nor amplify the provisions of this Agreement.

SECTION 1.05. References. Unless otherwise indicated, references in this Agreement to "Articles", "Exhibits", "Schedules", and "Sections" are references to articles, exhibits, schedules and sections hereof.

## ARTICLE II

## THE CREDITS

SECTION 2.01. Commitments to Make Advances. Each Bank severally agrees, on the terms and conditions set forth herein, to make Advances to the Borrower from time to time before the Termination Date; provided that, immediately after each such Advance is made, the aggregate outstanding principal amount of Advances by such Bank together with such Bank's Pro Rata Share of the aggregate outstanding principal amount of all Letter of Credit Advances, Swing Line Advances and Undrawn Amounts shall not exceed the amount of its Commitment, provided further that the aggregate principal amount of all Advances, together with the aggregate principal amount of all Letter of Credit Advances, Swing Line Advances and Undrawn Amounts, shall not exceed the lesser of: (a) the aggregate amount of the Commitments of all of the Banks at such time, and (b) the Borrowing Base. Except as otherwise provided in an ACL Agreement, each Borrowing under this Section shall be in an aggregate principal amount of \$1,000,000 or any larger multiple of \$500,000 (except that any such Borrowing may be in the aggregate amount of the Unused Commitments less the amount of any outstanding Swing Line Advances) and shall be made from the several Banks ratably in proportion to their respective Commitments. Within the foregoing limits, the Borrower may borrow under this Section, repay or, to the extent permitted by Section 2.10, prepay Advances and reborrow under this Section at any time before the Termination Date.

SECTION 2.02. Method of Borrowing Advances. (a) Except as otherwise provided in an ACL Agreement and Section 2.15 in the case of Swing Line Advances, the Borrower shall give the Agent notice in the form attached hereto as Exhibit B (a "Notice of Borrowing") prior to 11:00 A.M. (Winston-Salem, North Carolina time) on the Domestic Business Day of each Borrowing, specifying:

- (i) the date of such Borrowing; and
- (ii) the aggregate amount of such Borrowing.

(b) Except as provided in Section 2.02(d) of this Agreement, upon receipt of a Notice of Borrowing, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(c) Except as provided in Section 2.02(d) of this Agreement, not later than 1:00 P.M. (Winston-Salem, North Carolina time) on the date of each Borrowing, each Bank shall (except as provided in subsection (d) of this Section) make available its ratable share of such Borrowing, in Federal or other funds immediately available in Winston-Salem, North Carolina, to the Agent at its address referred to in or specified pursuant to Section 9.01. Unless the Agent determines that any applicable condition specified in Article III has not been satisfied, the Agent will make the funds so received from the Banks available to the Borrower at the Agent's aforesaid address. Unless the Agent receives notice from a Bank, at the Agent's address referred to in Section 9.01, no later than 4:00 P.M. (local time at such address) on the Domestic Business Day before the date of a Borrowing stating that such Bank will not make an Advance in connection with such Borrowing, the Agent shall be entitled to assume that such Bank will make an Advance in connection with such Borrowing and, in reliance on such assumption, the Agent may (but shall not be obligated to) make available such Bank's ratable share of such Borrowing to the Borrower for the account of such Bank. If the Agent makes such Bank's ratable share available to the Borrower and such Bank does not in fact make its ratable share of such Borrowing available on such date, the Agent shall be entitled to recover such Bank's ratable share from such Bank or the Borrower (and for such purpose shall be entitled to charge such amount to any account of the Borrower maintained with the Agent), together with interest thereon for each day during the period from the date of such Borrowing until such sum shall be paid in full at a rate per annum equal to the rate set forth in Section 2.06 for each such day during such period, provided that any such payment by the Borrower of such Bank's ratable share and interest thereon

shall be without prejudice to any rights that the Borrower may have against such Bank. If such Bank shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Bank's Advance included in such Borrowing for purposes of this Agreement.

(d) At the Agent's option and to facilitate the efficient administration of this Agreement, the Agent shall be entitled to make settlements and adjustments on a weekly basis provided that: (1) all Borrowings, Advances and all payments of principal with respect to such Borrowings and Advances shall be shared by the Banks ratably in proportion to their Commitments and in accordance with this Agreement; and (2) all funds advanced by the Agent under this Agreement and all funds received by the Agent under this Agreement shall be made or received, as the case may be, by the Agent, as agent on behalf of the Banks and shall not constitute separate loans or advances made by the Agent. Unless the Agent receives notice from a Bank, at the Agent's address referred to in Section 9.01, no later than 4:00 P.M. (local time at such address) on the Domestic Business Day before the date of a Borrowing stating that such Bank will not make an Advance in connection with such Borrowing, the Agent may assume that each Bank will make an Advance in connection with each Borrowing and, in reliance on such assumption, the Agent may make available such Bank's ratable share of such Borrowing to the Borrower for the account of such Bank. No later than 11:00 A.M. (Winston-Salem, North Carolina time) on Friday of each week the Agent shall advise each Bank of its ratable share of the Borrowings and payments made or received by the Agent for the period ending on the immediately preceding Wednesday. No later than 2:00 P.M. (Winston-Salem, North Carolina time) on such Friday the Agent and Banks shall effect payments (and credits) so that all Borrowings, Advances and payments with respect to the Borrowings and Letters of Credit are shared by the Banks ratably; provided, however, at any time, upon the request of the Agent, each Bank shall, make its ratable share of any Borrowing available to the Agent on demand but in no event later than one Domestic Business Day following the Agent's demand; and (2) the Agent shall be entitled to recover such Bank's ratable share of each Borrowing from such Bank, together with interest thereon for each day during the period from the date of any such demand until such sum shall be paid in full at a rate per annum equal to the rate set forth in Section 2.06. Each Bank's obligation under this Section 2.02(d) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation: (i) any setoff, counterclaim, recoupment, defense or other right which such Bank or any other Person may have against the Agent requesting such adjustment or payment or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the termination of the Commitment; (iii) any adverse change in the condition (financial or otherwise) of the Borrower, any Guarantor or any other Person; (iv) any breach of this Agreement or any of the other Loan Documents by the Borrower, any Guarantor or any other Bank; or (v) any other circumstance, happening or event whatsoever whether or not similar to any of the foregoing.

#### SECTION 2.03 Letters of Credit.

(a) The Issuing Bank may, from time to time upon request of the Borrower, in its sole discretion issue Letters of Credit for the account of the Borrower, subject to satisfaction of the conditions referenced in Section 3.03.

(b) Each Letter of Credit shall be subject to the provisions of this Agreement and to the provisions set forth in the Letter of Credit Agreement executed by the Borrower in connection with the issuance of such Letter of Credit. The Borrower agrees to promptly perform and comply with the terms and conditions of each Letter of Credit Agreement.

(c) The payment by the Issuing Bank of a draft drawn under any Letter of Credit shall constitute for all purposes of this Agreement a Letter of Credit Advance in the amount of such draft. Upon written demand by the Issuing Bank, with a copy to the Agent, each Bank shall purchase from the Issuing Bank, and the Issuing Bank shall sell to each Bank, a participation interest in such Letter of Credit Advance equal to such Bank's Pro Rata Share of such Letter of Credit Advance as of the date of such purchase, by making available to the Agent for the account of the Issuing Bank, in Federal or other funds

immediately available an amount equal to such Bank's Pro Rata Share of the outstanding principal amount of such Letter of Credit Advance. Promptly after receipt thereof, the Agent shall transfer such funds to the Issuing Bank. The Borrower hereby agrees to each such sale and purchase of participation interests in Letter of Credit Advances outstanding from time to time. Each Bank agrees to purchase its participation interest in an outstanding Letter of Credit Advance on (i) the Domestic Business Day on which demand therefor is made by the Issuing Bank, provided notice of such demand is given not later than 1:00 P.M. (Winston-Salem, North Carolina time) on such Domestic Business Day or (ii) the first Domestic Business Day next succeeding the date of such demand if notice of such demand is given after 1:00 P.M. (Winston-Salem, North Carolina time) on any Domestic Business Day. The Issuing Bank makes no representation or warranty and assumes no responsibility with respect to any sale and purchase of a participation interest in any Letter of Credit Advance. If and to the extent that any Bank shall not have so made the amount available to the Agent in connection with its purchase of a participation interest in any Letter of Credit Advance, such Bank agrees to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by the Issuing Bank, until the date such amount is paid to the Agent, at the Federal Funds Rate for the account of the Issuing Bank.

(d) The obligation of each Bank to purchase a participation interest in any Letter of Credit Advance pursuant to Section 2.03(c) shall be unconditional and shall not be affected by the existence of any Default, the failure to satisfy any condition set forth in Section 3.1, 3.2 or 3.3 or the termination of the Commitments (whether by the Borrower pursuant to Section 2.8 or by the Agent pursuant to Section 6.1 or otherwise).

(e) The Issuing Bank shall furnish (A) to the Agent and each Bank on the fifth Domestic Business Day of each month a written report summarizing the issuance and expiration dates of Letters of Credit issued during the preceding month and (B) to the Agent and each Bank upon request a written report setting forth the aggregate Undrawn Amounts.

(f) The failure of any Bank to purchase a participation interest in any Letter of Credit Advance shall not relieve any other Bank of its obligation hereunder to purchase its participation interest in any Letter of Credit Advance on such date, but no Bank shall be responsible for the failure of any other Bank to so purchase a participation interest on such date.

(g) The Borrower shall pay to the Agent for the account of each Bank that has purchased a participation interest in a Letter of Credit Advance on the earlier of demand and the Termination Date the outstanding principal amount of such Letter of Credit Advance. The Agent will promptly distribute to each Bank its ratable share of any payment of principal or of interest on any Letter of Credit Advance received by the Agent; provided, however, that in the event that such payment received by the Agent is required to be returned, such Bank will return to the Agent any portion thereof previously distributed by the Agent to it.

(h) The Issuing Bank will notify the Borrower and the Agent promptly of the presentment for payment of any Letter of Credit (on the date of presentment, if possible, and otherwise on the next Domestic Business Day, it being agreed that such notice may be made by phone), together with notice of the date such payment shall be made, and the Agent promptly will notify the Banks of such matters.

SECTION 2.04. Notes. (a) The Advances of each Bank shall be evidenced by a single Note payable to the order of such Bank for the account of its Lending Office in an amount equal to the original principal amount of such Bank's Commitment.

(b) The Swing Line Advances made by the Swing Line Lender to the Borrower shall be evidenced by a single Swing Line Note payable to the order of the Swing Line Lender.



(c) Upon receipt of each Bank's Note pursuant to Section 3.01, the Agent shall deliver such Note to such Bank. Each Bank shall record, and prior to any transfer of its Note shall endorse on the schedule forming a part thereof appropriate notations to evidence, the date, amount and maturity of, and effective interest rate for, each Advance made by it, the date and amount of each payment of principal made by the Borrower with respect thereto and such schedule shall constitute rebuttable presumptive evidence of the principal amount owing and unpaid on such Bank's Note; provided that the failure of any Bank to make, or any error in making, any such recordation or endorsement shall not affect the obligation of the Borrower hereunder or under the Note or the ability of any Bank to assign its Note. Each Bank is hereby irrevocably authorized by the Borrower so to endorse its Note and to attach to and make a part of any Note a continuation of any such schedule as and when required.

SECTION 2.05. Maturity of Loans. Each Advance included in any Borrowing shall mature, and the principal amount thereof shall be due and payable, subject to Section 6.01, on the Termination Date.

SECTION 2.06. Interest Rates. (a) "Applicable Margin" shall be determined quarterly based upon the ratio of Consolidated Total Debt (calculated as of the last day of each Fiscal Quarter) to Consolidated Comprehensive EBITDA (calculated as of the last day of each Fiscal Quarter for the Fiscal Quarter then ended and the immediately preceding three Fiscal Quarters), as follows:

Ratio of Consolidated Total Debt to Consolidated Comprehensive EBITDA	Euro-Dollar Loans and Letters of Credit
Greater than 2.5 but equal to or less than 3.00	1.375%
Greater than 2.0 but equal to or less than 2.5	1.125%
Greater than 1.5 but equal to or less than 2.0	.875%
Less than or equal to 1.5	.625%

The Applicable Margin shall be effective as of the date (herein, the "Rate Determination Date") which is the first day of the first calendar month after the day the Agent receives the quarterly financial statements for the Fiscal Quarter which the foregoing ratio is being determined, and the Applicable Margin so determined shall remain effective from such Rate Determination Date until the date which is the first day of the first calendar month after the day the Agent receives the quarterly financial statements for the Fiscal Quarter in which such Rate Determination Date falls (which latter date shall be a new Rate Determination Date); provided that (i) for the period from and including the Closing Date to but excluding the Rate Determination Date next following the Closing Date, the Applicable Margin shall be 1.375% for a Euro-Dollar Loan and Letters of Credit, (ii) in the case of any Applicable Margin determined for the fourth and final Fiscal Quarter of a Fiscal Year, such Applicable Margin shall be redetermined based upon the annual audited financial statements for the Fiscal Year ending on the last day of such final Fiscal Quarter, and if such Applicable Margin as so redetermined shall be different from the Applicable Margin for such date determined on the Rate Determination Date for such fourth Fiscal Quarter, such redetermined Applicable Margin shall be effective retroactive to the Rate Determination Date, and the Borrower, the Agent and the Banks, as applicable, shall within 10 days of such redetermination, make a payment (in the case of amounts owing by the Borrower to the Banks) or provide a credit applicable to future amounts payable by the Borrower hereunder (in the case of amounts owing by the Banks to the Borrower) equal to the difference between the interest and letter of credit fees actually paid under this Agreement and the interest

and fees that would have been paid under this Agreement had the Applicable Margin as originally determined been equal to the Applicable Margin as redetermined, and (iii) if on any Rate Determination Date the Borrower shall have failed to deliver to the Bank the financial statements required to be delivered pursuant to Section 5.01(a) or Section 5.01(b) with respect to the Fiscal Year or Fiscal Quarter, as the case may be, most recently ended prior to such Rate Determination Date, then for the period beginning on such Rate Determination Date and ending on the earlier of (A) the date on which the Borrower shall deliver to the Bank the financial statements to be delivered pursuant to Section 5.01(b) with respect to such Fiscal Quarter or any subsequent Fiscal Quarter, or (B) the date on which the Borrower shall deliver to the Bank annual financial statements required to be delivered pursuant to Section 5.01(a) with respect to the Fiscal Year which includes such Fiscal Quarter or any subsequent Fiscal Year, the Loan shall bear interest at a rate per annum equal to the Default Rate at all times during such period. Any change in the Applicable Margin on any Rate Determination Date shall result in a corresponding change, effective on and as of such Rate Determination Date, in the interest rate applicable to the Loan and in the fees applicable to each Letter of Credit outstanding on such Rate Determination Date; provided, that no Applicable Margin shall be decreased pursuant to this Section 2.06 if a Default is in existence on the Rate Determination Date.

(b) During each Interest Period in which the Loan (excluding Swing Line Advances) is a Prime Rate Loan, such Prime Rate Loan shall bear interest on the outstanding principal amount thereof, for each day during the applicable Interest Period, at a rate per annum equal to the Prime Rate for such day plus the Applicable Margin for Euro-Dollar Loans. Any overdue principal of and, to the extent permitted by applicable law, overdue interest on any Prime Rate Loan shall bear interest, payable on demand, for each day until paid in full at a rate per annum equal to the Default Rate.

(c) During each Interest Period in which the Loan is a Euro-Dollar Loan, such Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of: (1) the Applicable Margin, plus (2) the applicable Adjusted Monthly Libor Index for such Interest Period. Any overdue principal of and, to the extent permitted by applicable law, overdue interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day until paid in full at a rate per annum equal to the Default Rate.

The "Adjusted Monthly Libor Index" applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upward, if necessary, to the next higher 1/100th of 1%) by dividing (i) the applicable London Interbank Offered Rate for such Interest Period by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

The "London Interbank Offered Rate" applicable to any Euro-Dollar Loan means for the Interest Period of such Euro-Dollar Loan the rate per annum determined on the basis of the rate for deposits in Dollars of amounts equal or comparable to the principal amount of such Euro-Dollar Loan offered for a term comparable to such Interest Period, which rate appears on the display designated as Page "3750" of the Telerate Service (or such other page as may replace page 3750 of that service or such other service or services as may be nominated by the British Banker's Association for the purpose of displaying London Interbank Offered Rates for U.S. dollar deposits) determined as of 11:00 a.m. London, England time, on the first day of such Interest Period or on the immediately preceding Euro-Dollar Business Day if the first day of such Interest Period is not a Euro-Dollar Business Day.

"Euro-Dollar Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on such Euro-Dollar Loan is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to United States residents). The Adjusted Monthly Libor Index shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

(d) The Loan (excluding the Swing Line Advances) shall at all times be a Euro-Dollar Loan unless the Loan is to be a Prime Rate Loan pursuant to Article VIII herein. Interest shall be payable for each Interest Period on the Interest Payment Date immediately succeeding the last day of the Interest Period; provided that: (1) all accrued unpaid interest on the Loan shall be paid in full on the Termination Date; and (2) should the Commitment be terminated at any time prior to the Termination Date for any reason, any and all accrued unpaid interest shall be paid on the date of such termination.

(e) Each Letter of Credit Advance shall bear interest on the outstanding principal amount thereof, payable on demand, for each day from the date such Letter of Credit Advance is made until paid in full at a rate per annum equal to the Default Rate.

(f) The Agent shall determine each interest rate applicable to the Loan hereunder. The Agent shall give prompt notice to the Borrower and the Banks by telecopy of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

(g) After the occurrence and during the continuance of a Default, the principal amount of the Loans (and, to the extent permitted by applicable law, all accrued interest thereon) may, at the election of the Required Banks, bear interest at the Default Rate; provided, however, that automatically whether or not the Required Banks elect to do so, any overdue principal of and, to the extent permitted by law, overdue interest on the Loan shall bear interest payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

(h) Each Swing Line Advance shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the Prime Rate. Except as otherwise agreed upon by the Swing Line Lender and the Borrower, such interest shall be payable for each Interest Period on the Interest Payment Date immediately succeeding the last day of the Interest Period. Any overdue principal of and, to the extent permitted by applicable law, overdue interest on the Swing Line Advances may, at the election of the Swing Line Lender, bear interest, payable on demand, for each day until paid at a rate per annum equal to the Default Rate.

SECTION 2.07. Fees. (a) The Borrower shall pay to the Agent for the ratable account of each Bank a facility fee equal to the product of: (i) the aggregate of the daily average amounts of such Bank's Commitment, times (ii) a per annum percentage equal to 0.25%. Such facility fee shall accrue from and including the Closing Date to and including the Termination Date. Facility fees shall be payable quarterly in arrears on each Quarterly Payment Date and on the Termination Date; provided that should the Commitments be terminated at any time prior to the Termination Date for any reason, the entire accrued and unpaid facility fee shall be paid on the date of such termination.

(b) The Borrower shall pay to the Agent for the ratable account of each Bank, with respect to each Letter of Credit, a per annum letter of credit fee (the "Letter of Credit Fee") equal to the product of: (i) the aggregate average daily Undrawn Amounts, times (ii) a per annum percentage equal to the Applicable Margin for Letters of Credit (determined in accordance with Section 2.13 hereof). Such Letter of Credit Fees shall be payable in arrears for each Letter of Credit on each Quarterly Payment Date during the term of each respective Letter of Credit and on the termination thereof (whether at its stated expiry date or earlier). The "Applicable Margin" for Letters of Credit shall be as determined in Section 2.06(a).

(c) The Borrower shall pay to the Agent for the account of the Issuing Bank a facing fee (the "Facing Fee") with respect to each Letter of Credit equal to the greater of: (1) \$125.00, and (2) the product of: (i) the face amount of such letter of credit, times (ii) one-quarter (1/4th) of one percent (0.25%). Such Facing Fee shall be due and payable on such date as may be agreed upon by the Issuing Bank and the Borrower. The Borrower shall pay to the Issuing Bank, for its own account, transfer fees,

drawing fees, modification fees, extension fees and such other fees and charges as may be provided for in any Letter of Credit Agreement or otherwise charged by the Issuing Bank. No Bank shall be entitled to any portion of the Facing Fees or any other fees payable by the Borrower to the Issuing Bank pursuant to this Section 2.07(c).

(d) The Borrower shall pay to the Agent, for the account and sole benefit of the Agent, such fees and other amounts at such times as set forth in the Agent's Letter Agreement.

SECTION 2.08. Optional Termination or Reduction of Commitments. The Borrower may, upon at least 3 Domestic Business Days' notice to the Agent, terminate at any time, or proportionately reduce from time to time by an aggregate amount of at least \$5,000,000 or any larger multiple of \$1,000,000, the Commitments; provided, however: (1) no such termination or reduction shall be in an amount greater than the Total Unused Commitments on the date of such termination or reduction; and (2) if any such reduction pursuant to this Section 2.08 shall result in the aggregate Commitments of all of the Banks to be reduced to an amount less than \$25,000,000, the Borrower shall be required to terminate the Commitments (including without limitation, the Letter of Credit Commitment) in their entirety. If the Commitments are terminated in their entirety, all accrued fees (as provided under Section 2.07) shall be payable on the effective date of such termination.

SECTION 2.09. Mandatory Reduction and Termination of Commitments. The Commitments shall terminate on the Termination Date and any Advances, Swing Line Advances and if demand had not been earlier made Letter of Credit Advances then outstanding (together with accrued interest thereon) shall be due and payable on such date.

SECTION 2.10. Optional Prepayments. (a) The Borrower may, subject to the terms of an applicable ACL Agreement, prepay the Loan in whole at any time, or from time to time in part in amounts aggregating at least \$1,000,000.00, or any larger multiple of \$500,000.00, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such optional prepayment shall be applied first to repay or prepay Swing Line Advances outstanding on the date of such prepayment and then ratably to prepay ratably the Advances of the several Banks.

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such prepayment and such notice shall not thereafter be revocable by the Borrower.

SECTION 2.11. Mandatory Prepayments. (a) On each date on which the Commitments are reduced or terminated pursuant to Section 2.08 or Section 2.09, the Borrower shall repay or prepay such principal amount of the outstanding Advances and Swing Line Advances, if any (together with interest accrued thereon and any amounts due under Section 8.05(a)), as may be necessary so that after such payment the aggregate unpaid principal amount of the Advances, together with the aggregate principal amount of all Swing Line Advances, Letter of Credit Advances and Undrawn Amounts does not exceed the aggregate amount of the Commitments as then reduced. Each such payment or prepayment shall be applied to repay or prepay first to Swing Line Advances outstanding on the date of such prepayment and then, ratably to the Advances of the several Banks.

(b) In the event that: (1) the aggregate principal amount of all Advances, together with the aggregate principal amount of the Swing Line Advances, Letter of Credit Advances and Undrawn Amounts at any one time outstanding shall at any time exceed the Borrowing Base; or (2) the aggregate principal amount of all Advances, together with the aggregate principal amount of the Swing Line Advances, Letter of Credit Advances and Undrawn Amounts at any one time outstanding shall at any time exceed the aggregate amount of the Commitments of all of the Banks at such time, the Borrowers shall immediately repay so much of the Advances and Swing Line Advances as is necessary in order that: (1) the aggregate principal amount of the Advances thereafter outstanding, together with the aggregate

principal amount of the Swing Line Advances, Letter of Credit Advances and Undrawn Amounts shall not exceed the Borrowing Base; and (2) the aggregate principal amount of the Advances thereafter outstanding, together with the aggregate principal amount of the Swing Line Advances, Letter of Credit Advances and Undrawn Amounts shall not exceed the aggregate amount of the Commitments of all of the Banks at such time.

SECTION 2.12. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loan and of fees hereunder, not later than 11:00 A.M. (Winston-Salem, North Carolina time) on the date when due, in Federal or other funds immediately available in Winston-Salem, North Carolina, to the Agent at its address referred to in Section 9.01. Subject to the terms of Section 2.02(d), the Agent will promptly distribute to each Bank its ratable share of each such payment received by the Agent for the account of the Banks; provided that payments of interest shall be distributed by the Agent within three Domestic Business Days of the date such payment is received by the Agent for the account of the Banks.

(b) Whenever any payment of principal of, or interest on, the Advances, Swing Line Advances or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(c) All payments of principal, interest and fees and all other amounts to be made by the Borrower pursuant to this Agreement with respect to any Advance, Swing Line Advance or fee relating thereto shall be paid without deduction for, and free from, any tax, imposts, levies, duties, deductions, or withholdings of any nature now or at anytime hereafter imposed by any governmental authority or by any taxing authority thereof or therein excluding in the case of each Bank, taxes imposed on or measured by its net income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Bank is organized or any political subdivision thereof and, in the case of each Bank, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction of such Bank's applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, imposts, levies, duties, deductions or withholdings of any nature being "Taxes"). In the event that the Borrower is required by applicable law to make any such withholding or deduction of Taxes with respect to any Advance, Swing Line Advance or fee or other amount, the Borrower shall pay such deduction or withholding to the applicable taxing authority, shall promptly furnish to any Bank in respect of which such deduction or withholding is made all receipts and other documents evidencing such payment and shall pay to such Bank additional amounts as may be necessary in order that the amount received by such Bank after the required withholding or other payment shall equal the amount such Bank would have received had no such withholding or other payment been made. If no withholding or deduction of Taxes are payable in respect of any Advance, Swing Line Advance or fee relating thereto, the Borrower shall furnish any Bank, at such Bank's request, a certificate from each applicable taxing authority or an opinion of counsel acceptable to such Bank, in either case stating that such payments are exempt from or not subject to withholding or deduction of Taxes. If the Borrower fails to provide such original or certified copy of a receipt evidencing payment of Taxes or certificate(s) or opinion of counsel of exemption, the Borrower hereby agrees to compensate such Bank for, and indemnify them with respect to, the tax consequences of the Borrower's failure to provide evidence of tax payments or tax exemption.

In the event any Bank receives a refund of any Taxes paid by the Borrower pursuant to this Section 2.12, it will pay to the Borrower the amount of such refund promptly upon receipt thereof; provided, however, if at any time thereafter it is required to return such refund, the Borrower shall promptly repay to it the amount of such refund.

Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this Section 2.12 shall be applicable with respect

to any Participant, Assignee or other Transferee, and any calculations required by such provisions (i) shall be made based upon the circumstances of such Participant, Assignee or other Transferee, and (ii) constitute a continuing agreement and shall survive the termination of this Agreement and the payment in full or cancellation of the Notes.

SECTION 2.13. Computation of Interest and Fees. Interest on the Loans shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day). Facility fees, letter of credit fees and any other fees (excluding Facing Fees) payable hereunder shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

SECTION 2.14. Collateral Reserve Account. In accordance with and as more fully set forth in the Security Agreement, the Borrower and each Guarantor shall: (1) as soon as practicable but in any event before July 1, 2001, establish a lockbox; and (2) upon the request of the Required Banks, establish and maintain with the Agent a Collateral Reserve Account.

SECTION 2.15. Swing Line Advances. (a) The Borrower may prior to the Termination Date, as set forth in this Section, request the Swing Line Lender to make, and the Swing Line Lender may in its sole and absolute discretion prior to the Termination Date make, Swing Line Advances to the Borrower, in an aggregate principal amount at any one time outstanding, not exceeding \$5,000,000 (the "Swing Line Cap"), provided that the aggregate principal amount of all Swing Line Advances, together with the aggregate principal amount of all outstanding Advances, Undrawn Amounts and Letter of Credit Advances, at any one time outstanding shall not exceed the aggregate amount of the Commitments of all of the Banks at such time.

(b) Except as may otherwise be agreed upon by the Swing Line Lender and the Borrower, when the Borrower wishes to request a Swing Line Advance, it shall give the Agent notice substantially in the form of Exhibit N hereto (a "Swing Line Advance Request") so as to be received no later than 11:00 A.M. (Winston-Salem, North Carolina time) on or before the date of the proposed Swing Line Advance proposed therein (or such other time and date as the Borrower and the Swing Line Lender may agree), specifying:

(i) the proposed date of such Swing Line Advance, which shall be a Domestic Business Day (the "Borrowing Date"); and

(ii) the aggregate amount of such Swing Line Advance, which shall be at least \$50,000 (or in larger multiples of \$10,000) but shall not cause the limits specified in Section 2.15(a) to be violated.

(c) The Swing Line Lender shall make the amount of such Swing Line Advance available to the Borrower on such date by depositing the same, in immediately available funds, in an account of the Borrower maintained with the Swing Line Lender.

(d) Subject to the limitations contained in this Agreement, the Borrower may borrow under this Section 2.15, prepay and reborrow under this Section 2.15 at any time before the Termination Date.

(e) At any time, upon the request of the Swing Line Lender, each Bank other than the Swing Line Lender shall, on the Domestic Business Day after such request is made, purchase a participating interest in Swing Line Advances in an amount equal to its ratable share (based upon its respective Commitment) of such Swing Line Advances. On such Domestic Business Day, each Bank will immediately transfer to the Swing Line Lender, in immediately available funds, the amount of its participation. Whenever, at any time after the Swing Line Lender has received from any such Bank its

participating interest in a Swing Line Loan, the Agent receives any payment on account thereof, the Agent will distribute to such Bank its participating interest in such amount (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Bank's participating interest was outstanding and funded); provided, however, that in the event that such payment received by the Agent is required to be returned, such Bank will return to the Agent any portion thereof previously distributed by the Agent to it. Each Bank's obligation to purchase such participating interests shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation: (i) any set-off, counterclaim, recoupment, defense or other right which such Bank or any other Person may have against the Swing Line Lender requesting such purchase or any other Person for any reason whatsoever; (ii) the occurrence or continuance of a Default or an Event of Default or the termination of the Revolving Credit Commitments; (iii) any adverse change in the condition (financial or otherwise) of any Borrower, any Guarantor or any other Person; (iv) any breach of this Agreement by the Borrower, any Guarantor or any other Bank; or (v) any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

(f) Notwithstanding anything contained in this Agreement to the contrary, the Swing Line facility contained in this Section 2.15 shall terminate immediately upon: (i) BB&T's removal or resignation as Agent; or (ii) termination of the Commitments (whether at maturity or otherwise).

### ARTICLE III

#### CONDITIONS TO BORROWINGS

SECTION 3.01. Conditions to First Borrowing. The obligation of each Bank to make an Advance on the occasion of the first Borrowing is subject to the satisfaction of the conditions set forth in Section 3.02 and the following additional conditions:

(a) receipt by the Agent from each of the parties hereto of a duly executed counterpart of this Agreement signed by such party;

(b) receipt by the Agent of a duly executed Note for the account of each lender complying with the provisions of Section 2.04;

(c) receipt by the Agent of an opinion (together with any opinions of local counsel relied on therein) of McGuire, Woods, Battle & Boothe, LLP., counsel for the Borrower and Guarantors, dated as of the Closing Date, substantially in the form of Exhibit C hereto and covering such additional matters relating to the transactions contemplated hereby as the Agent or any Bank may reasonably request;

(d) receipt by the Agent of an opinion of Womble Carlyle Sandridge & Rice, PLLC, special counsel for the Agent, dated as of the Closing Date, substantially in the form of Exhibit D hereto and covering such additional matters relating to the transactions contemplated hereby as the Agent may reasonably request;

(e) receipt by the Agent of a certificate (the "Closing Certificate"), dated the date of the first Borrowing, substantially in the form of Exhibit G hereto, signed by a principal financial officer of each Loan Party, to the effect that (i) no Default has occurred and is continuing on the date of the first Borrowing and (ii) the representations and warranties of the Loan Parties contained in Article IV are true on and as of the date of the first Borrowing hereunder;

(f) receipt by the Agent of all documents which the Agent or any Bank may reasonably request relating to the existence of each Loan Party, the authority for and the validity of this Agreement, the Notes and the other Loan Documents, and any other matters relevant hereto, all in form and substance satisfactory to the Agent, including without limitation a certificate of incumbency of each

Loan Party (the "Officer's Certificate"), signed by the Secretary or an Assistant Secretary of the respective Loan Party, substantially in the form of Exhibit H hereto, certifying as to the names, true signatures and incumbency of the officer or officers of the respective Loan Party, authorized to execute and deliver the Loan Documents, and certified copies of the following items: (i) the Loan Party's Certificate of Incorporation or Articles of Organization, as the case may be, (ii) the Loan Party's Bylaws or Operating Agreement, as the case may be, (iii) a certificate of the Secretary of State of such Loan Party's State of organization as to the good standing of such Loan Party, and (iv) the action taken by the Board of Directors of the Loan Party authorizing the Loan Party's execution, delivery and performance of this Agreement, the Notes and the other Loan Documents to which the Loan Party is a party;

(g) receipt by the Agent of a Notice of Borrowing;

(h) the Security Agreement shall have been duly executed by the Borrower and Guarantors and shall have been delivered to the Agent and shall be in full force and effect and each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Agent to be filed, registered or recorded in order to create in favor of the Agent for the benefit of the Secured Parties a valid, legal and perfected first-priority security interest in and lien on the Collateral described in the Security Agreement shall have been delivered to the Agent;

(i) the Agent shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Borrower and Guarantors in the states (or other jurisdictions) in which the chief executive office of each such person is located, any offices of such persons in which records have been kept relating to Accounts Receivable Collateral and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to the preceding paragraph, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Agent that the Liens indicated in any such financing statement (or similar document) have been released;

(j) receipt by the Agent of a Borrowing Base Certification Report and Contingent BFD Liabilities Borrowing Base Certification Report, dated as of the last day of the calendar month immediately preceding the Closing Date;

(k) receipt by the Agent and approval by the Banks of the insurance required under this Agreement;

(l) receipt by the Agent of a fully executed amendment pursuant to which the Borrower shall have amended that certain Limited Partnership Agreement dated July 1, 1998 by and among Private Advisors, LLC as general partner, and the Borrower as limited partner, to permit the Borrower to take the actions set forth in Section 6.04 without consent of Private Advisors, LLC (or any other general partner) under the Bassett Asset Fund; and

(m) such other documents or items as the Agent, the Banks or their counsel may reasonably request.

SECTION 3.02. Conditions to All Borrowings. The obligation of each Bank to make an Advance on the occasion of each Borrowing (including, without limitation, the obligation of the Swing Line Lender to make a Swing Line Advance) is subject to the satisfaction of the following conditions:

(a) receipt by the Agent of Notice of Borrowing as required by Section 2.02 (or in the case of a Swing Line Advance, compliance with Section 2.15);

(b) the fact that, immediately before and after such Borrowing, no Default shall have occurred and be continuing;



(c) the fact that the representations and warranties of the Loan Parties contained in Article IV of this Agreement shall be true, in all material respects, on and as of the date of such Borrowing, except to the extent explicitly relating to a specified date; and

(d) the fact that, immediately after such Borrowing (i) the aggregate outstanding principal amount of the Advances of each Bank together with such Bank's Pro Rata Share of the aggregate outstanding principal amount of all Swing Line Advances, Letter of Credit Advances and Undrawn Amounts, will not exceed the amount of its Commitment and (ii) the aggregate outstanding principal amount of the Advances together with the aggregate outstanding principal amount of all Swing Line Advances, Letter of Credit Advances and Undrawn Amounts, will not exceed the lesser of: (A) the aggregate amount of the Commitments of all of the Banks as of such date; and (B) the Borrowing Base.

Each Borrowing hereunder shall be deemed to be a representation and warranty by the Loan Parties on the date of such Borrowing as to the truth and accuracy of the facts specified in clauses (b), (c) and (d) of this Section.

SECTION 3.03 Conditions to Issuance of Letters of Credit. The issuance by the Issuing Bank of each Letter of Credit shall be subject to satisfaction of the conditions set forth in the related Letter of Credit Agreement and satisfaction of the following conditions:

(a) the fact that, immediately before and after the issuance of such Letter of Credit, no Default shall have occurred and be continuing;

(b) the fact that the representations and warranties of the Loan Parties contained in Article IV of this Agreement shall be true, in all material respects, on and as of the date of issuance of such Letter of Credit, except to the extent explicitly relating to a specified date;

(c) the fact that, immediately after the issuance of such Letter of Credit: (i) the sum of (A) the entire outstanding principal amount of the Advances, (B) the aggregate outstanding principal amount of the Letter of Credit Advances, (C) the aggregate outstanding principal amount of Swing Line Advances, and (D) the aggregate Undrawn Amounts, will not exceed the lesser of: (1) the aggregate amount of the Commitments of all of the Banks at such time; and (2) the Borrowing Base;

(d) the fact that immediately after the issuance of such Letter of Credit the sum of: (i) the aggregate outstanding principal amount of the Letter of Credit Advances, plus (ii) the aggregate Undrawn Amounts, will not exceed \$15,000,000; and

(e) no Letter of Credit shall have an expiry date or termination date on or after the earlier of: (1) the date twelve months after the date of the issuance of such Letter of Credit; or (2) the date two Domestic Business Days prior to the Termination Date.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

The Loan Parties represent and warrant that:

SECTION 4.01. Existence and Power. Each Loan Party is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, as the case may be, is duly qualified to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary, and has all organizational

powers and all governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

SECTION 4.02. Organizational and Governmental Authorization; No Contravention. The execution, delivery and performance by each Loan Party of this Agreement, the Notes, the Collateral Documents and the other Loan Documents (i) are within each Loan Party's organizational powers, (ii) have been duly authorized by all necessary organizational action, (iii) require no action by or in respect of, or filing with, any governmental body, agency or official, (iv) do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation, articles of organization, operating agreement or by-laws of each Loan Party or of any agreement, judgment, injunction, order, decree or other instrument binding upon each Loan Party or any of its Subsidiaries, and (v) do not result in the creation or imposition of any Lien on any asset of the Loan Parties or any of their respective Subsidiaries.

SECTION 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of the Loan Parties enforceable in accordance with its terms, and the Notes, the Collateral Documents and the other Loan Documents, when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of the Loan Parties enforceable in accordance with their respective terms, provided that the enforceability hereof and thereof is subject in each case to general principles of equity and to bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights generally.

SECTION 4.04. Financial Information. (a) The consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of November 27, 1999 and the related consolidated statements of income, shareholders' equity and cash flows for the Fiscal Year then ended, reported on by Arthur Andersen, LLP., copies of which have been delivered to each of the Banks, and the unaudited but reviewed consolidated financial statements of the Borrower for the interim period ended August 26, 2000, copies of which have been delivered to each of the Banks, fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Consolidated Subsidiaries as of such dates and their consolidated results of operations and cash flows for such periods stated.

(b) Since August 26, 2000 there has been no event, act, condition or occurrence having a Material Adverse Effect.

SECTION 4.05. Litigation. There is no action, suit or proceeding pending, or to the knowledge of the Loan Parties threatened, against or affecting the Loan Parties or any of their respective Subsidiaries before any court or arbitrator or any governmental body, agency or official which could have a Material Adverse Effect or which in any manner draws into question the validity or enforceability of, or could impair the ability of the Loan Parties to perform their respective obligations under, this Agreement, the Notes, the Collateral Documents or any of the other Loan Documents.

SECTION 4.06. Compliance with ERISA. (a) The Loan Parties and each member of the Controlled Group have fulfilled their obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and are in compliance in all material respects with the presently applicable provisions of ERISA and the Code, and have not incurred any liability to the PBGC or a Plan under Title IV of ERISA.

(b) Neither the Loan Parties nor any member of the Controlled Group is or ever has been obligated to contribute to any Multiemployer Plan.

SECTION 4.07. Taxes. There have been filed on behalf of the Loan Parties and their respective Subsidiaries all Federal, state and local income, excise, property and other tax returns which are required to be filed by them and all taxes due pursuant to such returns or pursuant to any assessment

received by or on behalf of the Loan Parties or any Subsidiary have been paid. The charges, accruals and reserves on the books of the Loan Parties and their respective Subsidiaries in respect of taxes or other governmental charges are, in the opinion of the Loan Parties, adequate. United States income tax returns of the Loan Parties and their respective Subsidiaries have been examined and closed through the Fiscal Year ended November 30, 1996.

SECTION 4.08. Subsidiaries. Each of the Loan Party's Subsidiaries is a corporation or limited liability company duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, as the case may be, is duly qualified to transact business in every jurisdiction where, by the nature of its business, such qualification is necessary, and has all organizational powers and all governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted. No Loan Party has any Subsidiaries except those Subsidiaries listed on Schedule 4.08, which accurately sets forth each such Subsidiary's complete name and jurisdiction of incorporation.

SECTION 4.09. Not an Investment Company. No Loan Party nor any Subsidiary of a Loan Party is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4.10 Public Utility Holding Company Act. No Loan Party nor any Subsidiary of a Loan Party is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

SECTION 4.11. Ownership of Property; Liens. Each of the Loan Parties and their respective Subsidiaries has title to its properties sufficient for the conduct of its business, and none of such property is subject to any Lien except as permitted in Section 5.14.

SECTION 4.12. No Default. No Loan Party nor any of their respective Subsidiaries is in default under or with respect to any agreement, instrument or undertaking to which it is a party or by which it or any of its property is bound which could have or cause a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

SECTION 4.13. Full Disclosure. All information heretofore furnished by any Loan Party to the Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all such information hereafter furnished by any Loan Party to the Agent or any Bank will be, true, accurate and complete in every material respect or based on reasonable estimates on the date as of which such information is stated or certified. Each Loan Party has disclosed to the Banks in writing any and all facts which could have or cause a Material Adverse Effect.

SECTION 4.14. Environmental Matters. (a) No Loan Party nor any Subsidiary of a Loan Party is subject to any Environmental Liability which could have or cause a Material Adverse Effect and no Loan Party nor any Subsidiary of a Loan Party has been designated as a potentially responsible party under CERCLA or under any state statute similar to CERCLA which could have or cause a Material Adverse Effect. None of the Properties has been identified on any current or proposed (i) National Priorities List under 40 C.F.R. Section 300, (ii) CERCLIS list or (iii) any list arising from a state statute similar to CERCLA.

(b) No Hazardous Materials have been or are being used, produced, manufactured, processed, treated, recycled, generated, stored, disposed of, managed or otherwise handled at, or shipped or transported to or from the Properties or are otherwise present at, on, in or under the Properties, or, to the best of the knowledge of the Loan Parties, at or from any adjacent site or facility, except for Hazardous Materials, such as cleaning solvents, pesticides and other materials used, produced, manufactured,

processed, treated, recycled, generated, stored, disposed of, and managed or otherwise handled in the ordinary course of business in compliance with all applicable Environmental Requirements.

(c) The Loan Parties, and each of their respective Subsidiaries and Affiliates, has procured all Environmental Authorizations necessary for the conduct of its business, and is in compliance with all Environmental Requirements in connection with the operation of the Properties and the Loan Party's, and each of their respective Subsidiary's and Affiliate's, respective businesses.

SECTION 4.15. Compliance with Laws. Each Loan Party and each Subsidiary of a Loan Party is in compliance with all applicable laws, including, without limitation, all Environmental Laws, except where any failure to comply with any such laws would not, alone or in the aggregate, have a Material Adverse Effect.

SECTION 4.16. Capital Stock. All Capital Stock, debentures, bonds, notes and all other securities of each Loan Party and their respective Subsidiaries presently issued and outstanding are validly and properly issued in accordance with all applicable laws, including, but not limited to, the "Blue Sky" laws of all applicable states and the federal securities laws. The issued shares of Capital Stock of the Loan Party's respective Wholly Owned Subsidiaries are owned by the Loan Parties free and clear of any Lien or adverse claim. At least a majority of the issued shares of capital stock of each of the other Subsidiaries of the Loan Parties (other than Wholly Owned Subsidiaries) is owned by the respective Loan Parties free and clear of any Lien or adverse claim.

SECTION 4.17. Margin Stock. No Loan Party nor any of their respective Subsidiaries is engaged principally, or as one of its important activities, in the business of purchasing or carrying any Margin Stock, and no part of the proceeds of any Advance or Swing Line Advance will be used to purchase or carry any Margin Stock or to extend credit to others for the purpose of purchasing or carrying any Margin Stock, or be used for any purpose which violates, or which is inconsistent with, the provisions of Regulation X.

SECTION 4.18. Insolvency. After giving effect to the execution and delivery of the Loan Documents and the making of the Advances and Swing Line Advances under this Agreement, no Loan Party will be "insolvent," within the meaning of such term as defined in Section 101 of Title 11 of the United States Code or Section 2 of the Uniform Fraudulent Transfer Act, or any other applicable state law pertaining to fraudulent transfers, as each may be amended from time to time, or be unable to pay its debts generally as such debts become due, or have an unreasonably small capital to engage in any business or transaction, whether current or contemplated.

SECTION 4.19. Security Documents. (a) Upon execution by the Pledgors, the Pledge Agreement shall be effective to create in favor of the Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and, when the Collateral is delivered to the Agent, the Pledge Agreement shall constitute a fully perfected first priority Lien on, and security interest in, all right, title and interest of the Pledgors thereunder in such Collateral and the proceeds thereof, in each case prior and superior in any right to any other Person.

(b) The Security Agreement is effective to create in favor of the Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and, when financing statements in appropriate form are filed in the UCC Recording Offices, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Borrower and Guarantors in such Collateral and the proceeds thereof, in each case prior and superior in right to any other Person.

SECTION 4.20. Labor Matters. There are no significant strikes, lockouts, slowdowns or other labor disputes against any Loan Party or any Subsidiary of any Loan Party pending or, to the

knowledge of any Loan Party, threatened, that could reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect. The hours worked by and payment made to employees of the Loan Parties and each Subsidiary of any Loan Party have not been in violation of the Fair Labor Standards Act or any other applicable federal, state or foreign law dealing with such matters, where such violations could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect.

SECTION 4.21. Patents, Trademarks, Etc. To the best of their knowledge, the Loan Parties and each Subsidiary of a Loan Party owns, or is licensed to use, all patents, trademarks, trade names, copyrights, technology, know-how and processes, service marks and rights with respect to the foregoing that are (a) used in or necessary for the conduct of their respective businesses as currently conducted and (b) material to the businesses, assets, operations, properties, prospects or condition (financial or otherwise) of the Loan Parties and their respective Subsidiaries taken as a whole. To the best of their knowledge, the use of such patents, trademarks, trade names, copyrights, technology, know-how, processes and rights with respect to the foregoing by the Loan Parties and their respective Subsidiaries, does not infringe on the rights of any Person. The Loan Parties have delivered to the Agent and Banks a schedule setting forth all registered patents, trademarks and copyrights owned by, or licensed to, the Loan Parties.

SECTION 4.22. Loans and Investments. (a) No Loan Party nor any of their respective Subsidiaries has made a loan, advance or Investment which is outstanding or existing on the Closing Date except as set forth on Schedule 4.22-A (a copy of which has been delivered by the Borrower to the Agent and Banks but is not attached hereto).

(b) Schedule 4.22-B (a copy of which has been delivered by the Borrower to the Agent and Banks but is not attached hereto) sets forth any and all Contingent BFD Liabilities and any and all Committed Contingent BFD Liabilities in existence on the Closing Date. As to each guaranty included within the Contingent BFD Liabilities on the Closing Date, Schedule 4.22-B sets forth the name of each Person with respect to which the Borrower or any Consolidated Subsidiary has issued a guaranty, the amount, commencement date, termination date, monthly payments and the aggregate payments corresponding to such guarantees.

#### ARTICLE V

#### COVENANTS

The Loan Parties agree, jointly and severally, that, so long as any Bank has any Commitment hereunder or any amount payable under any Note remains unpaid:

SECTION 5.01. Information. The Borrower will deliver to each of the Banks:

(a) as soon as available and in any event within 90 days after the end of each Fiscal Year, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such Fiscal Year and the related consolidated statements of income, shareholders' equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous fiscal year, all certified by Arthur Andersen, LLP. or other independent public accountants of nationally recognized standing, with such certification to be free of exceptions and qualifications not acceptable to the Required Banks;

(b) as soon as available and in any event within 45 days after the end of each of the four Fiscal Quarters of each Fiscal Year, a consolidated balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such Fiscal Quarter and the related statement of income and statement of cash flows for such Fiscal Quarter and for the portion of the Fiscal Year ended at the end of such Fiscal Quarter, setting forth in each case in comparative form the figures for the corresponding Fiscal

Quarter and the corresponding portion of the previous Fiscal Year, all reviewed by the accountants referenced in (a) above and certified (subject to normal year-end adjustments) as to fairness of presentation, GAAP and consistency by the Vice President - Chief Accounting Officer or the Vice President - Finance of the Borrower;

(c) commencing for the Fiscal Month ending October 28, 2000, and continuing for each Fiscal Month thereafter, as soon as available and in any event within 30 days after the end of each Fiscal Month thereafter, a consolidated and consolidating balance sheet of the Borrower and its Consolidated Subsidiaries as of the end of such month and the related statements of income and statements of cash flows for such period and for the portion of the Fiscal Year ended at the end of such month, setting forth in each case in comparative form the figures for the corresponding fiscal period and the corresponding portion of the previous Fiscal Year, all certified (subject to normal year-end adjustments) as to fairness of presentation, conformity with GAAP and consistency by the Vice President - Chief Accounting Officer or the Vice President - Finance of the Borrower;

(d) simultaneously with the delivery of each set of financial statements referred to in clauses (a), (b) and (c) above, a certificate, substantially in the form of Exhibit I (a "Compliance Certificate"), of the Vice President - Chief Accounting Officer or the Vice President - Finance of the Borrower (i) setting forth in reasonable detail the calculations required to establish whether the Borrower was in compliance with the requirements of Sections 5.03 through 5.14, inclusive, 5.17, 5.32 and 5.34 on the date of such financial statements, (ii) setting forth in reasonable detail the calculations establishing the identities of the Material Subsidiaries on the date of such financial statements, and (iii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Loan Parties are taking or propose to take with respect thereto;

(e) simultaneously with the delivery of each set of annual financial statements referred to in clause (a) above, a statement of the firm of independent public accountants which reported on such statements to the effect that nothing has come to their attention to cause them to believe that any Default existed on the date of such financial statements;

(f) within 5 Domestic Business Days after the Borrower becomes aware of the occurrence of any Default, a certificate of the Vice President - Chief Accounting Officer or the Vice President - Finance of the Borrower setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(g) promptly upon the mailing thereof to the shareholders of the Borrower generally, copies of all financial statements, reports and proxy statements so mailed;

(h) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and annual, quarterly or monthly reports which the Borrower shall have filed with the Securities and Exchange Commission;

(i) if and when the Borrower or any member of the Controlled Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA, a copy of such notice; or (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate or appoint a trustee to administer any Plan, a copy of such notice;

(j) promptly after the Borrower knows of the commencement thereof, notice of any litigation, dispute or proceeding involving a claim against a Loan Party and/or any Subsidiary of a Loan Party for \$1,000,000.00 or more in excess of amounts covered in full by applicable insurance; and

(k) as soon as available and in any event by the 15th Domestic Business Day of each Fiscal Month, an aging of payables, showing the age of such payables, identifying the Persons who are the creditors for such payables (specifying the amount and age of the payables, owing to each such creditor) and containing such other information and accompanied by such supporting documents as the Agent, in its sole discretion may from time to time prescribe, dated as of the last day of such period the statements in which, in each instance, shall be certified as to truth and accuracy by the Vice President - Chief Accounting Officer, Vice President - Finance or other authorized officer of the Borrower and each Guarantor;

(l) as soon as available and in any event by the 15th Domestic Business Day of each Fiscal Month, an aging of Receivables, showing the age of such Receivables, identifying the Persons who are the account debtors for such Receivables (specifying the amount and age of the Receivables owing from each such Account Debtor) and containing such other information and accompanied by such supporting documents as the Agent, in its sole discretion may from time to time reasonably prescribe, dated as of the last day of such period the statements in which, in each instance, shall be certified as to truth and accuracy by the Vice President - Chief Accounting Officer, Vice President - Finance or other authorized officer of the Borrower and each Guarantor;

(m) as soon as available and in any event by the 15th Domestic Business Day of each succeeding month, a Borrowing Base Certification Report and Contingent BFD Liabilities Borrowing Base Certification Report, in form and content reasonably satisfactory to the Agent, dated as of the last day of the immediately preceding month, the statements which, in each instance, shall be certified as to truth and accuracy by the Vice President - Chief Accounting Officer, Vice President - Finance or other authorized officer of the Borrower and each Guarantor;

(n) at reasonable intervals but no less frequently than quarterly: (i) financial statements more fully described on Schedule 5.01(n) showing the financial condition and results of the operations of any and all Affiliates of the Borrower or any Consolidated Subsidiary which are included within subitem (iii) of the definition of Affiliates; and (ii) financial statements showing the financial condition and results of the operations of any and all operators and lessees of a Guaranteed BFD Lease, together with: (A) a consolidated balance sheet of such operator or lessee and their respective consolidated subsidiaries as of the end of such fiscal period and the related statement of income and statement of cash flows for such fiscal period and for the portion of the fiscal year ended at the end of such fiscal period; and (B) such other financial information as the Agent or any Bank may reasonably request; provided, however, that: (1) with regard to any operator or lessee of a Guaranteed BFD Lease existing on the Closing Date or any operator or lessee under a Committed Contingent BFD Liability existing on the Closing Date, the Borrower shall be obligated to provide only such financial information with respect to such operator or lessee as the Borrower is permitted to receive or receives after written request by the Borrower and is not contractually precluded from furnishing to the Agent and the Banks; and (2) neither the Borrower nor any Consolidated Subsidiary shall create, assume or incur any Contingent BFD Liability unless the Guaranteed BFD Lease corresponding thereto requires the operator or lessee to provide the Borrower the information described in (ii) above and authorizes the Borrower to disclose such information to the Agent and Banks; and

(o) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Agent, at the request of any Bank, may reasonably request.

SECTION 5.02. Inspection of Property, Books and Records. The Borrower will (i) keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries in conformity with GAAP shall be made of all dealings and transactions in relation to its business and activities; (ii) permit, and will cause each Subsidiary of the Borrower and Guarantors to permit the Agent or its designee, at the expense of the Borrower and Guarantors, to perform periodic field audits and investigations of the Borrower, the Guarantors and the Collateral; and (iii) permit, and will cause each Subsidiary to permit, with reasonable prior notice which notice shall not be required in the case of an emergency, representatives of any Bank at such Bank's expense prior to the occurrence of an Event of Default and at the Borrower's expense after the occurrence of an Event of Default to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants. The Borrower agrees to cooperate and assist in such visits and inspections, in each case at such reasonable times and as often as may reasonably be desired.

SECTION 5.03. Ratio of Consolidated Total Debt to Consolidated Comprehensive EBITDA. At the end of each Fiscal Quarter, commencing with the Fiscal Quarter ending November 25, 2000, the ratio of Consolidated Total Debt to Consolidated Comprehensive EBITDA for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters will not at any time exceed 3.00 to 1.00.

SECTION 5.04. Ratio of Consolidated Total Debt to Consolidated Operating EBITDA. At the end of each Fiscal Quarter, commencing with the Fiscal Quarter ending November 25, 2000, the ratio of Consolidated Total Debt to Consolidated Operating EBITDA for the Fiscal Quarter then ending and the immediately preceding three Fiscal Quarters shall at no time be more than the ratio corresponding to such Fiscal Quarter in the following table:

Consolidated Total Debt to Consolidated Operating EBITDA	Period
less than or equal to 4.25	Closing Date through the last day of Fiscal Year 2000
less than or equal to 4.0	The last day of the First Fiscal Quarter of Fiscal Year 2001 through the last day of the Third Fiscal Quarter of Fiscal Year 2001
less than or equal to 3.5	The last day of Fiscal Year 2001 through the last day of the third Fiscal Quarter of Fiscal Year 2002
less than or equal to 3.0	The last day of Fiscal Year 2002 through the Termination Date

SECTION 5.05. Ratio of Consolidated Total Debt to Consolidated Total Capitalization. At the end of each Fiscal Quarter commencing with the Fiscal Quarter ending November 25, 2000, the ratio of Consolidated Total Debt to Consolidated Total Capitalization will not exceed 0.40.

SECTION 5.06. Acquisitions. No Loan Party nor any Subsidiary of a Loan Party shall enter into any agreement, contract, binding commitment or other arrangement providing for any Acquisition, or take any action to solicit the tender of securities or proxies in respect thereof in order to effect any Acquisition, unless (i) the Person to be (or whose assets are to be) acquired does not oppose such Acquisition and the line or lines of business of the Person to be acquired are substantially the same or related as one or more line or lines of business conducted by the Borrower and its Subsidiaries, (ii) no



Default or Event of Default shall have occurred and be continuing either immediately prior to or immediately after giving effect to such Acquisition and the Borrower shall have furnished to the Agent (A) pro forma historical financial statements as of the end of the most recently completed Fiscal Year of the Borrower and most recent interim Fiscal Quarter, if applicable giving effect to such Acquisition and (B) a certificate in the form of Exhibit I prepared on a historical pro forma basis as of the most recent date for which financial statements have been furnished pursuant to Section 5.01 giving effect to such Acquisition, which certificate shall demonstrate that no Default or Event or Default would exist immediately after giving effect thereto, (iii) the Person acquired shall be a Subsidiary, or be merged into the Borrower or a Wholly Owned Subsidiary, immediately upon consummation of the Acquisition (or if assets are being acquired, the acquiror shall be the Borrower or a Subsidiary of the Borrower), and (iv) after giving effect to such Acquisition, the aggregate Costs of Acquisition incurred in any Fiscal Year (on a noncumulative basis, with the effect that amounts not incurred in any Fiscal Year may not be carried forward to a subsequent period) shall not exceed \$10,000,000.

SECTION 5.07. Contingent BFD Liabilities. (a) Neither the Borrower nor any Consolidated Subsidiary shall, directly or indirectly, issue, assume, create, incur or suffer to exist any Contingent BFD Liability except for Contingent BFD Liabilities, the aggregate outstanding principal amount of which shall not at any time exceed \$40,000,000, in the aggregate.

(b) Neither the Borrower nor any Consolidated Subsidiary shall, directly or indirectly, issue, assume, create, incur or suffer to exist any Committed Contingent BFD Liability except Committed Contingent BFD Liabilities corresponding to or arising from no more than twelve prospective "BFD Stores"; provided that: (1) in calculating the number of prospective BFD Stores that correspond to Committed Contingent BFD Liabilities: (a) a guaranty issued by the Borrower or Consolidated Subsidiary applicable for a term less than or equal to 5 years shall be included as one store; and (b) a guaranty issued by the Borrower or Consolidated Subsidiary applicable for a term in excess of five years shall be included as the number of Stores (and fraction thereof) equal to such term expressed in years divided by five; and (2) neither the Borrower nor any Consolidated Subsidiary shall, directly or indirectly, issue, assume, create, incur or suffer to exist a Committed Contingent BFD Liability if after giving pro forma effect to the execution of the guaranty contemplated thereby and a good faith estimate of the Contingent BFD Liabilities to exist thereunder (based on the Borrower's good faith estimate of the commencement date of the underlying lease which date shall in no event be more than eighteen months after the date such Committed Contingent BFD Liability is assumed, created or incurred) plus a good faith estimate of the other Contingent BFD Liabilities to be in effect at the time the Committed Contingent BFD Liability becomes a Contingent BFD Liability, a Default or Event of Default will occur or exist.

SECTION 5.08. Ratio of Contingent BFD Liabilities to Contingent BFD Liabilities Borrowing Base. The Contingent BFD Liabilities will not at any time exceed the Contingent BFD Liabilities Borrowing Base.

SECTION 5.09. Restricted Payments. The Borrower will not declare or make any Restricted Payment during any Fiscal Year unless, after giving effect thereto: (1) the aggregate of all Dividends declared or made during (a) the Fiscal Year ending November 25, 2000 does not exceed Ten Million Dollars (\$10,000,000), and (b) any Fiscal Year thereafter does not exceed Nine Million Five Hundred Thousand Dollars (\$9,500,000); (2) no Default shall have occurred and be continuing; (3) the aggregate of all payments on account of the purchase, redemption, retirement or acquisition of any shares of the Borrower's capital stock (including, without limitation, any option, warrant, or other right to acquire shares of the Borrower's capital stock): (a) during the Fiscal Year ending November 25, 2000 shall not exceed \$7,000,000; (b) during Fiscal Year 2001, shall not exceed \$6,500,000, plus any amounts permitted under (3)(a) but not paid during the Fiscal Year ending November 25, 2000; and (c) during Fiscal Year 2002, shall not exceed \$6,000,000 plus any amounts permitted under (3)(a) or (b) above but not paid during the Fiscal Year ending November 25, 2000 or Fiscal Year 2001; and (4) if the aggregate of all payments made during the applicable period under Section 5.09(3) above are included, on a pro-forma

basis, in the computation of subitem (B) in the definition of Comprehensive Fixed Charge Coverage Ratio, the Comprehensive Fixed Charge Coverage Ratio (for the Fiscal Quarter during which a payment described in (3) above is proposed) shall not be less than the amount determined by deducting 0.5 from the amount set forth in Section 5.10 for such period.

SECTION 5.10. Fixed Charge Coverage. At the end of each Fiscal Quarter, commencing with the Fiscal Quarter ending November 25, 2000, the Comprehensive Fixed Charge Coverage Ratio shall not be less than the ratio corresponding to such Fiscal Quarter in the following table:

Comprehensive Fixed Charge Coverage Ratio	Period
greater than or equal to 1.5	Closing Date through the last day of the third Fiscal Quarter of Fiscal Year 2001
greater than or equal to 2.0	The last day of Fiscal Year 2001 through the last day of the third Fiscal Quarter of Fiscal Year 2002
greater than or equal to 3.0	The last day of Fiscal Year 2002 through the Termination Date

SECTION 5.11. Capital Expenditures. Capital Expenditures will not exceed in the aggregate in any Fiscal Year the sum of \$25,000,000; provided that after giving effect to the incurrence of any Capital Expenditures permitted by this Section, no Default shall have occurred and be continuing (with the effect that amounts not incurred in any Fiscal Year may not be carried forward to a subsequent period).

SECTION 5.12. Loans or Advances. No Loan Party nor any Subsidiary of a Loan Party shall make loans or advances to any Person except: (i) loans or advances to employees of a Loan Party or an Affiliate of a Loan Party do not exceed One Million and No/100 Dollars (\$1,000,000) in the aggregate outstanding made in the ordinary course of business and consistently with practices existing on November 27, 1999; (ii) deposits required by government agencies or public utilities; (iii) loans or advances to the Borrower or any Guarantor that is a Consolidated Subsidiary; (iv) Loans and Advances outstanding on the Closing Date and set forth on Schedule 4-22A; and (v) loans or advances not otherwise permitted under this Section 5.12, which when aggregated with the total Investments made under Section 5.13(viii) do not exceed Seven Million Five Hundred Thousand Dollars (\$7,500,000) in the aggregate outstanding; provided that after giving effect to the making of any loans, advances or deposits permitted by clause (i), (ii), (iii), (iv) or (v) of this Section, no Default shall have occurred and be continuing.

SECTION 5.13. Investments. No Loan Party nor any Subsidiary of a Loan Party shall make Investments in any Person except as permitted by Section 5.12 and except Investments in (i) direct obligations of the United States Government maturing within one year, (ii) certificates of deposit issued by a commercial bank whose credit is satisfactory to the Agent, (iii) commercial paper rated A-1 or the equivalent thereof by Standard & Poor's Corporation or P-1 or the equivalent thereof by Moody's Investors Service, Inc. and in either case maturing within 6 months after the date of acquisition, (iv) tender bonds the payment of the principal of and interest on which is fully supported by a letter of credit issued by a United States bank whose long-term certificates of deposit are rated at least AA or the equivalent thereof by Standard & Poor's Corporation and Aa or the equivalent thereof by Moody's Investors Service, Inc., (v) Investments by the Borrower in a Guarantor that is a Consolidated Subsidiary made in the ordinary course of business and consistently with practices existing on November 27, 1999, (vi) Investments existing on the Closing Date and set forth on Schedule 4.22-A, (vii) Eligible Investment Securities, other marketable investment securities publicly traded on a national securities exchange of a quality consistent with the equity investments made by the Borrower on the Closing Date and an Investment in the Bassett Asset Fund, made on or before February 28, 2001 with up to 50% of the net after tax proceeds of the dividend (if

any) received by the Borrower from IHFC on or before February 28, 2001 (the "IHFC Dividend"); provided that no less 50% of the net after tax proceeds of the IHFC Dividend shall be applied by the Borrower as repayment of the Loan; and (viii) Investments not otherwise permitted under this Section 5.13, made in the ordinary course of business and consistently with practices existing on November 27, 1999, which when aggregated with the aggregate outstanding loans and advances made under Section 5.12(v) do not exceed \$7,500,000.00.

SECTION 5.14. Negative Pledge. No Loan Party nor any Subsidiary of a Loan Party will create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except:

(a) Liens existing on the date of this Agreement encumbering assets other than Collateral securing Debt outstanding on the date of this Agreement in an aggregate principal amount not exceeding \$5,000,000, all of which are set forth on Schedule 5.14;

(b) any Lien existing on any asset of any corporation at the time such corporation becomes a Consolidated Subsidiary and not created in contemplation of such event;

(c) any Lien on any asset (other than Collateral) securing Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring or constructing such asset and permitted under Section 5.32(c), provided that such Lien attaches to such asset concurrently with or within 18 months after the acquisition or completion of construction thereof;

(d) any Lien on any asset of any corporation existing at the time such corporation is merged or consolidated with or into the Borrower or another Loan Party and not created in contemplation of such event;

(e) any Lien existing on any asset prior to the acquisition thereof by the Borrower or another Loan Party and not created in contemplation of such acquisition;

(f) Liens encumbering assets (other than Collateral) securing Debt owing by any Loan Party to the Borrower;

(g) any Lien arising out of the refinancing, extension, renewal or refunding of any Debt secured by any Lien permitted by any of the foregoing clauses of this Section, provided that (i) such Debt is not secured by any additional assets, and (ii) the amount of such Debt secured by any such Lien is not increased;

(h) Liens incidental to the conduct of its business or the ownership of its assets which (i) do not secure Debt and (ii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(i) any Lien on Margin Stock;

(j) Liens securing the Agent and the Banks created or arising under the Loan Documents; and

(k) Liens not otherwise permitted by the foregoing clauses of this Section securing Debt (other than indebtedness represented by the Notes) in an aggregate principal amount at any time outstanding not to exceed \$7,500,000. Notwithstanding anything contained in this Section 5.14 to the contrary, no Loan Party or any Subsidiary of a Loan Party will create, assume or suffer to exist any Lien on the Collateral or on the Borrower's ownership interests in the Bassett Asset Fund.

SECTION 5.15. Maintenance of Existence. Each Loan Party shall, and shall cause each Subsidiary of a Loan Party to, maintain its organizational existence and carry on its business in substantially the same manner and in substantially the same fields as such business is now carried on and maintained; provided that a Subsidiary of a Loan Party may be dissolved with the Agent's prior written consent if: (1) such Subsidiary is not a Loan Party; and (2) the total assets of such Subsidiary are less than \$50,000.

SECTION 5.16. Dissolution. No Loan Party nor any Subsidiary of a Loan Party shall suffer or permit dissolution or liquidation either in whole or in part or redeem or retire any shares of its own stock or that of any Subsidiary of a Loan Party, except: (1) through corporate reorganization to the extent permitted by Section 5.17; and (2) Restricted Payments permitted by Section 5.09.

SECTION 5.17. Consolidations, Mergers and Sales of Assets. No Loan Party will, nor will it permit any Subsidiary of a Loan Party to, consolidate or merge with or into, or sell, lease or otherwise transfer all or any substantial part of its assets to, any other Person, or discontinue or eliminate any business line or segment, provided that (a) a Loan Party may merge with another Person if (i) such Person was organized under the laws of the United States of America or one of its states, (ii) the Loan Party is the corporation surviving such merger, (iii) immediately after giving effect to such merger, no Default shall have occurred and be continuing, and (iv) if the Borrower merges with another Loan Party, the Borrower is the corporation surviving such merger, (b) Subsidiaries of a Loan Party (excluding Loan Parties) may merge with one another, (c) a Loan Party (other than the Borrower or an Eligible Guarantor) may transfer all or any part of its assets to another Loan Party, (d) a Loan Party may sell Inventory in the ordinary course of business and for fair value, (e) a sale of the real property and improvements commonly known as the "Thomasville Showroom" located on Business (Interstate) 85 in Thomasville, NC, and (f) the foregoing limitation on the sale, lease or other transfer of assets and on the discontinuation or elimination of a business line or segment shall not prohibit, during any Fiscal Quarter, a transfer of assets or the discontinuance or elimination of a business line or segment (in a single transaction or in a series of related transactions) unless the aggregate assets to be so transferred or utilized in a business line or segment to be so discontinued, when combined with all other assets transferred (excluding assets transferred under Sections 5.17(d) and (e)), and all other assets utilized in all other business lines or segments discontinued, during such Fiscal Quarter and the immediately preceding three Fiscal Quarters constituted more than \$5,000,000 in the aggregate.

SECTION 5.18. Use of Proceeds. No portion of the proceeds of the Loan will be used by the Borrower or any Subsidiary (i) in connection with, either directly or indirectly, any tender offer for, or other acquisition of, stock of any corporation with a view towards obtaining control of such other corporation, (ii) directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any Margin Stock, or (iii) for any purpose in violation of any applicable law or regulation. Except as otherwise provided herein, the proceeds of the Loan shall be used for general corporate purposes and working capital.

SECTION 5.19. Compliance with Laws; Payment of Taxes. Each Loan Party will, and will cause each Subsidiary of a Loan Party and each member of the Controlled Group to, comply with applicable laws in all material respects (including but not limited to ERISA), regulations and similar requirements of governmental authorities (including but not limited to PBGC), except where the necessity of such compliance is being contested in good faith through appropriate proceedings diligently pursued. Each Loan Party will, and will cause each Subsidiary of a Loan Party to, pay promptly when due all taxes, assessments, governmental charges, claims for labor, supplies, rent and other obligations which, if unpaid, might become a lien against the property of a Loan Party or any Subsidiary of a Loan Party, except liabilities being contested in good faith by appropriate proceedings diligently pursued and against which, if requested by the Agent, the Borrower shall have set up reserves in accordance with GAAP.

SECTION 5.20. Insurance. Each Loan Party will maintain, and will cause each Subsidiary of a Loan Party to maintain (either in the name of such Loan Party or in such Subsidiary's own name), with financially sound and reputable insurance companies, insurance on all its Property in at least such amounts and against at least such risks as are usually insured against in the same general area by companies of established repute engaged in the same or similar business.

SECTION 5.21. Change in Fiscal Year. Each Loan Party will not change its Fiscal Year without the consent of the Required Banks.

SECTION 5.22. Maintenance of Property. Each Loan Party shall, and shall cause each Subsidiary of a Loan Party to, maintain all of its properties and assets (excluding assets that are obsolete or no longer useful in such Loan Party's business) in good condition, repair and working order, ordinary wear and tear excepted.

SECTION 5.23. Environmental Notices. Each Loan Party shall furnish to the Banks and the Agent prompt written notice of all material Environmental Liabilities, pending, threatened or anticipated Environmental Proceedings, Environmental Notices, Environmental Judgments and Orders, and Environmental Releases at, on, in, under or in any way affecting the Properties or any adjacent property, and all facts, events, or conditions that could lead to any of the foregoing.

SECTION 5.24. Environmental Matters. No Loan Party or any Subsidiary of a Loan Party will, nor will any Loan Party permit any Third Party to, use, produce, manufacture, process, treat, recycle, generate, store, dispose of, manage at, or otherwise handle or ship or transport to or from the Properties any Hazardous Materials except for Hazardous Materials such as cleaning solvents, pesticides and other similar materials used, produced, manufactured, processed, treated, recycled, generated, stored, disposed, managed or otherwise handled in the ordinary course of business in compliance with all applicable Environmental Requirements.

SECTION 5.25. Collateral. With respect to the Collateral, each Borrower and Guarantor hereby represents, warrants and covenants to the Agent and each of the Banks as set forth in Section 5.25.1 through 5.25.14, inclusive.

5.25.1 Sale of Collateral. No Borrower or Guarantor will sell, lease, exchange, or otherwise dispose of any of the Collateral without the prior written consent of the Agent; provided, however Inventory Collateral may be sold in the ordinary course of business for cash or on open account or on terms of payment ordinarily extended to its customers. Upon the sale, exchange or other disposition of the Inventory Collateral, the security interest and lien created and provided for herein, without break in continuity and without further formality or act, shall continue in and attach to any proceeds thereof, including, without limitation, accounts, contract rights, shipping documents, documents of title, bills of lading, warehouse receipts, dock warrants, dock receipts and cash or non-cash proceeds, and in the event of any unauthorized sale, shall continue in the Inventory Collateral itself.

5.25.2 Accounts. All existing and future Accounts included in the Collateral are or will be bona fide existing obligations created by the sale and delivery of merchandise or the rendering of services to customers and arose or will arise in the ordinary course of business; and that such Accounts are not and will not be subject to defense, set-off or counterclaim which in the aggregate would materially impair the value of such Accounts as collateral for the Obligations (as defined in the Security Agreement). Neither the Borrower nor any Guarantor will, without the Agent's prior written consent, grant any extension of the time of payment of any of the Accounts, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partly, any person liable for the payment thereof or allow any credit or discount whatsoever thereon, other

than extensions, credits, discounts, compromises or settlements granted or made in the ordinary course of business or otherwise in accordance with prudent and reasonable business practices.

5.25.3 Good Title; No Existing Encumbrances. The Borrower and Guarantors own the Collateral free and clear of any prior Lien, and no financing statements or other evidences of the grant of a security interest respecting the Collateral exist on the public records.

5.25.4 Right to Grant Security Interest; No Further Encumbrances. The Borrower and Guarantors have the right to grant a security interest in the Collateral. The Borrower and Guarantors will pay all taxes and other charges against the Collateral (including, without limitation, property, use and sales taxes), and neither the Borrower nor any Guarantor will use the Collateral illegally or allow the Collateral to be encumbered except for the security interest in favor of the Agent granted herein.

5.25.5 Location of Collateral. The Borrower and Guarantors hereby represent and warrant to the Agent and the Banks that, as of the date hereof, the Collateral is situated only at one or more of the Collateral Locations and the Borrower and Guarantors covenant with the Agent not to locate the Collateral at any location other than a Collateral Location without at least 30 days prior written notice to the Agent. In addition, to the extent the Borrower or Guarantors should warehouse any of the Inventory Collateral at any time hereafter, the Borrower and Guarantors acknowledge and agree that such warehousing may be conducted only by warehousemen who have been pre-approved by the Agent and who, in any event, shall issue non-negotiable warehouse receipts in the Agent's name to evidence any such warehousing of goods constituting Inventory Collateral. If the Borrower or Guarantors consign any of the Inventory Collateral, it will comply with Section 2-326 of the Uniform Commercial Code of any state where such Inventory Collateral is located with respect thereto, by filing in the appropriate public office or offices UCC-1 financing statements showing such Borrower or Guarantor, as the case may be, as consignor and the Agent as assignee of consignor, and will furnish copies thereof to the Agent. If any of the Inventory Collateral or any records concerning the Collateral are at any time to be located on premises leased by the Borrower or a Guarantor or on premises owned by the Borrower or a Guarantor subject to a mortgage or other lien, such Borrower or Guarantor shall so notify the Agent and shall if requested by the Agent obtain and deliver or cause to be delivered to the Agent, prior to delivery of any Inventory Collateral or records concerning the Collateral to said premises, an agreement, in form and substance satisfactory to the Agent, waiving the landlord's or mortgagee's or lienholder's right to enforce any claim against the Borrower or Guarantor, as the case may be, for monies due under the landlord's lien, mortgage or other lien by levy or distraint or other similar proceedings against the Inventory Collateral or records concerning the Collateral and assuring the Agent's ability to have access to the Inventory Collateral and records concerning the Collateral in order to exercise its right hereunder to take possession thereof.

5.25.6 Collateral Status. The Borrowers and Guarantors will promptly notify the Agent if there is any adverse change in the status of the Collateral that materially impairs its value or collectibility, or if any defenses, set-offs or counterclaims are asserted by Account Debtors which in the aggregate materially impair the value or collectibility of the Accounts.

5.25.7 Delivery of Certain Collateral. The Borrowers and Guarantors have delivered all agreements, letters of credit, promissory notes, certificates of deposit, chattel paper or anything else, the physical possession of which is necessary in order for the Agent, on behalf of the Secured Parties, to perfect or preserve the priority of its security interest therein.

5.25.8 Purchase of Collateral. Neither the Borrower nor any Guarantor has purchased any of the Collateral in a bulk transfer or in a transaction which was outside the ordinary course of the business of the seller to the Borrower or such Guarantor.

5.25.9 Possession of Franchises, Licenses, Etc. The Borrower, the Guarantors and the Subsidiaries of the Borrower and Guarantors possess all franchises, certificates, licenses, permits and other authorizations from governmental political subdivisions or regulatory authorities, and all patents, trademarks, service marks, trade names, copyrights, licenses and other rights, free from burdensome restrictions, that are necessary for the ownership, maintenance and operation of any of their respective property and assets, and neither the Borrower, any Guarantor nor any of their respective Subsidiaries are in violation of any term or condition thereof which would or might have a Material Adverse Effect. The Borrower and Guarantors have furnished the Agent and Banks an accurate and complete description of all copyrights, patents, trademarks and other intellectual property of the Borrower and Guarantors.

5.25.10 Records Respecting Collateral. The Borrower and Guarantors shall keep complete and accurate books and records and make all necessary entries thereon to reflect the transactions and facts giving rise to the Collateral and payments, credit and adjustments applicable thereto. All books and records of the Borrower and Guarantors with respect to the Collateral will be kept at the Executive Offices (as they may be changed pursuant to Section 5.25.5) and will not be removed from such address without the prior written consent of the Agent.

5.25.11 Further Assurances. The Borrower and each Guarantor shall duly execute and/or deliver (or cause to be duly executed and/or delivered) to the Agent and Secured Parties any instrument, invoice, document, document of title, dock warrant, dock receipt, warehouse receipt, bill of lading, order, financing statement, assignment, waiver, consent or other writing which may be reasonably necessary to the Agent or any Secured Parties to carry out the terms of this Agreement and any of the other Loan Documents and to perfect its security interest in and facilitate the collection of the Collateral, the proceeds thereof, and any other property at any time constituting security to the Secured Parties. The Borrower and each Guarantor shall perform or cause to be performed such acts as the Agent or any Secured Party may request to establish and maintain for the Agent and the Secured Parties a valid and perfected security interest in and security title to the Collateral, free and clear of any Liens other than in favor of the Agent and the Secured Parties.

5.25.12 Maintenance of Insurance. In addition to and cumulative with any other requirements herein imposed on the Borrower and Guarantors with respect to insurance, the Borrower, Guarantors and the Subsidiaries of the Borrower and Guarantors shall maintain insurance with insurance companies satisfactory to the Agent on such of their respective properties and assets, in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity, but in any event to include public liability, worker's compensation, business interruption, malicious mischief, errors and omissions, loss, damage, flood, windstorm, fire, theft, extended coverage and product liability insurance in amounts satisfactory to the Agent, which insurance shall not be cancellable or altered (or the coverage thereunder reduced or restricted) by the Borrower, Guarantor or any Subsidiary of the Borrower and Guarantors, unless with the prior written consent of the Agent, or by the insurer of the Borrower and Guarantors, unless with at least 30 days advance written notice to the Agent thereof. The Borrower and Guarantors shall deliver to the Agent on the Closing Date and at such other times as the Agent may request, a detailed list of such insurance then in effect stating the names of the insurance companies, the amounts and rates of insurance, the date of expiration thereof, the properties and risks covered thereby and the insured with respect thereto, and, within 30 days after notice in writing from the Agent, obtain such additional insurance as the Agent, at the request of the Required Banks, may reasonably request. The Borrower and Guarantors will pay all premiums on the insurance referred to herein as and when they become due and shall do all things necessary to maintain the insurance in effect. The Agent may act as the agent of the Borrower and Guarantors in adjusting or compromising any loss under any such insurance policy and in collecting and

receiving the proceeds from any such policy. In the event of any loss under any such policy of insurance, the insurer named therein is hereby authorized and directed by the Borrower and Guarantors to make payment for such loss to the Agent, for the benefit of the Secured Parties, as their interests may appear, rather than to the Borrower and Guarantors and the Agent jointly. If the Borrower or any Guarantor shall default in its obligation hereunder to insure the Collateral in a manner satisfactory to the Agent, then the Agent shall have the right (but not the obligation) to procure such insurance and to charge the costs of same to the Borrower and Guarantors, which costs shall be added to and become a part of the unpaid principal amount of the Obligations (as defined in the Security Agreement), shall bear interest at the Default Rate or the highest contract rate permitted by applicable law whichever is less; such interest shall be payable on demand by the Agent and shall be secured by the Collateral.

5.25.13 Change of Principal Place of Business. The Borrower and Guarantors hereby understand and agree that if, at any time hereafter, the Borrower or Guarantor elects to move its Executive Office, or if the Borrower or Guarantor elects to change its name, identity, any trade name used to identify it in the conduct of its business or in the ownership of its properties, or its structure to other than a corporate structure, the Borrower and Guarantors will notify the Agent in writing at least 30 days prior thereto.

5.25.14 Waivers. With respect to each of the Collateral Locations, the Borrower and Guarantors will obtain such waivers of lien, estoppel certificates or subordination agreements as the Required Banks may reasonably require to insure the priority of its security interest in that portion of the Collateral situated at such locations.

SECTION 5.26. Environmental Release. Each Loan Party agrees that upon the occurrence of an Environmental Release at or on any of the Properties it will act immediately to investigate the extent of, and to take appropriate remedial action to eliminate, such Environmental Release, whether or not ordered or otherwise directed to do so by any Environmental Authority.

SECTION 5.27 Additional Covenants, Etc. In the event that at any time this Agreement is in effect or any Note remains unpaid any Loan Party shall enter into any agreement, guarantee, indenture or other instrument governing, relating to, providing for commitments to advance or guaranteeing any Financing or to amend any terms and conditions applicable to any Financing, which agreement, guarantee, indenture or other instrument includes covenants, warranties, representations, defaults or events of default (or any other type of restriction which would have the practical effect of any of the foregoing, including, without limitation, any "put" or mandatory prepayment of such debt) or other terms or conditions not substantially as, or in addition to those, provided in this Agreement or any other Loan Document, or more favorable to the lender or other counterparty thereunder than those provided in this Agreement or any other Loan Document, the Loan Party shall promptly so notify the Agent and the Banks. Thereupon, if the Agent shall request by written notice to the Loan Party (after a determination has been made by the Required Banks that any of the above referenced documents or instruments contain any provisions which either individually or in the aggregate are more favorable than one of the provisions set forth herein), the Loan Parties, the Agent and the Banks shall enter into an amendment to this Agreement providing for substantially the same such covenants, warranties, representations, defaults or events of default or other terms or conditions as those provided for in such agreement, guarantee, indenture or other instrument, to the extent required and as may be selected by the Agent, such amendment to remain in effect, unless otherwise specified in writing by the Agent, for the entire duration of the stated term to maturity of such Financing (to and including the date to which the same may be extended at the option of the Loan Party), notwithstanding that such Financing might be earlier terminated by prepayment, refinancing, acceleration or otherwise, provided that if any such agreement, guarantee, indenture or other instrument shall be modified, supplemented, amended or restated so as to modify, amend or eliminate from such agreement, guarantee, indenture or other instrument any such covenant, warranty, representation, default or event of default or other term or condition so made a part of this Agreement, then unless required by the Agent



pursuant to this Section, such modification, supplement or amendment shall not operate to modify, amend or eliminate such covenant, warranty, representation, default or event of default or other term or condition as so made a part of this Agreement.

SECTION 5.28. Transactions with Affiliates. No Loan Party nor any Subsidiary of a Loan Party shall enter into, or be a party to, any transaction with any Affiliate of a Loan Party or such Subsidiary (which Affiliate is not a Loan Party or a Subsidiary of a Loan Party), except: (1) Existing Affiliate Transactions; and (2) as permitted by law and in the ordinary course of business and pursuant to reasonable terms which are fully disclosed to the Agent and the Banks, consented to in writing by the Required Banks, and are no less favorable to the Loan Party or such Subsidiary than would be obtained in a comparable arm's length transaction with a Person which is not an Affiliate. As used herein, "Existing Affiliate Transactions" shall mean: (1) any loan or advance permitted under Section 5.12(i); and (2) transactions between the Borrower or any Consolidated Subsidiary and one or more of LRG Furniture, LLC, Zenith Freightlines, LLC, The Accessory Group, Ltd., the Bassett Asset Fund and IHFC, which transactions are in accordance with applicable laws, in the ordinary course of business, consistent with the practices of the Borrower and the Consolidated Subsidiaries on the Closing Date and pursuant to reasonable terms no less favorable to the Borrower or such Consolidated Subsidiary than would be obtained in a comparable arm's length transaction with a person which is not an Affiliate.

SECTION 5.29 Material Subsidiaries. (a) The Loan Parties shall cause any Person which becomes a Material Subsidiary after the Closing Date to become a party to, and agree to be bound by the terms of, this Agreement and the Security Agreement pursuant to a Joinder Agreement, in the form attached hereto as Exhibit F satisfactory to the Agent in all respects and executed and delivered to the Agent within ten (10) Domestic Business Days after the day on which such Person became a Material Subsidiary. The Borrower shall also cause the items specified in Section 3.01(c), (f), (h), (i) and (l) to be delivered to the Agent concurrently with the instrument referred to above, modified appropriately to refer to such instrument and such Material Subsidiary.

(b) The Borrower shall, or shall cause any Subsidiary (the "Pledgor Subsidiary") to, pledge the lesser of 65% or the entire interest owned by the Borrower and such Pledgor Subsidiary, of the shares of Capital Stock or equivalent equity interests in any Person which becomes a Foreign Subsidiary after the Closing Date pursuant to a pledge agreement in the form attached hereto as Exhibit K executed and delivered by the Borrower or such Pledgor Subsidiary to the Agent within ten (10) Domestic Business Days after the day on which such Person became a Foreign Subsidiary and shall deliver to the Agent such shares of capital stock together with stock powers executed in blank. The Borrower shall also cause the items specified in Section 3.01(c), (f) and (l) to be delivered to the Agent concurrently with the pledge agreement referred to above, modified appropriately to refer to such pledge agreement, Pledgor and such Foreign Subsidiary.

(c) Once any Subsidiary becomes a Material Subsidiary and therefore becomes a party to this Agreement in accordance with Section 5.29(a) or any shares of capital stock of a Foreign Subsidiary are pledged to the Agent in accordance with Section 5.29(b), such Subsidiary (including, without limitation, all Initial Guarantors) thereafter shall remain a party to this Agreement and the shares of capital stock in such Foreign Subsidiary (including, without limitation, all initial Foreign Subsidiaries) shall remain subject to the pledge to the Agent, as the case may be, even if: (i) such Material Subsidiary ceases to be a Material Subsidiary; or (ii) such Foreign Subsidiary ceases to be a Foreign Subsidiary; provided that if a Material Subsidiary or Foreign Subsidiary ceases to be a Subsidiary of the Borrower as a result of the Borrower's transfer or sale of one hundred percent (100%) of the capital stock of such Subsidiary in accordance with and to the extent permitted by the terms of Section 5.17, the Agent and the Banks agree to release such Subsidiary from the Guaranty and release the shares of capital stock of such Subsidiary from the Pledge Agreement.

SECTION 5.30. No Restrictive Agreement. No Loan Party will, nor will any Loan Party permit any of its Subsidiaries to, enter into, after the date of this Agreement, any indenture, agreement, instrument or other arrangement that, directly or indirectly, prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, any of the following by the Loan Party or any such Subsidiary: the incurrence or payment of Debt, the granting of Liens, the declaration or payment of Restricted Payments or other distributions in respect of Capital Stock of the Loan Party or any Subsidiary, the making of loans, advances or Investments or the sale, assignment, transfer or other disposition of property, real, personal or mixed, tangible; provided, that Debt incurred under Section 5.32 and secured by a Lien permitted under Section 5.14(c) may prohibit the granting of a Lien on any asset acquired or constructed with the proceeds of such Debt.

SECTION 5.31. Subsidiaries, Partnerships and Joint Ventures. No Loan Party shall: (1) create, acquire, form or otherwise permit to exist, any Subsidiary other than Subsidiaries that are Subsidiaries existing on the date hereof and described on Schedule 4.08; or (2) become a general partner in any general or limited partnership or joint venture; provided that: (1) so long as Schedule 4.08 is revised within fifteen (15) Domestic Business Days after the date that a Subsidiary is created, acquired or formed, a Loan Party may create, acquire or form a Subsidiary so long as after giving pro forma effect to such creation, acquisition or formation no Default or Event of Default shall occur or exist (including, without limitation, any breach of the limitations set forth in Section 5.13); and (2) a Subsidiary of a Loan Party that is a corporation or limited liability company may become a general partner in a general or limited partnership or joint venture so long as the sole assets of such Subsidiary consist of its interest in such partnership or joint venture and after giving pro-forma effect to such action, no Default or Event of Default (including, without limitation, a breach of any limitation set forth in Section 5.13) shall occur or exist.

SECTION 5.32. Additional Debt. No Loan Party or Subsidiary of a Loan Party shall directly or indirectly issue, assume, create, incur or suffer to exist any Debt or the equivalent (including obligations under Capital Leases), except for: (a) the Debt owed to the Banks, Swing Line Lender and Issuing Bank; and (b) the Debt existing and outstanding on the Closing Date described on Schedule 5.32; (c) Debt incurred or assumed for the purpose of financing all or any part of the cost of acquiring or constructing an asset provided that the aggregate outstanding principal amount of the Debt of the Loan Parties and their respective Subsidiaries incurred under this Section 5.32(c) shall not exceed, at any time, \$7,500,000; (d) Contingent BFD Liabilities and Committed Contingent BFD Liabilities permitted under Section 5.10; provided that neither the Borrower nor any of its Consolidated Subsidiaries shall incur any Contingent BFD Liability or Committed Contingent BFD Liability after the date on which a Defaulted Contingent BFD Liability has occurred with respect to five BFD Stores; and (e) Debt not otherwise permitted under this Section 5.32, the aggregate outstanding principal amount of which shall not, at any time, exceed \$5,000,000.00.

SECTION 5.33. Bassett Asset Fund. No Loan Party nor any Subsidiary of a Loan Party shall permit the Bassett Asset Fund to: (i) create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by the Bassett Asset Fund; (ii) make Investments except in accordance with the Bassett Asset Fund Investment Policy; (iii) make loans or advances to any Person except as set forth in the Bassett Asset Fund Investment Policy; (iv) consolidate or merge with or into, or except as permitted under Section 5.33(ii) sell, lease or otherwise transfer any of its assets; (v) make or declare any dividend or distribution except to the Borrower in accordance with the Bassett Asset Fund Investment Policy; (vi) directly or indirectly, issue, assume, create, incur or suffer to exist any Debt or the equivalent (including obligations under Capital Leases); or (vii) after the Closing Date, amend or modify the limited partnership agreement pursuant to which the Bassett Asset Fund is formed. The Borrower shall not make any withdrawal from the Bassett Asset Fund unless after giving effect to such withdrawal the Borrower shall be able to fully perform its obligations under Section 6.04. In furtherance and not in limitation of the foregoing in connection with any such withdrawal, the Borrower shall obtain the acknowledgment and agreement of the general partner under the Bassett Asset Fund that such withdrawal shall not limit the Borrower's right to withdraw funds in the future from the Bassett Asset Fund.

SECTION 5.34. Operating Leases. No Loan Party nor any Subsidiary of a Loan Party shall create, assume or suffer to exist any operating lease except operating leases which: (1) are entered into in the ordinary course of business, and (2) the aggregate indebtedness, liabilities and obligations of the Loan Parties under all such operating leases during any period of four (4) consecutive Fiscal Quarters shall at no time exceed \$5,000,000, plus in the event LRG Furniture, LLC becomes a Consolidated Subsidiary, the aggregate indebtedness, liabilities and obligations of LRG Furniture, LLC under operating leases in existence on the date LRG Furniture, LLC becomes a Consolidated Subsidiary, provided further that no such operating lease is created in contemplation of such event.

#### ARTICLE VI

##### DEFAULTS

SECTION 6.01. Events of Default. If one or more of the following events ("Events of Default") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal of the Loan (including, without limitation, any Advance or Swing Line Advance) or shall fail to pay any interest on the Loan (including, without limitation, any Advance or Swing Line Advance) within five Domestic Business Days after such interest shall become due, or any Loan Party shall fail to pay any fee or other amount payable hereunder within five Domestic Business Days after such fee or other amount becomes due; or

(b) any Loan Party shall fail to observe or perform any covenant contained in Sections 5.02(ii), 5.03 to 5.18, inclusive, or Section 5.21, 5.32, 5.33 or 5.34; or

(c) any Loan Party shall fail to observe or perform any covenant or agreement contained or incorporated by reference in this Agreement (other than those covered by clause (a) or (b) above) for thirty days after the earlier of (i) the first day on which any Loan Party has knowledge of such failure or (ii) written notice thereof has been given to the Borrower by the Agent at the request of any Bank; or

(d) any representation, warranty, certification or statement made or deemed made by the Loan Parties in Article IV of this Agreement or in any financial statement, material certificate or other material document delivered pursuant to this Agreement shall prove to have been incorrect or misleading in any material respect when made (or deemed made); or

(e) any Loan Party or any Subsidiary of a Loan Party shall fail to make any payment in respect of Debt in an aggregate amount outstanding in excess of \$1,000,000 (other than the Notes) when due or within any applicable grace period; or

(f) any event or condition shall occur which results in the acceleration of the maturity of Debt outstanding of any Loan Party or any Subsidiary of a Loan Party in an aggregate amount in excess of \$1,000,000 or the mandatory prepayment or purchase of such Debt by any Loan Party (or its designee) or such Subsidiary of a Loan Party (or its designee) prior to the scheduled maturity thereof, or enables (or, with the giving of notice or lapse of time or both, would enable) the holders of such Debt or any Person acting on such holders' behalf to accelerate the maturity thereof or require the mandatory prepayment or purchase thereof prior to the scheduled maturity thereof, without regard to whether such holders or other Person shall have exercised or waived their right to do so; or

(g) any Loan Party or any Subsidiary of a Loan Party shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the

appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally, or shall admit in writing its inability, to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing; or

(h) an involuntary case or other proceeding shall be commenced against any Loan Party or any Subsidiary of a Loan Party seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against any Loan Party or any Subsidiary of a Loan Party under the federal bankruptcy laws as now or hereafter in effect; or

(i) any Loan Party or any member of the Controlled Group shall fail to pay when due any material amount which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans shall be filed under Title IV of ERISA by any Loan Party, any member of the Controlled Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any such Plan or Plans or a proceeding shall be instituted by a fiduciary of any such Plan or Plans to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; or a condition shall exist by reason of which the PBGC would be entitled to obtain a decree adjudicating that any such Plan or Plans must be terminated; or

(j) one or more judgments or orders for the payment of money in an aggregate amount in excess of \$1,000,000 shall be rendered against any Loan Party or any Subsidiary of a Loan Party and such judgment or order shall continue unsatisfied and unstayed for a period of 30 days; or

(k) a federal tax lien shall be filed against any Loan Party or any Subsidiary of a Loan Party under Section 6323 of the Code or a lien of the PBGC shall be filed against any Loan Party or any Subsidiary of a Loan Party under Section 4068 of ERISA and in either case such lien shall remain undischarged for a period of 25 days after the date of filing; or

(l) (i) any Person or two or more Persons acting in concert shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 20% or more of the outstanding shares of the voting stock of the Borrower; or (ii) as of any date a majority of the Board of Directors of the Borrower consists of individuals who were not either (A) directors of the Borrower as of the corresponding date of the previous year, (B) selected or nominated to become directors by the Board of Directors of the Borrower of which a majority consisted of individuals described in clause (A), or (C) selected or nominated to become directors by the Board of Directors of the Borrower of which a majority consisted of individuals described in clause (A) and individuals described in clause (B); or

(m) there shall have occurred material uninsured damage to, or loss, theft or destruction of, any material part of the Collateral; or

(n) a default or event of default shall occur and be continuing under any of the Collateral Documents or Letter of Credit Agreements or any Borrower, Pledgor Subsidiary or Guarantor shall fail to observe or perform any obligation to be observed or performed by it under any Collateral Document or Letter of Credit Agreements, and such default, event of default or failure to perform or observe any obligation continues beyond any applicable cure or grace period provided in such Collateral Document or Letter of Credit Agreement; or

(o) the Borrower shall at any time fail to own 99% of the outstanding partnership interests of the Bassett Asset Fund; or

(p) the occurrence of any event, act or condition which the Required Banks determine either does or has a reasonable probability of causing a Material Adverse Effect.

then, and in every such event, the Agent shall (i) if requested by the Required Banks, by notice to the Borrower terminate the Commitments and they shall thereupon terminate, (ii) if requested by the Swing Line Lender, by notice to the Borrower terminate the Swing Line facility set forth in Section 2.15, (iii) if requested by the Required Banks, by notice to the Issuing Bank, instruct the Issuing Bank to declare an Event of Default under the Letter of Credit Agreements, and (iv) if requested by the Required Banks, by notice to the Borrower declare the Notes (together with accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents to be, and the Notes (together with all accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Parties; provided that if any Event of Default specified in clause (g) or (h) above occurs with respect to any Loan Party, without any notice to any Loan Party or any other act by the Agent or the Banks, the Commitments and the Swing Line facility set forth in Section 2.15 shall thereupon automatically terminate and the Notes (together with accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents shall automatically become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Loan Parties. Notwithstanding the foregoing, the Agent shall have available to it all other remedies at law or equity, and shall exercise any one or all of them at the request of the Required Banks. Notwithstanding the foregoing, the Agent shall have available to it all rights and remedies provided under the Loan Documents (including, without limitation, the Collateral Documents) and in addition thereto, all other rights and remedies at law or equity, and the Agent shall exercise any one or all of them at the request of the Required Banks.

SECTION 6.02. Notice of Default. The Agent shall give notice to the Borrower of any Default under Section 6.01(c) promptly upon being requested to do so by any Bank and shall thereupon notify all the Banks thereof.

SECTION 6.03 Cash Cover. If any Event of Default shall have occurred and be continuing, the Borrower shall, if requested by the Agent, pay to the Agent, for the benefit of the Banks an amount in immediately available funds (which funds shall be held as collateral pursuant to arrangements satisfactory to the Agent) equal to the aggregate Undrawn Amounts, provided that, if any Event of Default specified in clause (g) or (h) above occurs, the Borrower shall be obligated to pay such amount to the Agent forthwith without any notice to the Borrower or any other act by the Agent.

SECTION 6.04. Bassett Asset Fund. In furtherance and not in limitation of any right or remedy of the Agent, the Issuing Bank, the Swing Line Lender or the Banks, the Borrower agrees that upon the occurrence of an Event of Default: (1) without any notice to the Borrower or other act by the Agent, the Issuing Bank, the Swing Line Lender or the Banks, the Borrower shall immediately (and shall continue during the continuance of such Event of Default) withdraw from the Bassett Asset Fund the maximum amount of cash, cash equivalents and other distributions which may be withdrawn in accordance with the terms of that certain Limited Partnership Agreement dated July 1, 1998 by and among Private Advisors, LLC as general partner and the Borrower as limited partner, as amended by amendments dated December 1, 1998 and Second Amendment to Limited Partnership Agreement dated February 23, 2000 and that certain Third Amendment to Limited Partnership Agreement dated October 25, 2000 which funds shall be held as collateral pursuant to arrangements satisfactory to the Agent and shall be in an amount no less than \$15,000,000 if such withdrawal is made during the first three fiscal quarters of the Bassett Asset Fund; and (2) grant to the Agent for the benefit of the Secured Parties a first priority lien on and security interest upon all of the Borrower's right, title and interest in and to the Bassett Asset Fund including, without

limitation, any and all rights of the Borrower as a limited partner in the Bassett Asset Fund together with any and all payments, distributions and other amounts payable to the Borrower. In connection with such liens, the Borrower shall immediately execute security agreements, financing statements and such other agreements, documents and certificates as the Agent shall reasonably request.

SECTION 6.05. Allocation of Proceeds. If an Event of Default has occurred and not been waived, and the maturity of the Notes has been accelerated pursuant to Article VI hereof, all payments received by the Agent hereunder, in respect of any principal of or interest on the Obligations or any other amounts payable by the Borrower or any other Loan Party hereunder, shall be applied by the Agent in the following order:

(a) the reasonable expenses incurred in connection with retaking, holding, preserving, processing, maintaining or preparing for sale, lease or other disposition of, any Collateral, including reasonable attorney's fees and legal expenses pertaining thereto;

(b) amounts due to the Banks, Agent and the Issuing Bank pursuant to Sections 2.7(a), 2.7(b), 2.7(c), 2.7(d) and 9.03(a);

(c) payments of interest on Advances, Swing Line Advances and Letter of Credit Advances, to be applied for the ratable benefit of the Banks (with amounts payable in respect of Swing Line Advances being included in such calculation and paid to the Swing Line Lender);

(d) payments of principal of Advances, Swing Line Advances and Letter of Credit Advances, to be applied for the ratable benefit of the Banks (with amounts payable in respect of Swing Line Advances being included in such calculation and paid to the Swing Line Lender);

(e) payments of cash amounts to the Agent in respect of outstanding Letters of Credit pursuant to Section 6.03;

(f) amounts due to the Issuing Bank, the Agent and the Banks pursuant to Sections 7.05 and 9.03(b) and (c);

(g) payments of all other amounts due under any of the Loan Documents, if any, to be applied for the ratable benefit of the Secured Parties;

(h) any surplus remaining after application as provided for herein, to the Borrower or otherwise as may be required by applicable law.

## ARTICLE VII

## THE AGENT

SECTION 7.01. Appointment, Powers and Immunities. Each Bank hereby irrevocably appoints and authorizes the Agent to act as its agent hereunder and under the other Loan Documents with such powers as are specifically delegated to the Agent by the terms hereof and thereof, together with such other powers as are reasonably incidental thereto. The Agent: (a) shall have no duties or responsibilities except as expressly set forth in this Agreement and the other Loan Documents, and shall not by reason of this Agreement or any other Loan Document be a trustee for any Bank; (b) shall not be responsible to the Banks for any recitals, statements, representations or warranties contained in this Agreement or any other Loan Document, or in any certificate or other document referred to or provided for in, or received by any Bank under, this Agreement or any other Loan Document, or for the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or any other document referred to or provided for herein or therein or for any failure by any Loan Party to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder or under any other Loan Document except to the extent requested by the Required Banks, and then only on terms and conditions satisfactory to the Agent, and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other Loan Document or any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The provisions of this Article VII are solely for the benefit of the Agent and the Banks, and no Loan Party shall have any rights as a third party beneficiary of any of the provisions hereof. In performing its functions and duties under this Agreement and under the other Loan Documents, the Agent shall act solely as agent of the Banks and does not assume and shall not be deemed to have assumed any obligation towards or relationship of agency or trust with or for the Loan Parties. The duties of the Agent shall be ministerial and administrative in nature, and the Agent shall not have by reason of this Agreement or any other Loan Document a fiduciary relationship in respect of any Bank.

SECTION 7.02. Reliance by Agent. The Agent shall be entitled to rely upon any certification, notice or other communication (including any thereof by telephone, telefax, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants or other experts selected by the Agent. As to any matters not expressly provided for by this Agreement or any other Loan Document, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and thereunder in accordance with instructions signed by the Required Banks, and such instructions of the Required Banks in any action taken or failure to act pursuant thereto shall be binding on all of the Banks.

SECTION 7.03. Defaults. The Agent shall not be deemed to have knowledge of the occurrence of a Default or an Event of Default (other than the non-payment of principal of or interest on the Loans) unless the Agent has received notice from a Bank or the Borrower specifying such Default or Event of Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default or an Event of Default, the Agent shall give prompt notice thereof to the Banks. The Agent shall give each Bank prompt notice of each non-payment of principal of or interest on the Loan, whether or not it has received any notice of the occurrence of such non-payment. The Agent shall (subject to Section 9.05) take such action with respect to such Default or Event of Default as shall be directed by the Required Banks, provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Banks.

SECTION 7.04. Rights of Agent and its Affiliates as a Bank. With respect to any Advance made by BB&T or an Affiliate of BB&T, such Affiliate and BB&T in their capacity as a Bank hereunder shall have the same rights and powers hereunder as any other Bank and may exercise the same as though it were not an Affiliate of BB&T (or in BB&T's case, acting as the Agent), and the term "Bank" or "Banks" shall, unless the context otherwise indicates, include such Affiliate of BB&T or BB&T in its individual capacity. Such Affiliate and BB&T may (without having to account therefor to any Bank) accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with any Loan Party (and any of the Affiliates of any Loan Party) as if they were not an Affiliate of the Agent or the Agent, respectively; and such Affiliate and BB&T may accept fees and other consideration from any Loan Party (in addition to any agency fees and arrangement fees heretofore agreed to between the Borrower and BB&T) for services in connection with this Agreement or any other Loan Document or otherwise without having to account for the same to the Banks.

SECTION 7.05. Indemnification. Each Bank severally agrees to indemnify the Agent, to the extent the Agent shall not have been reimbursed by the Borrower, ratably in accordance with its Commitment, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including, without limitation, counsel fees and disbursements) or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement or any other Loan Document or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (excluding, unless an Event of Default has occurred and is continuing, the normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or any such other documents; provided, however, that no Bank shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Agent. If any indemnity furnished to the Agent for any purpose shall, in the opinion of the Agent, be insufficient or become impaired, the Agent may call for additional indemnity and cease, or not commence, to do the acts indemnified against until such additional indemnity is furnished.

SECTION 7.06. CONSEQUENTIAL DAMAGES. THE AGENT SHALL NOT BE RESPONSIBLE OR LIABLE TO ANY BANK, THE BORROWER OR ANY OTHER PERSON OR ENTITY FOR ANY PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED AS A RESULT OF THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

SECTION 7.07. Payee of Note Treated as Owner. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof unless and until a written notice of the assignment or transfer thereof shall have been filed with the Agent and the provisions of Section 9.07(c) have been satisfied. Any requests, authority or consent of any Person who at the time of making such request or giving such authority or consent is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee or assignee of that Note or of any Note or Notes issued in exchange therefor or replacement thereof.

SECTION 7.08. Non-Reliance on Agent and Other Banks. Each Bank agrees that it has, independently and without reliance on the Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Loan Parties and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or any of the other Loan Documents. The Agent shall not be required to keep itself (or any Bank) informed as to the performance or observance by the Loan Parties of this Agreement or any of the other Loan Documents or any other document referred to or provided for herein or therein or to inspect the properties or books of the Borrower or any other Person. Except for notices, reports and other documents and information expressly



required to be furnished to the Banks by the Agent hereunder or under the other Loan Documents, the Agent shall not have any duty or responsibility to provide any Bank with any credit or other information concerning the affairs, financial condition or business of the Loan Parties or any other Person (or any of their Affiliates) which may come into the possession of the Agent.

SECTION 7.09. Failure to Act. Except for action expressly required of the Agent hereunder or under the other Loan Documents, the Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction by the Banks of their indemnification obligations under Section 7.05 against any and all liability and expense which may be incurred by the Agent by reason of taking, continuing to take, or failing to take any such action.

SECTION 7.10. Resignation or Removal of Agent. Subject to the appointment and acceptance of a successor Agent as provided below, the Agent may resign at any time by giving notice thereof to the Banks and the Borrower and the Agent may be removed at any time with or without cause by the Required Banks. Upon any such resignation or removal, the Required Banks shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Agent's notice of resignation or the Required Banks' removal of the retiring Agent, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent. Any successor Agent shall be a bank which has a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VII shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder.

#### ARTICLE VIII

##### CHANGE IN CIRCUMSTANCES; COMPENSATION

SECTION 8.01. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period:

(a) the Agent determines that deposits in Dollars (in the applicable amounts) are not being offered in the relevant market for such Interest Period, or

(b) the Required Banks advise the Agent that the London Interbank Offered Rate as determined by the Agent will not adequately and fairly reflect the cost to such Banks of funding the Advances for such Interest Period,

the Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Banks to make Euro-Dollar Loans shall be suspended. Unless the Borrower notifies the Agent at least 2 Domestic Business Days before the date of any Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Prime Rate Borrowing.

SECTION 8.02. Illegality. If, after the date hereof, the adoption of any applicable law, rule or regulation, or any change in any existing or future law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof (any such authority, bank or agency being referred to as an "Authority" and any such event being referred to as a "Change of Law"), or compliance by any

Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any Authority shall make it unlawful or impossible for any Bank (or its Lending Office) to make, maintain or fund its Euro-Dollar Loan and such Bank shall so notify the Agent, the Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon until such Bank notifies the Borrower and the Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make its portion of the Euro-Dollar Loan shall be suspended. Before giving any notice to the Agent pursuant to this Section, such Bank shall designate a different Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such Bank shall determine that it may not lawfully continue to maintain and fund any of its portion of the outstanding Euro-Dollar Loan to maturity and shall so specify in such notice, the Borrower shall immediately prepay in full the then outstanding principal amount of the Euro-Dollar Loan of such Bank, together with accrued interest thereon and any amount due such Bank pursuant to Section 8.05(a). Concurrently with prepaying such Euro-Dollar Loan, the Borrower shall borrow a Prime Rate Loan in an equal principal amount from such Bank (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Banks), and such Bank shall make such a Prime Rate Loan.

SECTION 8.03. Increased Cost and Reduced Return. (a) If after the date hereof, a Change of Law or compliance by any Bank (or its Lending Office) with any request or directive (whether or not having the force of law) of any Authority:

(i) shall subject any Bank (or its Lending Office) to any tax, duty or other charge with respect to its Euro-Dollar Loan, its Notes or its obligation to make a Euro-Dollar Loan, or shall change the basis of taxation of payments to any Bank (or its Lending Office) of the principal of or interest on its Euro-Dollar Loan or any other amounts due under this Agreement in respect of its Euro-Dollar Loan or its obligation to make a Euro-Dollar Loan (except for changes in the rate of tax on the overall net income of such Bank or its Lending Office imposed by the jurisdiction in which such Bank's principal executive office or Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding any such requirement included in an applicable Euro-Dollar Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Lending Office); or

(iii) shall impose on any Bank (or its Lending Office) or on the United States market for certificates of deposit or the London interbank market any other condition affecting its Euro-Dollar Loan, its Notes or its obligation to make a Euro-Dollar Loan;

and the result of any of the foregoing is to increase the cost to such Bank (or its Lending Office) of making or maintaining any Euro-Dollar Loan, or to reduce the amount of any sum received or receivable by such Bank (or its Lending Office) under this Agreement or under its Notes with respect thereto, by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Agent), the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such increased cost or reduction.

(b) If any Bank shall have determined that after the date hereof the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any existing or future law, rule or regulation, or any change in the interpretation or administration thereof, or compliance by any Bank (or its Lending Office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any Authority, has or would have the effect of reducing the rate of return on such Bank's capital as a consequence of its obligations hereunder to a level below that which such Bank could have

achieved but for such adoption, change or compliance (taking into consideration such Bank's policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank, the Borrower shall pay to such Bank such additional amount or amounts as will compensate such Bank for such reduction.

(c) Each Bank will promptly notify the Borrower and the Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

(d) The provisions of this Section 8.03 shall be applicable with respect to any Participant, Assignee or other Transferee, and any calculations required by such provisions shall be made based upon the circumstances of such Participant, Assignee or other Transferee.

SECTION 8.04. Prime Rate Loans Substituted for Affected Euro-Dollar Loans. If (i) the obligation of any Bank to make or maintain a Euro-Dollar Loan has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03, and the Borrower shall, by at least 5 Euro-Dollar Business Days' prior notice to such Bank through the Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(a) all Advances which would otherwise be made by such Bank as part of a Euro-Dollar Loan shall be made instead as a Prime Rate Loan, and

(b) after its portion of the Euro-Dollar Loan has been repaid, all payments of principal which would otherwise be applied to repay such Euro-Dollar Loan shall be applied to repay its Prime Rate Loan instead.

In the event that the Borrower shall elect that the provisions of this Section shall apply to any Bank, the Borrower shall remain liable for, and shall pay to such Bank as provided herein, all amounts due such Bank under Section 8.03 in respect of the period preceding the date of conversion of such Bank's portion of the Loan resulting from the Borrower's election.

SECTION 8.05. Compensation. Upon the request of any Bank, delivered to the Borrower and the Agent, the Borrower shall pay to such Bank such amount or amounts as shall compensate such Bank for any loss, cost or expense incurred by such Bank as a result of:

(a) any payment or prepayment (pursuant to Section 2.09, Section 2.10, Section 8.02 or otherwise) of a Euro-Dollar Loan on a date other than the last day of an Interest Period for such Euro-Dollar Loan;

(b) any failure by the Borrower to prepay a Euro-Dollar Loan on the date for such prepayment specified in the relevant notice of prepayment hereunder; or

(c) any failure by the Borrower to borrow a Euro-Dollar Loan on the date for the Borrowing specified in the applicable Notice of Borrowing delivered pursuant to Section 2.02.

such compensation to include, without limitation, an amount equal to the excess, if any, of (x) the amount of interest which would have accrued on the amount so paid or prepaid or not prepaid or borrowed for the

period from the date of such payment, prepayment or failure to prepay or borrow to the last day of the then current Interest Period for such Euro-Dollar Loan (or, in the case of a failure to prepay or borrow, the Interest Period for such Euro-Dollar Loan which would have commenced on the date of such failure to prepay or borrow) at the applicable rate of interest for such Euro-Dollar Loan provided for herein over (y) the amount of interest (as reasonably determined by such Bank) such Bank would have paid on deposits in Dollars of comparable amounts having terms comparable to such period placed with it by leading banks in the London interbank market.

## ARTICLE IX

### MISCELLANEOUS

SECTION 9.01. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission or similar writing) and shall be given to such party at its address or teletype number set forth on the signature pages hereof or such other address or teletype number as such party may hereafter specify for the purpose by notice to each other party. Each such notice, request or other communication shall be effective (i) if given by teletypewriter, when such teletype is transmitted to the teletype number specified in this Section and the teletype machine used by the sender provides a written confirmation that such teletype has been so transmitted or receipt of such teletype transmission is otherwise confirmed, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, and (iii) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Agent under Article II or Article VIII shall not be effective until received.

SECTION 9.02. No Waivers. No failure or delay by the Agent or any Bank in exercising any right, power or privilege hereunder or under any Note or other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 9.03. Expenses; Documentary Taxes; Indemnification. (a) The Loan Parties shall, jointly and severally, pay (i) all expenses of the Agent, including fees and disbursements of the Agent in connection with any field audits and investigations and fees and disbursements of special counsel for the Agent, in connection with the preparation of this Agreement and the other Loan Documents, any waiver or consent hereunder or thereunder or any amendment hereof or thereof or any Default or alleged Default hereunder or thereunder and (ii) if a Default occurs, all out-of-pocket expenses incurred by the Agent or any Bank, including fees and disbursements of counsel, in connection with such Default and collection and other enforcement proceedings resulting therefrom, including out-of-pocket expenses incurred in enforcing this Agreement and the other Loan Documents.

(b) The Loan Parties shall, jointly and severally, indemnify the Agent and each Bank against any transfer taxes, documentary taxes, assessments or charges made by any Authority by reason of the execution and delivery of this Agreement or the other Loan Documents.

(c) The Loan Parties shall, jointly and severally, indemnify the Agent, the Banks and each Affiliate thereof and their respective directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims or damages to which any of them may become subject, insofar as such losses, liabilities, claims or damages arise out of or result from any actual or proposed use by the Borrower of the proceeds of any extension of credit by any Bank hereunder or breach by any Loan Party of this Agreement or any other Loan Document or from investigation, litigation (including, without limitation, any actions taken by the Agent or any of the Banks to enforce this Agreement or any of the other Loan Documents) or other proceeding (including, without limitation, any threatened investigation or proceeding) relating to the foregoing, and the Loan Parties shall reimburse the

Agent and each Bank, and each Affiliate thereof and their respective directors, officers, employees and agents, upon demand for any expenses (including, without limitation, legal fees) incurred in connection with any such investigation or proceeding; but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified.

SECTION 9.04. Setoffs; Sharing of Set-Offs. (a) Each Loan Party hereby grants to each Bank, as security for the full and punctual payment and performance of the obligations of each Loan Party under this Agreement, a continuing lien on and security interest in all deposits and other sums credited by or due from such Bank to such Loan Party or subject to withdrawal by such Loan Party; and regardless of the adequacy of any collateral or other means of obtaining repayment of such obligations, each Bank may at any time upon or after the occurrence of any Event of Default, and without notice to any Loan Party, set off the whole or any portion or portions of any or all such deposits and other sums against such obligations, whether or not any other Person or Persons could also withdraw money therefrom.

(b) Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of principal and interest owing with respect to the Letter of Credit Advances and Notes held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of all Letter of Credit Advances and principal and interest owing with respect to the Notes held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Letter of Credit Advances and Notes held by the other Banks owing to such other Banks, and/or such other adjustments shall be made, as may be required so that all such payments of principal and interest with respect to the Letter of Credit Advances and Notes held by the Banks owing to such other Banks shall be shared by the Banks pro rata; provided that (i) nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Loan Parties other than its indebtedness under the Letter of Credit Advances and Notes, and (ii) if all or any portion of such payment received by the purchasing Bank is thereafter recovered from such purchasing Bank, such purchase from each other Bank shall be rescinded and such other Bank shall repay to the purchasing Bank the purchase price of such participation to the extent of such recovery together with an amount equal to such other Bank's ratable share (according to the proportion of (x) the amount of such other Bank's required repayment to (y) the total amount so recovered from the purchasing Bank) of any interest or other amount paid or payable by the purchasing Bank in respect of the total amount so recovered. The Loan Parties agree, to the fullest extent they may effectively do so under applicable law, that any holder of a participation in the Letter of Credit Advances or Notes, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Loan Parties in the amount of such participation.

SECTION 9.05. Amendments and Waivers. (a) Any provision of this Agreement, the Notes or any other Loan Documents may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Banks (and, if the rights or duties of the Agent are affected thereby, by the Agent); provided that no such amendment or waiver shall, unless signed by all the Banks, (i) change the Commitment of any Bank or subject any Bank to any additional obligation, (ii) change the principal of or decrease the rate of interest on any Advance or decrease any fees (excluding Facing Fees and other fees payable solely to the Issuing Bank for its own account) hereunder, (iii) change the date fixed for any payment of principal of or interest on any Advance or any fees (excluding Facing Fees and other fees payable solely to the Issuing Bank for its own account) hereunder, (iv) change the amount of principal, decrease the amount of interest or decrease the amount of fees (excluding Facing Fees and other fees payable solely to the Issuing Bank for its own account) due on any date fixed for the payment thereof, (v) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Notes, or the percentage of Banks, which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement, (vi) change the manner of application of any payments made under this Agreement or the other Loan Documents, (vii)

release or substitute all or any substantial part of the Collateral held as security for the Obligations, (viii) change or modify the definitions of "Borrowing Base", "Eligible Accounts" or "Eligible Inventory", or (ix) release any guaranty given to support payment of the Guaranteed Obligations and provided further that: (I) no amendment or waiver shall, unless signed by the Swing Line Lender, (A) modify or amend Section 2.15; or (B) change in any manner, any term or condition applicable to the Swing Line Advances; and (II) no amendment or waiver shall, unless signed by the Issuing Bank, (A) modify or amend Section 2.03; or (B) change in any manner, any term or condition applicable to the Letters of Credit or the Letter of Credit Agreements. The amount of Facing Fees and other fees payable solely to the Issuing Bank for its own account may be amended, from time to time, by the Borrower and the Issuing Bank, without the approval of any of the Banks by the Borrower and the Issuing Bank.

(b) No Loan Party will solicit, request or negotiate for or with respect to any proposed waiver or amendment of any of the provisions of this Agreement unless each Bank shall be informed thereof by the Borrower and shall be afforded an opportunity of considering the same and shall be supplied by the Borrower with sufficient information to enable it to make an informed decision with respect thereto. Executed or true and correct copies of any waiver or consent effected pursuant to the provisions of this Agreement shall be delivered by the Borrower to each Bank forthwith following the date on which the same shall have been executed and delivered by the requisite percentage of Banks. No Loan Party will, directly or indirectly, pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, to any Bank (in its capacity as such) as consideration for or as an inducement to the entering into by such Bank of any waiver or amendment of any of the terms and provisions of this Agreement unless such remuneration is concurrently paid, on the same terms, ratably to all such Banks.

SECTION 9.06. Margin Stock Collateral. Each of the Banks represents to the Agent and each of the other Banks that it in good faith is not, directly or indirectly (by negative pledge or otherwise), relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Agreement.

SECTION 9.07. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided that no Loan Party may assign or otherwise transfer any of its rights under this Agreement.

(b) Any Bank may at any time sell to one or more Persons (each a "Participant") participating interests in any Advance owing to such Bank, any Note held by such Bank, any Commitment hereunder or any other interest of such Bank hereunder. In the event of any such sale by a Bank of a participating interest to a Participant, such Bank's obligations under this Agreement shall remain unchanged, such Bank shall remain solely responsible for the performance thereof, such Bank shall remain the holder of any such Note for all purposes under this Agreement, and the Borrower and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. In no event shall a Bank that sells a participation be obligated to the Participant to take or refrain from taking any action hereunder except that such Bank may agree that it will not (except as provided below), without the consent of the Participant, agree to (i) the change of any date fixed for the payment of principal of or interest on the related Advance or Advances, (ii) the change of the amount of any principal, interest or fees due on any date fixed for the payment thereof with respect to the related Advance or Advances, (iii) the change of the principal of the related Advance or Advances, (iv) any change in the rate at which either interest is payable thereon or (if the Participant is entitled to any part thereof) facility fee is payable hereunder from the rate at which the Participant is entitled to receive interest or facility fee (as the case may be) in respect of such participation, (v) the release or substitution of all or any substantial part of the collateral (if any) held as security for the Obligations, or (vi) the release of any guaranty given to support payment of the Guaranteed Obligations. Each Bank selling a participating interest in any Advance, Note, Commitment or other interest under this Agreement shall, within 10 Domestic Business Days of such sale, provide the Borrower and the Agent with written notification stating

that such sale has occurred and identifying the Participant and the interest purchased by such Participant. The Loan Parties agree that each Participant shall be entitled to the benefits of Article VIII with respect to its participation in Loans outstanding from time to time.

(c) Any Bank may at any time assign to one or more banks or financial institutions (each an "Assignee") all, or a proportionate part of all, of its rights and obligations under this Agreement, the Notes and the other Loan Documents, and such Assignee shall assume all such rights and obligations, pursuant to an Assignment and Acceptance in the form attached hereto as Exhibit J, executed by such Assignee, such transferor Bank and the Agent (and, in the case of: (i) an Assignee that is not then a Bank or an Affiliate of a Bank; and (ii) an assignment not made during the existence of a Default or an Event of Default, by the Borrower); provided that (i) no interest may be sold by a Bank pursuant to this paragraph (c) unless the Assignee shall agree to assume ratably equivalent portions of the transferor Bank's Commitment, (ii) the amount of the Commitment of the assigning Bank being assigned pursuant to such assignment (determined as of the effective date of the assignment) shall be equal to \$5,000,000 (or any larger multiple of \$1,000,000), (iii) no interest may be sold by a Bank pursuant to this paragraph (c) to any Assignee that is not then a Bank or an Affiliate of a Bank without the consent of the Borrower, which consent shall not be unreasonably withheld, provided that the Borrower's consent shall not be necessary with respect to any assignment made during the existence of a Default or an Event of Default; (iv) a Bank may not have more than two Assignees that are not then Banks at any one time, and (v) no interest may be sold by a Bank pursuant to this paragraph (c) to any Assignee that is not then a Bank or an Affiliate of a Bank, without the consent of the Agent, which consent shall not be unreasonably withheld, provided, that although the Agent's consent may not be necessary with respect to an Assignee that is then a Bank or an Affiliate of a Bank, no such assignment shall be effective until the conditions set forth in the following sentence are satisfied. Upon (A) execution of the Assignment and Acceptance by such transferor Bank, such Assignee, the Agent and (if applicable) the Borrower, (B) delivery of an executed copy of the Assignment and Acceptance to the Borrower and the Agent, (C) payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, and (D) payment by the assigning Bank of a processing and recordation fee of \$3,500 to the Agent if the Assignee is not a Bank or Affiliate of a Bank and \$1,000 if the Assignee is a Bank or Affiliate of a Bank, such Assignee shall for all purposes be a Bank party to this Agreement and shall have all the rights and obligations of a Bank under this Agreement to the same extent as if it were an original party hereto with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by the Borrower, the Banks or the Agent shall be required. Upon the consummation of any transfer to an Assignee pursuant to this paragraph (c), the transferor Bank, the Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note is issued to each of such Assignee and such transferor Bank.

(d) Subject to the provisions of Section 9.08, the Loan Parties authorize each Bank to disclose to any Participant, Assignee or other transferee (each a "Transferee") and any prospective Transferee any and all financial and other information in such Bank's possession concerning the Loan Parties which has been delivered to such Bank by the Loan Parties pursuant to this Agreement or which has been delivered to such Bank by the Loan Parties in connection with such Bank's credit evaluation prior to entering into this Agreement.

(e) No Transferee shall be entitled to receive any greater payment under Section 8.03 than the transferor Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Borrower's prior written consent or by reason of the provisions of Section 8.02 or 8.03 requiring such Bank to designate a different Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

(f) Anything in this Section 9.07 to the contrary notwithstanding, any Bank may assign and pledge all or any portion of the Loan and/or obligations owing to it to any Federal Reserve

Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and Operating Circular issued by such Federal Reserve Bank, provided that any payment in respect of such assigned Loan and/or obligations made by the Borrower to the assigning and/or pledging Bank in accordance with the terms of this Agreement shall satisfy the Borrower's obligations hereunder in respect of such assigned Loan and/or obligations to the extent of such payment. No such assignment shall release the assigning and/or pledging Bank from its obligations hereunder.

SECTION 9.08. Confidentiality. Each Bank agrees to exercise its best efforts to keep any information delivered or made available by the Loan Parties to it which is clearly indicated to be confidential information, confidential from anyone other than persons employed or retained by such Bank who are or are expected to become engaged in evaluating, approving, structuring or administering the Loan; provided, however, that nothing herein shall prevent any Bank from disclosing such information (i) to any other Bank, (ii) upon the order of any court or administrative agency, (iii) upon the request or demand of any regulatory agency or authority having jurisdiction over such Bank, (iv) which has been publicly disclosed, (v) to the extent reasonably required in connection with any litigation to which the Agent, any Bank or their respective Affiliates may be a party, (vi) to the extent reasonably required in connection with the exercise of any remedy hereunder, (vii) to such Bank's legal counsel and independent auditors and (viii) to any actual or proposed Participant, Assignee or other Transferee of all or part of its rights hereunder which has agreed in writing to be bound by the provisions of this Section 9.08.

SECTION 9.09. Representation by Banks. Each Bank hereby represents that it is a commercial lender or financial institution which makes loans in the ordinary course of its business and that it will make its Advances hereunder for its own account in the ordinary course of such business; provided, however, that, subject to Section 9.07, the disposition of the Note or Notes held by that Bank shall at all times be within its exclusive control.

SECTION 9.10. Obligations Several. The obligations of each Bank hereunder are several, and no Bank shall be responsible for the obligations or commitment of any other Bank hereunder. Nothing contained in this Agreement and no action taken by the Banks pursuant hereto shall be deemed to constitute the Banks to be a partnership, an association, a joint venture or any other kind of entity. The amounts payable at any time hereunder to each Bank shall be a separate and independent debt, and each Bank shall be entitled to protect and enforce its rights arising out of this Agreement or any other Loan Document and it shall not be necessary for any other Bank to be joined as an additional party in any proceeding for such purpose.

SECTION 9.11. Survival of Certain Obligations. Sections 8.03(a), 8.03(b), 8.05 and 9.03, and the obligations of the Loan Parties thereunder, shall survive, and shall continue to be enforceable notwithstanding, the termination of this Agreement, the Swing Line facility described in Section 2.15 and the Commitments and the payment in full of the principal of and interest on all Advances and Swing Line Advances.

SECTION 9.12. North Carolina Law. This Agreement and each Note shall be construed in accordance with and governed by the law of the State of North Carolina.

SECTION 9.13. Severability. In case any one or more of the provisions contained in this Agreement, the Notes or any of the other Loan Documents should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby and shall be enforced to the greatest extent permitted by law.

SECTION 9.14. Interest. In no event shall the amount of interest due or payable hereunder or under the Notes exceed the maximum rate of interest allowed by applicable law, and in the



event any such payment is inadvertently made to any Bank by the Borrower or inadvertently received by any Bank, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify such Bank in writing that it elects to have such excess sum returned forthwith. It is the express intent hereof that the Borrower not pay and the Banks not receive, directly or indirectly in any manner whatsoever, interest in excess of that which may legally be paid by the Borrower under applicable law.

SECTION 9.15. Interpretation. No provision of this Agreement or any of the other Loan Documents shall be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or dictated such provision.

SECTION 9.16. Consent to Jurisdiction. The Loan Parties (a) submit to personal jurisdiction in the State of North Carolina, the courts thereof and the United States District Courts sitting therein, for the enforcement of this Agreement, the Notes and the other Loan Documents, (b) waives any and all personal rights under the law of any jurisdiction to object on any basis (including, without limitation, inconvenience of forum) to jurisdiction or venue within the State of North Carolina for the purpose of litigation to enforce this Agreement, the Notes or the other Loan Documents, and (c) agrees that service of process may be made upon it in the manner prescribed in Section 9.01 for the giving of notice to the Borrower. Nothing herein contained, however, shall prevent the Agent from bringing any action or exercising any rights against any security and against the Loan Parties personally, and against any assets of the Loan Parties, within any other state or jurisdiction.

SECTION 9.17. Counterparts. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

#### ARTICLE X

#### GUARANTY

SECTION 10.01. Unconditional Guaranty. Each Guarantor hereby irrevocably, unconditionally and jointly and severally guarantees, each as a primary obligor and not merely as a surety, to the Agent, the Issuing Bank and the Banks (including, without limitation, the Swing Line Lender) the due and punctual payment of the principal of and the premium, if any, and interest on the Guaranteed Obligations and any and all other amounts due under or pursuant to the Loan Documents, when and as the same shall become due and payable (whether at stated maturity or by optional or mandatory prepayment or by declaration, redemption or otherwise) in accordance with the terms of the Loan Documents. The Guarantors' guaranty under this Section is an absolute, present and continuing guarantee of payment and not of collectibility, and is in no way conditional or contingent upon any attempt to collect from the Borrower, any of the Guarantors or any other guarantor of the Guaranteed Obligations (or any portion thereof) or upon any other action, occurrence or circumstances whatsoever. In the event that the Borrower or any Guarantor shall fail so to pay any such principal, premium, interest or other amount to the Agent, the Issuing Bank or a Bank, the Guarantors will pay the same forthwith, without demand, presentment, protest or notice of any kind (all of which are waived by the Guarantors to the fullest extent permitted by law), in lawful money of the United States, at the place for payment specified in Loan Documents or specified by such Agent in writing, to such Agent. The Guarantors further agree, promptly after demand, to pay to the Agent, the Issuing Bank and Banks the costs and expenses incurred by such Agent, Issuing Bank or Bank in connection with enforcing the rights of such Agent, Issuing Bank and Banks against the Borrower and any or all of the Guarantors (whether in a bankruptcy proceeding or otherwise) following any default in payment of any of the Guaranteed Obligations or the obligations of the Guarantors hereunder, including, without limitation, the fees and expenses of counsel to the Agent, Issuing Bank and such Banks.

SECTION 10.02. Obligations Absolute. The obligations of the Guarantors hereunder are and shall be absolute and unconditional, irrespective of the validity, regularity or enforceability of this Agreement, any of the Guaranteed Obligations or any of the Loan Documents, shall not be subject to any counterclaim, set-off, deduction or defense based upon any claim any of the Guarantors may have against the Borrower, any other Guarantor or the Agent, Issuing Bank or any Bank hereunder or otherwise, and shall remain in full force and effect without regard to, and shall not be released, discharged or in any way affected by, to the fullest extent permitted by law, any circumstance or condition whatsoever (whether or not any of the Guarantors shall have any knowledge or notice thereof), including, without limitation:

(a) any amendment or modification of or supplement to any of the Loan Documents or any other instrument referred to herein or therein, or any assignment or transfer of any thereof or of any interest therein, or any furnishing or acceptance of additional security for any of the Guaranteed Obligations;

(b) any waiver, consent or extension under any Loan Document or any such other instrument, or any indulgence or other action or inaction under or in respect of, or any extensions or renewals of, any Loan Document, any such other instrument or any Guaranteed Obligation;

(c) any failure, omission or delay on the part of the Agent to enforce, assert or exercise any right, power or remedy conferred on or available to the Agent, the Issuing Bank or any Bank against the Borrower or any Guarantor, any Subsidiary of the Borrower or any other Guarantor;

(d) any bankruptcy, insolvency, readjustment, composition, liquidation or similar proceeding with respect to the Borrower, any Subsidiary of the Borrower or any Guarantor or any property of the Borrower or any such Subsidiary or any unavailability of assets against which the Guaranteed Obligations, or any of them, may be enforced;

(e) any merger or consolidation of the Borrower, any Subsidiary of the Borrower or any Guarantor or any of the Guarantors into or with any other Person or any sale, lease or transfer of any or all of the assets of any of the Guarantors, the Borrower or any Subsidiary of the Borrower to any Person;

(f) any failure on the part of the Borrower or any Subsidiary of the Borrower or any Guarantor for any reason to comply with or perform any of the terms of any agreement with any of the Guarantors;

(g) any exercise or non-exercise by the Agent, the Issuing Bank or any Bank, of any right, remedy, power or privilege under or in respect of any of the Loan Documents or the Guaranteed Obligations, including, without limitation, under this Section;

(h) any default, failure or delay, willful or otherwise, in the performance or payment of any of the Guaranteed Obligations;

(i) any furnishing or acceptance of security, or any release, substitution or exchange thereof, for any of the Guaranteed Obligations;

(j) any failure to give notice to any of the Guarantors of the occurrence of any breach or violation of, or any event of default or any default under or with respect to, any of the Loan Documents or the Guaranteed Obligations;

(k) any partial prepayment, or any assignment or transfer, of any of the Guaranteed Obligations; or

(1) any other circumstance (other than indefeasible payment in full) which might otherwise constitute a legal or equitable discharge or defense of a guarantor or which might in any manner or to any extent vary the risk of such Guarantor.

The Guarantors covenant that their respective obligations hereunder will not be discharged except by complete performance of the obligations contained in the Loan Documents and this Agreement and the final and indefeasible payment in full of the Guaranteed Obligations. The Guarantors unconditionally waive, to the fullest extent permitted by law (A) notice of any of the matters referred to in this Section, (B) any and all rights which any of the Guarantors may now or hereafter have arising under, and any right to claim a discharge of the Guarantor's obligations hereunder by reason of the failure or refusal by the Agent, the Issuing Bank or any Bank to take any action pursuant to a notice given under, Sections 26-7, 26-8 or 26-9 of the North Carolina General Statutes or any similar or successor provisions, (C) all notices which may be required by statute, rule of law or otherwise to preserve any of the rights of the Agent, the Issuing Bank or any Bank against the Guarantors, including, without limitation, presentment to or demand of payment from the Borrower, any of the Borrower's Subsidiaries or any of the other Guarantors with respect to any Loan Document or this agreement, notice of acceptance of the Guarantors' guarantee hereunder and/or notice to the Borrower, any of the Borrower's Subsidiaries or any Guarantor of default or protest for nonpayment or dishonor, (D) any diligence in collection from or protection of or realization upon all or any portion of the Guaranteed Obligations or any security therefor, any liability hereunder, or any party primarily or secondarily liable for all or any portion of the Guaranteed Obligations, and (E) any duty or obligation of the Agent, the Issuing Bank or any Bank to proceed to collect all or any portion of the Guaranteed Obligations from, or to commence an action against, the Borrower, any Guarantor or any other Person, or to resort to any security or to any balance of any deposit account or credit on the books of the Agent, the Issuing Bank or any Bank in favor of the Borrower, any Guarantor or any other Person, despite any notice or request of any of the Guarantors to do so.

SECTION 10.03. Continuing Obligations; Reinstatement. The obligations of the Guarantors under this Article X are continuing obligations and shall continue in full force and effect until such time as all of the Guaranteed Obligations (and any renewals and extensions thereof) shall have been finally and indefeasibly paid and satisfied in full. The obligations of the Guarantors under this Article X shall continue to be effective or be automatically reinstated, as the case may be, if any payment made by the Borrower, any Guarantor or any Subsidiary of the Borrower or any Guarantor on, under or in respect of any of the Guaranteed Obligations is rescinded or must otherwise be restored or returned by the recipient upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower, any Guarantor or any such Subsidiary, or upon or as a result of the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to the Borrower, any Guarantor or any such Subsidiary or any substantial part of the property of the Borrower, any Guarantor or any such Subsidiary, or otherwise, all as though such payment had not been made. If an event permitting the acceleration of all or any portion of the Guaranteed Obligations shall at any time have occurred and be continuing, and such acceleration shall at such time be stayed, enjoined or otherwise prevented for any reason, including without limitation because of the pendency of a case or proceeding relating to the Borrower, any Guarantor or any Subsidiary of the Borrower or any Guarantor under any bankruptcy or insolvency law, for purposes of this Article X and the obligations of the Guarantors hereunder, such Guaranteed Obligations shall be deemed to have been accelerated with the same effect as if such Guaranteed Obligations had been accelerated in accordance with the terms of the applicable Loan Documents or of this Agreement.

SECTION 10.04. Additional Security, Etc. The Guarantors authorize the Agent on behalf of the Issuing Bank and Banks without notice to or demand on the Guarantors and without affecting their liability hereunder, from time to time (a) to obtain additional or substitute endorsers or guarantors; (b) to exercise or refrain from exercising any rights against, and grant indulgences to, the Borrower, any Subsidiary of the Borrower, any other Guarantor or others; and (c) to apply any sums, by whomsoever paid or however realized, to the payment of the principal of, premium, if any, and interest on, and other obligations consisting of, the Guaranteed Obligations. The Guarantors waive any right to require the

Agent, the Issuing Bank or any Bank to proceed against any additional or substitute endorsers or guarantors or the Borrower or any of their Subsidiaries or any other Person or to pursue any other remedy available to the Agent, the Issuing Bank or any such Bank.

SECTION 10.05. Information Concerning the Borrowers. The Guarantors assume all responsibility for being and keeping themselves informed of the financial condition and assets of the Borrower, the other Guarantors and their respective Subsidiaries, and of all other circumstances bearing upon the risk of nonpayment of the Guaranteed Obligations and the nature, scope and extent of the risks which the Guarantors assume and insure hereunder, and agree that neither the Agent, the Issuing Bank nor any Bank shall have any duty to advise the Guarantors of information known to the Agent, the Issuing Bank or any such Bank regarding or in any manner relevant to any of such circumstances or risks.

SECTION 10.06. Guarantors' Subordination. The Guarantors hereby absolutely subordinate, both in right of payment and in time of payment, any present and future indebtedness of the Borrower or any Subsidiary of the Borrower or any Guarantor to any or all of the Guarantors to the indebtedness of the Borrower or any such Subsidiary to the Issuing Bank or the Banks (or any of them), provided that the Guarantors may receive scheduled payments of principal, premium (if any) and interest in respect of such present or future indebtedness so long as there is no Event of Default then in existence.

SECTION 10.07. Waiver of Subrogation. Notwithstanding anything herein to the contrary, the Guarantors hereby waive any right of subrogation (under contract, Section 509 of the Bankruptcy Code or otherwise) or any other right of indemnity, reimbursement or contribution and hereby waive any right to enforce any remedy that the Agent, the Issuing Bank or any Bank now has or may hereafter have against the Borrower, any Guarantor or any endorser or any other guarantor of all or any part of the Guaranteed Obligations, and the Guarantors hereby waive any benefit of, and any right to participate in, any security or collateral given to the Agent, the Issuing Bank or any Bank to secure payment or performance of the Guaranteed Obligations or any other liability of the Borrower to the Agent, the Issuing Bank or any Bank. The waiver contained in this Section shall continue and survive the termination of this Agreement and the final and indefeasible payment in full of the Guaranteed Obligations.

SECTION 10.08. Enforcement. In the event that the Guarantors shall fail forthwith to pay upon demand of the Agent, the Issuing Bank or any Bank any amounts due pursuant to this Article X or to perform or comply with or to cause performance or compliance with any other obligation of the Guarantors under this Agreement, the Agent, the Issuing Bank or any Bank shall be entitled and empowered to institute any action or proceeding at law or in equity for the collection of the sums so due and unpaid or for the performance of or compliance with such terms, and may prosecute any such action or proceeding to judgment or final decree and may enforce such judgment or final decree against the Guarantors and collect in the manner provided by law out of the property of the Guarantors, wherever situated, any monies adjudged or decreed to be payable. The obligations of the Guarantors under this Agreement are continuing obligations and a fresh cause of action shall arise in respect of each default hereunder.

SECTION 10.09. Miscellaneous. Except as may otherwise be expressly agreed upon in writing, the liability of the Guarantors under this Article X shall neither affect nor be affected by any prior or subsequent guaranty by the Guarantors of any other indebtedness to the Agent, the Issuing Bank or the Banks. Notwithstanding anything in this Article X to the contrary, the maximum liability of each Guarantor hereunder shall in no event exceed the maximum amount which could be paid out by such Guarantor without rendering such Guarantor's obligations under this Article X, in whole or in part, void or voidable under applicable law, including, without limitation, (i) the Bankruptcy Code of 1978, as amended, and (ii) any applicable state or federal law relative to fraudulent conveyances.

[The remainder of this page intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed, under seal, by their respective authorized officers as of the day and year first above written.

BASSETT FURNITURE INDUSTRIES, INCORPORATED  
(SEAL)

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

Title:

c/o Bassett Furniture Industries, Incorporated  
3525 Fairystone Park Highway  
P.O. Box 626  
Bassett, Virginia 24055  
Attention: Grover Elliott  
Telecopy number: (540) 629-6332  
Telephone number: (540) 629-6700

BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA,  
INC.

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

Title:

c/o Bassett Furniture Industries, Incorporated  
3525 Fairystone Park Highway  
P.O. Box 626  
Bassett, Virginia 24055  
Attention: Grover Elliott  
Telecopy number: (540) 629-6332  
Telephone number: (540) 629-6700

THE E.B. MALONE CORPORATION

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

Title:

c/o Bassett Furniture Industries, Incorporated  
3525 Fairystone Park Highway  
P.O. Box 626  
Bassett, Virginia 24055  
Attention: Grover Elliott  
Telecopy number: (540) 629-6332  
Telephone number: (540) 629-6700

BASSETT DIRECT STORES, INC.

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

c/o Bassett Furniture Industries, Incorporated  
3525 Fairystone Park Highway  
P.O. Box 626  
Bassett, Virginia 24055  
Attention: Grover Elliott  
Telecopy number: (540) 629-6332  
Telephone number: (540) 629-6700

BASSETT DIRECT NC, LLC

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

c/o Bassett Furniture Industries, Incorporated  
3525 Fairystone Park Highway  
P.O. Box 626  
Bassett, Virginia 24055  
Attention: Grover Elliott  
Telecopy number: (540) 629-6332  
Telephone number: (540) 629-6700

BASSETT DIRECT SC, LLC

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

c/o Bassett Furniture Industries, Incorporated  
3525 Fairystone Park Highway  
P.O. Box 626  
Bassett, Virginia 24055  
Attention: Grover Elliott  
Telecopy number: (540) 629-6332  
Telephone number: (540) 629-6700

COMMITMENTS  
- - - - -

\$35,000,000.00  
(Letter of Credit

BRANCH BANKING AND TRUST COMPANY, as Agent,  
Issuing Bank and as a Bank

Commitment: \$7,500,000)

By: \_\_\_\_\_ (SEAL)

Title:

Lending Office

-----  
Branch Banking and Trust Company  
110 South Stratford Road, Suite 301  
Winston-Salem, North Carolina 27104  
Attention: Cory Boyte  
Telecopy number: (336) 733-3254  
Telephone number: (336) 733-3259



\$15,000,000.00  
(Letter of Credit  
Commitment: \$3,214,000)

COMPASS BANK

By: \_\_\_\_\_ (SEAL)

Title:

Lending Office

-----

Compass Bank  
15 South 20th Street  
Birmingham, Alabama 35233  
Attention: T. Ray Sandefur  
Telecopy number: (205) 715-7212  
Telephone number: (205) 933-3652

\$10,000,000.00  
(Letter of Credit  
Commitment: \$2,143,000)

FIFTH THIRD BANK

By: \_\_\_\_\_ (SEAL)

Title:

Lending Office

-----

Fifth Third Bank  
38 Fountain Square Plaza  
MD 10904K  
Cincinnati, Ohio 45263  
Attention: Timothy L. Kerr  
Telecopy number: (513) 744-5845  
Telephone number: (513) 744-7246

\$10,000,000.00  
(Letter of Credit  
Commitment: \$2,143,000)

FIRST TENNESSEE BANK NATIONAL ASSOCIATION

By: \_\_\_\_\_ (SEAL)

Title:

Lending Office  
-----

First Tennessee Bank National Association  
2112 North Roan Street  
Johnson City, Tennessee 37601  
Attention: J. Michael Blackwell  
Telecopy number: (423) 461-1208  
Telephone number: (423) 461-1262

TOTAL COMMITMENTS:  
\$70,000,000.00

## SCHEDULE 4.08

## Existing Subsidiaries

Name of Subsidiary -----	Jurisdiction of Incorporation -----
Bassett Furniture Industries of North Carolina, Inc.	North Carolina
The E.B. Malone Corporation	Delaware
Bassett Direct Stores, Inc.	Virginia
Bassett Direct NC, LLC	Virginia
Bassett Direct SC, LLC	Virginia

## Schedule 5.01(n)

The Borrower shall deliver the following financial statements with regard to the following parties under Section 5.01(n):

1. With regard to IHFC: (i) Internally prepared, quarterly statement of operations; and (ii) an audited, annual financial statement;
2. With regard to the Basset Asset Fund: (i) Internally prepared, monthly statement of the fund balance; and (ii) an audited, annual financial statement; and
3. With respect to LRG Group, LLC: (i) Internally prepared, quarterly statement of operations; and (ii) an unaudited (or if available, audited) annual financial statement; and
4. With respect to all other Affiliates of the Borrower or any Consolidated Subsidiary: (i) an internally prepared, quarterly statement of operations; and (ii) an unaudited annual financial statement; and
5. Such other information as the Agent or any Bank may reasonably request. All of the foregoing shall include a consolidated balance sheet as of the end of the applicable fiscal period, the related statement of income and statement of cash flows for such fiscal period and for the portion of the fiscal year then ended.

## BASSETT FURNITURE INDUSTRIES, INCORPORATED

## 1993 STOCK PLAN FOR NON-EMPLOYEE DIRECTORS, AS AMENDED

1. PURPOSE. This Plan is intended to provide Directors who are not employees of the Company a sense of proprietorship and personal involvement in the development and financial success of the Company and to encourage such Directors to remain with and to devote their best efforts to the Company.

2. DEFINITIONS. Whenever used in the Plan, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

(a) "Award" means an award pursuant to Sections 8 through 10 of the Plan.

(b) "Automatic Award Date" means April 1 of each year.

(c) "Board" or "Board of Directors" means the Board of Directors of the Company.

(d) "Common Stock" means the Common Stock, \$5.00 par value, of the Company and any other stock or securities resulting from the adjustment thereof or substitution therefor as described in Section 11 below.

(e) "Company" means Bassett Furniture Industries, Incorporated, a Virginia corporation, and any corporation succeeding to the Company's rights and obligations hereunder.

(f) "Compensation" means the annual fee payable by the Company to a Director for a year of service as a Director without reduction for withholding taxes and exclusive of (i) reimbursement for expenses, (ii) meeting attendance fees and (iii) the value of any fringe benefits which the Director receives or is entitled to receive as a Director of the Company.

(f) "Director" means a member of the Board of Directors of the Company who is not a regular employee of the Company or its subsidiaries.

(h) "Disability" means the condition which results when an individual has become permanently and totally disabled within the meaning of Section 72(m)(7) of the Internal Revenue Code of 1986.

(i) "Election" means an election to receive an Award made pursuant to Section 9 of the Plan.

(j) "Elective Award" means an award made pursuant to an Election under Section 9 of the Plan.

(k) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(l) "Fair Market Value", with respect to a share of the Common Stock on a particular date, shall be (i) if such Common Stock is listed on a national securities exchange or a foreign securities exchange or traded on the NASDAQ National Market System, the closing sale price of the Common Stock on said date on the national securities exchange, the foreign securities exchange or the NASDAQ national Market System on which the Common Stock is principally traded, or, if no sales occur on said date, then on the next preceding date on which there were such sales of Common Stock, or (ii) if the Common Stock shall not be listed on a national securities exchange or a foreign securities exchange or traded on the NASDAQ National Market System, the mean between the highest and lowest prices reported by the National Association of Securities Dealers, Inc. for the over-the-counter market on said date or, if the highest and lowest prices are not reported on said date, then on the next preceding date on which there were such quotations, or (iii) if at any time quotations for the Common Stock shall not be reported by the National Association of Securities Dealers, Inc. for the over-the-counter market and the Common Stock shall not be listed on any national securities exchange or any foreign securities exchange or traded on the NASDAQ National Market System, the fair market value based on quotations for the Common Stock by market makers or other securities dealers as determined by the Board of Directors in such manner as the Board may deem reasonable.

(m) "Option" means a stock option granted pursuant to this Plan.

(n) "Optionee" means the person to whom an Option is granted.

(o) "Option Price" is defined in Section 6.

(p) "Plan" means this 1993 Stock Plan for Non-Employee Directors, as in effect from time to time.

(q) "Stock Option Agreement" means the written agreement between an Optionee and the Company evidencing the grant of an Option under the Plan and setting forth or incorporating the terms and conditions thereof.

3. ADMINISTRATION. The Plan shall be administered by the Board of Directors. The Board shall have all of the powers necessary to enable it properly to carry out its duties under the Plan, including but not limited to the power and duty to construe and interpret the Plan and to determine all questions that shall arise under the Plan, which interpretations and determinations shall be conclusive and binding upon all persons. Subject to the express provisions of the Plan, the Board may establish from time to time such regulations, provisions and procedures which in its opinion may be advisable in the administration of the Plan.

Notwithstanding the foregoing or any other provision of this Plan to the contrary, no discretion concerning decisions regarding the Plan shall be afforded to a person who is not a

"disinterested person" (as defined in the rules and regulations of the Securities and Exchange Commission under Section 16 of the Act, as in effect from time to time). In the event that it is necessary for the proper administration of the Plan to exercise any such discretion, and the Board is so precluded from exercising such discretion, the Board may delegate any authority to exercise such discretion to a person or committee of persons, each of whom is a "disinterested person" as so defined.

4. ELIGIBILITY; OPTION GRANTS. Each Director shall automatically be granted an option to purchase 2,500 shares of the Common Stock upon his or her initial election to the Board of Directors, and shall automatically be granted an option to purchase 1,000 shares of Common Stock on the Automatic Award Date of each year beginning on April 1, 1994; provided, however, that such automatic grants shall be (i) made pro rata to all Directors if on the date of a grant there shall not be a number of shares sufficient to make all such grants and (ii) subject to adjustment or substitution pursuant to Section 11 hereof from the date hereof, irrespective of whether such option has been granted.

5. SHARES AVAILABLE. The Board of Directors shall reserve for the purposes of the Plan, and by adoption of the Plan does hereby reserve, out of the authorized but unissued Common Stock, a total of 125,000 shares of Common Stock of the Company (subject to adjustment or substitution pursuant to Section 11 hereof). In the event that an Option granted or Award under the Plan to any Director expires or is terminated unexercised or is forfeited as to any shares covered thereby, such shares shall again be available for the granting of Options or Awards under the Plan.

6. OPTION PRICE. The price at which each share of Common Stock (subject to adjustment pursuant to Section 11 hereof) may be purchased upon the exercise of an Option (the "Option Price") shall be the Fair Market Value of the shares of Common Stock subject to the Option on the date such Option is granted.

7. EXERCISE OF OPTIONS.

(a) Each option granted under the Plan by its terms shall require the Director granted such option to remain available to serve as a Director of the Company for six months from the date of the grant of such option before the right to exercise any part of such option will accrue. A Director may thereafter exercise any or all of such option until the expiration or termination of the option; provided, that not less than 100 shares may be purchased at any one time unless the number of shares purchased is the total number at such time purchasable under the option. Subject to earlier termination as provided herein, all options granted under this Plan shall expire ten years from the date of grant thereof.

(b) If an optionee shall cease to be a Director of the Company otherwise than by reason of such optionee's death or Disability or a Change of Control (as hereinafter defined), then, subject to Subsection 7(a) hereof, the option shall be exercisable at any time prior to the earlier of (i) the expiration date of such option or (ii) that date which is three years from the date such optionee ceases to be a Director, such three month period



to include the date on which such termination occurs. If an Optionee ceases to be a Director of the Company as a result of such optionee's death or Disability, then, subject to Subsection 7(a) hereof, the option shall be exercisable at any time prior to the earlier of (i) the expiration date of such option or (ii) that date which is one year from the date such optionee ceases to be a Director. If an optionee ceases to be a Director by reason of a Change of Control, then such option shall be exercisable in full, whether or not it is exercisable on the date of such termination, at any time prior to the earlier of (i) the expiration date of such option or (ii) that date which is one year from the date such optionee ceases to be a Director.

(c) Each Option granted under the Plan by its terms shall not be transferable by the Optionee otherwise than by will, or if the Optionee dies intestate, by the laws of descent and distribution, and such Option shall be exercisable during such Optionee's lifetime only by such Optionee. In the event of the death of an Optionee, then, subject to Subsection 7(a) hereof, such Optionee's Options shall be exercisable to the extent herein provided by the executor or personal representative of the Optionee's estate or by any person who acquired the right to exercise such Option by bequest under the Optionee's will or by inheritance.

(d) Each Option shall be confirmed by a Stock Option Agreement executed by the Company and by the Optionee to whom such Option is granted.

(e) The Option Price for each share of Common Stock purchased pursuant to the exercise of each Option shall, at the time of the exercise of the Option, be paid in full in cash or equivalent. An Option shall be deemed exercised only when written notice of such exercise, together with payment of the Option Price, is received from the Optionee by the Company at its principal office. No Optionee shall have any rights as a shareholder of the Company with respect to Common Stock issuable pursuant to such Optionee's Option until such Option is duly exercised.

(f) To the extent that an Option is not exercised within the period of time prescribed therefor as set forth in the Plan, the Option shall lapse and all rights of the Optionee thereunder shall terminate.

8. AUTOMATIC SHARE AWARDS. As of each Automatic Award Date, each Director shall receive, in lieu of 50% of the Director's Compensation, the number of shares of Common Stock determined by dividing (i) an amount equal to 50% of the Director's Compensation by (ii) the Fair Market Value of a share of the Common Stock on the Award Date.

9. ELECTIVE GRANT OF COMMON STOCK. Each Director may, in addition to the automatic share awards provided for in Section 8, elect to receive a percentage of the Director's remaining Compensation in the form of Common Stock. The election may be for any percentage of the Director's remaining Compensation (after reduction for the automatic share award provided for in Section 8) up to 100%. Such election must specify the percentage of the Director's remaining Compensation that is to be paid in Common Stock and must be made in writing no later than September 1 of the year in which the election is made. The Director will

receive his or her Elective Grant of Common Stock on October 1 of such year. The total number of shares of Common Stock to be issued pursuant to an Elective Award shall be determined by dividing the amount of the Director's Compensation that is to be paid in Common Stock by the Fair Market Value of a share of the Common Stock on the date the Award is made.

10. FRACTIONAL SHARES. In no event shall the Company be required to issue fractional shares. Whenever under the terms of Section 8 or 9 a fractional share of Common Stock would otherwise be required to be issued, an amount in lieu thereof shall be paid in cash based upon the Fair Market Value of such fractional share on the date of the Award.

11. ADJUSTMENT OF NUMBER OF SHARES. In the event that a dividend shall be declared upon the Common Stock payable in shares of Common Stock, the number of shares of Common Stock then subject to any Option or Award and the number of shares reserved for issuance pursuant to the Plan but not yet covered by an Option or an Award shall be adjusted by adding to each such share the number of shares which would be distributable thereon if such share had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend. In the event that the outstanding shares of Common Stock generally shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation, or changed into or exchanged for cash or property or the right to receive cash or property (but not including any dividend payable in cash or property other than a liquidating distribution), whether through reorganization, recapitalization, stock split-up, combination of shares, merger or consolidation, then there shall be substituted for each share of Common Stock subject to any Option or Award, and for each share of Common Stock reserved for issuance pursuant to the Plan but not yet covered by an Option or an Award, the number and kind of shares of stock or other securities or cash or property or the right to receive cash or property into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged. In the case of any such substitution or adjustment as provided for in this Section 11, the aggregate Option Price for each share or shares covered thereby prior to such substitution or adjustment shall be the aggregate Option Price for all shares of stock or other securities or cash or property or the right to receive cash or property which shall have been substituted for such share or shares or to which such share or shares shall have been adjusted pursuant to this Section 11. No adjustment or substitution provided for in this Section 11 shall require the Company in any Stock Option Agreement or Elective Award Agreement to issue a fractional share and the total substitution or adjustment with respect to each Stock Option Agreement or Elective Award Agreement shall be limited accordingly.

12. CHANGE OF CONTROL.

(a) In the event of a Change of Control (as defined below) of the Company, all Stock Options then outstanding shall become fully exercisable as of the date of the Change of Control, whether or not then exercisable, subject to the limitation that any Stock Option which has been outstanding less than six months on the date of the Change of Control shall not be afforded such treatment.

(b) A "Change of Control" of the Company means, and shall be deemed to have occurred upon any of the following events:

(i) The acquisition by any person, individual, entity or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (collectively, Persons) of beneficial ownership (the phrases "beneficial ownership", "beneficial owners" and "beneficially owned" as used herein being within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (i) the then outstanding shares of common stock of the Company (the Outstanding Company Common Stock) or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); provided, however, that the following acquisitions shall not constitute a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company or any of its subsidiaries, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries, (iv) any acquisition by any corporation with respect to which, following such acquisition, more than 75% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors are then beneficially owned by all or substantially all of the Persons who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such acquisition in substantially the same proportions as their beneficial ownership, immediately prior to such acquisition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

(ii) Individuals who, as of August 2, 1989, constitute the Board of Directors of the Company (the Incumbent Board) cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual who becomes a director subsequent to August 2, 1989 and whose election, or whose nomination for election by the Company's shareholders, to the Board of Directors was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act), other actual or threatened solicitation of proxies or consents or an actual or threatened tender offer; or

(iii) Approval by the shareholders of the Company of a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the Persons who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own more

than 75% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such reorganization, merger or consolidation in substantially the same proportions as their beneficial ownership, immediately prior to such reorganization, merger or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

(iv) Approval by the shareholders of the Company of (i) a complete liquidation or dissolution of the Company or (ii) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, more than 75% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned by all or substantially all of the Persons who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their beneficial ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be.

13. AMENDMENT OF PLAN. The Board of Directors shall have the right to amend, suspend or terminate the Plan at any time; provided that, except as and to the extent authorized and permitted by Section 11 above, (a) without stockholder approval, no amendment may be made that would increase the number of shares of Common Stock issuable under the Plan or allow the exercise price of options or the price of share awards made pursuant to Section 8 or 9 to be less than the Fair Market Value of the Common Stock on the date of grant, (b) no amendment, suspension or termination shall adversely affect the rights of any Optionee as to any outstanding Option without the consent of such Optionee, subject to any limitation on such rights set forth in the Plan or such Optionee's Stock Option Agreement except for any amendment the Board deems necessary to preserve or provide exemptions from the applicability of Section 16(b) of the Exchange Act to the grant, lapse, disposition, cancellation or exercise of Options; and (c) no amendment relating to the determination of the Optionees or of the grant dates, of the number of Options granted to any Optionee or of the Option Price, shall be made more than once every six months, other than to comport with changes in the Internal Revenue Code of 1986, the Employee Retirement Income Security Act or the rules thereunder. In no event shall the Board of Directors have the right to amend the Plan to provide that discretion concerning decisions regarding the Plan shall be afforded to a person who is not a "disinterested person" under Section 16(b) of the Exchange Act.

14. RESALES OF SHARES. The Company may impose such restrictions on the sale or other disposition of shares issued pursuant to the exercise of Options or upon the payment of an Award as the Board deems necessary to comply with applicable securities laws. Certificates for shares issued upon the exercise of Options or the payment of Awards may bear such legends as the Company deems necessary to give notice of such restrictions.

15. COMPLIANCE WITH LAW AND OTHER CONDITIONS. No shares shall be issued pursuant to the exercise of any Option or the payment of any Award granted under the Plan prior to compliance by the Company, to the satisfaction of its counsel, with any applicable laws. The Company shall not be obligated to (but may in its discretion) take any action under applicable federal or state securities laws (including registration or qualification of the Plan, the Options or the Common Stock) necessary for compliance therewith in order to permit the issuance of shares upon the granting of Awards or upon the exercise of Options or the immediate resale thereof by Optionees, except for actions (other than registration or qualification) that may be taken by the Company without unreasonable effort or expense and without the incurrence of any material exposure to liability.

16. NONQUALIFIED OPTIONS. Options granted under the Plan will not be treated as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986.

17. EFFECTIVE DATE AND DURATION. The Plan shall be effective on November 3, 1993, subject to approval of the Plan by the holders of a majority of the shares presented or represented at the 1994 Annual Meeting of Shareholders. The Plan shall terminate on October 31, 2003.

CONSOLIDATED BALANCE SHEETS  
 Bassett Furniture Industries, Incorporated and Subsidiaries  
 November 25, 2000, and November 27, 1999  
 (dollars in thousands except per share data)

ASSETS	2000	1999
	-----	-----
Current Assets		
Cash and cash equivalents	\$ 3,259	\$ 5,740
Trade accounts receivable, net	70,309	64,731
Inventories	50,201	50,206
Refundable income taxes	580	1,006
Deferred income taxes	6,457	9,314
Other current assets	6,069	5,260
	-----	-----
	136,875	136,257
	-----	-----
PROPERTY AND EQUIPMENT, NET	93,972	93,155
	-----	-----
OTHER ASSETS		
Investment securities	15,043	23,057
Investments in affiliated companies	69,972	67,558
Deferred income taxes	2,061	-
Other	28,757	22,802
	-----	-----
	115,833	113,417
	-----	-----
	\$ 346,680	\$ 342,829
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 20,310	\$ 30,122
Accrued liabilities	21,583	26,806
	-----	-----
	41,893	56,928
	-----	-----
LONG-TERM LIABILITIES		
Employee benefits	10,647	10,998
Notes payable	45,000	18,000
Deferred income taxes	-	1,152
	-----	-----
	55,647	30,150
	-----	-----
COMMITMENTS AND CONTINGENCIES (NOTES G, O AND P)		
STOCKHOLDERS' EQUITY		
Common stock, par value \$5 a share, 50,000,000 shares authorized, issued and outstanding - 11,764,760 in 2000 and 12,094,769 in 1999	58,824	60,474
Additional paid-in capital	-	-
Retained earnings	185,293	187,973
Accumulated other comprehensive income - unrealized holding gains, net of income tax	5,418	7,993
Unamortized stock compensation	(395)	(689)
	-----	-----
	249,140	255,751
	-----	-----
	\$ 346,680	\$ 342,829
	=====	=====

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

## CONSOLIDATED STATEMENTS OF INCOME

Bassett Furniture Industries, Incorporated and Subsidiaries

For the years ended November 25, 2000, November 27, 1999 and November 28, 1998

(dollars in thousands except per share data)

	2000	1999	1998
Net sales	\$ 367,444	\$ 394,412	\$ 397,557
Cost of sales	302,281	309,316	323,904
Gross profit	65,163	85,096	73,653
Selling, general and administrative expenses	61,679	72,622	64,002
Restructuring and impaired fixed asset charges	6,680	-	-
Income (loss) from operations	(3,196)	12,474	9,651
Equity in undistributed income of affiliated companies	10,172	12,587	5,784
Interest expense	(4,508)	(1,012)	-
Other income, net	12,599	2,169	5,661
Income before income taxes and cumulative effect of accounting change	15,067	26,218	21,096
Income taxes	(4,671)	(8,264)	(5,379)
Income before cumulative effect of accounting change	10,396	17,954	15,717
Cumulative effect of accounting change, net of income tax	(364)	-	-
Net income	\$ 10,032	\$ 17,954	\$ 15,717
Net income per share			
Basic earnings per share:			
Income before cumulative effect of accounting change	\$ 0.88	\$ 1.44	\$ 1.21
Cumulative effect of accounting change	(0.03)	-	-
Net income per share	\$ 0.85	\$ 1.44	\$ 1.21
Diluted earnings per share:			
Income before cumulative effect of accounting change	\$ 0.88	\$ 1.44	\$ 1.20
Cumulative effect of accounting change	(0.03)	-	-
Net income per share	\$ 0.85	\$ 1.44	\$ 1.20

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 Bassett Furniture Industries, Incorporated and Subsidiaries  
 For the years ended November 25, 2000, November 27, 1999, and November 28, 1998  
 (dollars in thousands except per share data)

	Common Stock		Additional paid-in Capital	Retained earnings	Accumulated other comprehensive income	Unamortized stock compensation	Total
	Shares	Amount					
	-----	-----					
BALANCE, NOVEMBER 30, 1997	13,051,279	\$ 65,256	\$ 2,438	\$ 188,761	\$ 5,575	\$ (860)	\$ 261,170
Net Income	--	--	--	15,717	--	--	15,717
Net change in unrealized holding gains	--	--	--	--	2,711	--	2,711
Comprehensive Income							18,428
Dividends (\$.80 per share)	--	--	--	(10,393)	--	--	(10,393)
Issuance of common stock	573	3	12	--	--	--	15
Purchase and retirement of common stock	(185,300)	(927)	(2,896)	(955)	--	--	(4,778)
Issuance of restricted stock	16,836	85	459	--	--	(544)	--
Forfeitures of restricted stock	(9,435)	(47)	(224)	--	--	271	--
Amortization of stock compensation	--	--	--	--	--	204	204
Exercise of stock options	11,000	55	211	--	--	--	266
BALANCE, NOVEMBER 28, 1998	12,884,953	64,425	--	193,130	8,286	(929)	264,912
Net Income	--	--	--	17,954	--	--	17,954
Net change in unrealized holding gains	--	--	--	--	(293)	--	(293)
Comprehensive Income							17,661
Dividends (\$.80 per share)	--	--	--	(9,983)	--	--	(9,983)
Issuance of common stock	2,806	14	45	--	--	--	59
Purchase and retirement of common stock	(792,990)	(3,965)	(45)	(13,128)	--	--	(17,138)
Amortization of stock compensation	--	--	--	--	--	240	240
BALANCE, NOVEMBER 27, 1999	12,094,769	60,474	--	187,973	7,993	(689)	255,751
Net Income	--	--	--	10,032	--	--	10,032
Net change in unrealized holding gains	--	--	--	--	(2,575)	--	(2,575)
Comprehensive Income							7,457
Dividends (\$.80 per share)	--	--	--	(9,497)	--	--	(9,497)
Issuance of common stock	9,288	46	82	--	--	--	128
Purchase and retirement of common stock	(332,083)	(1,660)	(133)	(2,923)	--	--	(4,716)
Issuance of restricted stock	4,724	24	51	--	--	(75)	--
Forfeitures of restricted stock	(11,938)	(60)	--	(292)	--	352	--
Amortization of stock compensation	--	--	--	--	--	17	17
BALANCE, NOVEMBER 25, 2000	11,764,760	\$ 58,824	\$ --	\$ 185,293	\$ 5,418	\$ (395)	\$ 249,140

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



## CONSOLID STATEMENTS OF CASH FLOWS

Bassett Furniture Industries, Incorporated and Subsidiaries for the years ended  
November 25, 2000 November 27, 1999 and November 28, 1998  
(dollars in thousands)

	2000	1999	1998
	-----	-----	-----
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 10,032	\$ 17,954	\$ 15,717
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	10,032	8,386	6,870
Equity in undistributed income of affiliated companies	(10,172)	(12,587)	(5,784)
Provision for writedown of property and equipment	5,800	--	2,000
Provision for losses on trade accounts receivable	3,150	358	216
Net (gain) from sales of investment securities	(2,356)	(1,795)	(1,446)
Net (gain) from sales of property and equipment	(175)	(89)	(2,402)
Compensation earned under restricted stock and stock option plans	17	240	204
Deferred income taxes	1,708	4,112	3,516
Changes in long-term liabilities	(351)	(274)	24
Changes in operating assets and liabilities:			
Trade accounts receivable	(8,957)	(8,617)	(2,092)
Inventories	(6,364)	(7,636)	(5,571)
Other current assets	(1,005)	(3,661)	(633)
Accounts payable and accrued liabilities	(6,114)	13,325	(3,172)
Refundable income taxes	426	7,012	(2,993)
	-----	-----	-----
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(4,329)	16,728	4,454
	-----	-----	-----
<b>INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(18,319)	(47,696)	(22,610)
Proceeds from sales of property and equipment	1,338	1,370	7,717
Proceeds from sales of affiliate companies	1,748	--	--
Purchases of investment securities	--	--	(16,176)
Proceeds from sales of investment securities	5,785	37,814	57,510
Dividends from affiliated companies	12,000	5,448	31,517
Investments in affiliated companies	(4,200)	(5,700)	(50,000)
Change in investment in corporate owned life insurance	(676)	(3,841)	(3,900)
Proceeds from sale of bedding division	--	6,500	--
Issuance of notes receivable	(6,000)	--	(3,383)
Other	(2,744)	(1,320)	901
	-----	-----	-----
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(11,067)	(7,425)	1,576
	-----	-----	-----
<b>FINANCING ACTIVITIES</b>			
Borrowings under notes payable	27,000	18,000	--
Issuance of common stock	128	59	281
Repurchase of common stock	(4,716)	(17,138)	(4,778)
Dividends	(9,497)	(9,983)	(10,393)
	-----	-----	-----
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	12,915	(9,062)	(14,890)
	-----	-----	-----
CHANGE IN CASH AND CASH EQUIVALENTS	(2,481)	241	(8,860)
CASH AND CASH EQUIVALENTS-- BEGINNING OF YEAR	5,740	5,499	14,359
	-----	-----	-----
CASH AND CASH EQUIVALENTS-- END OF YEAR	\$ 3,259	\$ 5,740	\$ 5,499
	=====	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Interest payments	\$ 3,020	\$ 1,988	\$ 7,240
	=====	=====	=====
Income tax payments (refunds)	\$ 1,994	\$ (3,022)	\$ 4,656
	=====	=====	=====

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## A. Summary of Significant Accounting Policies

## NATURE OF OPERATIONS

The Company is a manufacturer of quality home furnishings and sells a full range of furniture products and accessories through department and furniture stores and an exclusive network of retail stores, some of which are owned by an affiliate of the Company while others are independently owned. Retail stores are located throughout the United States. The Company has 13 manufacturing facilities throughout the United States.

## PRINCIPLES OF CONSOLIDATION AND FISCAL YEAR

The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated (the "Company") and its wholly-owned subsidiaries. All significant intercompany balances and transactions are eliminated in consolidation. The Company's fiscal year ends on the Saturday nearest November 30.

## USE OF ESTIMATES

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

## RECLASSIFICATIONS

For comparative purposes, certain amounts in 1999 and 1998 financial statements have been reclassified to conform with the 2000 presentation.

## CASH EQUIVALENTS

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

## TRADE ACCOUNTS RECEIVABLE

Substantially all of the Company's trade accounts receivable are due from retailers throughout the United States. The Company performs on-going evaluations of its customers' credit worthiness and generally requires no collateral. Of the total accounts receivable, 26% are concentrated with two major customers at the end of fiscal 2000. The Company maintains allowances for doubtful accounts which include reserves for certain risk accounts and also reserves for sales returns and allowances and customer chargebacks. Allowances for doubtful accounts were \$6,650 and \$2,558 at November 25, 2000 and November 27, 1999, respectively.

## INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined for wholesale domestic furniture inventories which is approximately 80% of inventories in 2000, and 85% of inventories in 1999, using the last-in first-out (LIFO) method. The costs for imported inventories, which account for approximately 20% of inventories in 2000, and 7% of inventories in 1999 and for retail inventories, which in 1999 approximated 8%, are determined using the first-in, first-out (FIFO) method.

## PROPERTY AND EQUIPMENT

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

## INVESTMENT SECURITIES AND FINANCIAL INSTRUMENTS

The Company classifies its investment securities as available-for-sale, which are reported at fair value. Unrealized holding gains and losses, net of the related income tax effect, on available-for-sale securities are excluded from income and are reported as other comprehensive income in stockholders' equity. Realized gains and losses from securities classified as available-for-sale are included in income and are determined using the specific identification method for ascertaining the cost of securities sold. Periodically, the Company enters into financial instruments in order to reduce its exposure to fluctuations in the market value of its investment portfolio. All financial instruments are marked to market and recorded at their fair value. Gains and losses on financial instruments that qualify as accounting hedges are deferred as unrealized gains and losses. Gains and losses on financial instruments that do not qualify as accounting hedges are recorded as other income or expense.

## INVESTMENT IN AFFILIATED COMPANIES

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

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

The Company is the beneficiary of life insurance policies with a face value of \$2,096,491, which are maintained to fund various employee and director benefit plans. Policy loans outstanding of \$41,647 and \$51,943 at November 25, 2000, and November 27, 1999, respectively, are recorded as a reduction in the policies cash surrender value, which is included in other assets in the accompanying consolidated balance sheets. Net life insurance income (expense), which includes premiums and interest on policy loans, changes in cash surrender values, and death benefits, is included in other income in the accompanying consolidated statements of income.

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

#### REVENUE RECOGNITION

Revenue is recognized when furniture is shipped to the customer. Sales to one customer were 16%, 16% and 15% of the Company's total net sales in 2000, 1999 and 1998, respectively. Additionally, sales to LRG Furniture, LLC (LRG), an affiliate of the Company which was formed in 2000, were 7% of total net sales in 2000.

#### INCOME TAXES

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

#### EARNINGS PER SHARE

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

#### STOCK-BASED COMPENSATION

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

#### ADVERTISING AND START-UP COSTS ACCOUNTING CHANGE

Costs incurred for producing and communicating advertising are expensed when incurred. Advertising costs totaled \$6,463, \$9,200 and \$6,100 in 2000, 1999 and 1998, respectively. In the first quarter of fiscal year 2000, the Company recognized a cumulative effect of an accounting change, relating to SOP 98-5, "Reporting on the Cost of Start-up Activities," which amounted to \$535 (\$364 net of tax) or \$.03 per diluted share.

Accordingly, the Company has written-off the unamortized balance of the previously capitalized store opening related start-up costs.

#### SEGMENT INFORMATION

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

#### RECENT ACCOUNTING PRONOUNCEMENTS

In June 2000, the Financial Accounting Standards Board issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." This statement amends the accounting and reporting standards of Statement No. 133 for certain derivative instruments and certain hedging activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. The Company has adopted the provisions of this statement in fiscal year 2001 and has determined that the impact of adopting the statement is immaterial.

#### B. SALE OF BEDDING DIVISION

During 1999 the Company sold substantially all of the assets of its Bedding Division to Premier Bedding Group LLC ("PBG"). The sale was effective April 30, 1999. The net assets sold, which totaled \$8,400 were exchanged for \$6,500 in cash and a \$1,900 convertible note receivable. During fiscal year 2000, PBG sold the Bassett license to a third party and as part of the agreement, the Company agreed to allow this third party to manufacture and market mattresses utilizing the Company's Bassett brand name. Additionally, the \$1,900 note receivable was reduced to \$800 and the related loss is recorded in other income in the 2000 consolidated statement of income. The reductions in net operating assets were excluded from the changes in operating assets and liabilities on the accompanying statement of cash flows for the year ended November 27, 1999. Net sales and operating income (losses) for the bedding division were \$12,000 and \$(100), respectively for 1999 and \$39,000 and \$1,000 in 1998.

## C. INVENTORIES

Inventories consist of the following:

	November 25, 2000	November 27, 1999
	-----	-----
Finished goods	\$ 50,563	\$ 41,823
Work in process	8,708	9,880
Raw materials and supplies	18,368	17,881
Retail merchandise	--	6,076
	-----	-----
Total inventories on first-in, first-out cost method	77,639	75,660
LIFO adjustment	(27,438)	(25,454)
	-----	-----
	\$ 50,201	\$ 50,206
	=====	=====

During 2000 and 1999, the Company liquidated certain LIFO inventories which decreased cost of sales by approximately \$330 and \$1,600, respectively.

## D. PROPERTY AND EQUIPMENT

	November 25, 2000	November 27, 1999
	-----	-----
Land	\$ 3,166	\$ 3,309
Buildings	55,742	53,642
Machinery and equipment	148,033	147,144
Retail real estate	23,102	20,620
	-----	-----
	230,043	224,715
Less		
Accumulated depreciation	(136,071)	(131,560)
	-----	-----
	\$ 93,972	\$ 93,155
	=====	=====

Depreciation expense was \$9,916, \$7,725 and \$6,870 in 2000, 1999 and 1998, respectively.

## E. INVESTMENT SECURITIES AND FINANCIAL INSTRUMENTS

Investment securities are all equity securities and are as follows:

	November 25, 2000	November 27, 1999
	-----	-----
Cost	\$ 6,578	\$ 9,953
Unrealized holding gains	8,465	13,104
	-----	-----
Fair value	\$15,043	\$23,057
	=====	=====

During 1999, the Company entered into an equity collar arrangement in order to reduce its exposure to fluctuations in its investment portfolio. The fair market value of this financial instrument at November 27, 1999, was \$3,423 and is included in accrued liabilities on the accompanying 1999 balance sheet.

In December 1999, the Company terminated this particular financial instrument, at a cost of \$2,100, and entered into a new financial instrument, which more directly correlates to the Company's investment portfolio. The fair market value of this new instrument at November 25, 2000 was \$604 and is included in accrued liabilities. The related loss in 1999 and the related net gains in 2000 have been reflected in other income in the accompanying consolidated statements of income for the years ended November 27, 1999 and November 25, 2000.

## F. INVESTMENT IN AFFILIATED COMPANIES

The Company has equity interests in the following entities which are accounted for using the equity method:

Affiliate	% Ownership	Description of business
International Home Furnishings Center, Inc. (IHFC)	41.3%	Home Furnishings Showrooms
The Bassett Industries Alternative Asset Fund, LP	99.8%	Investment Partnership
Zenith Freight Lines, LLC	49.0%	Transportation
The Accessory Group, LP	90.0%	Home Furnishings Accessories
LRG Furniture, LLC	51.0%	Furniture Retailer

The Alternative Asset Fund invests in a variety of other private partnerships, which employ a combination of investment strategies including merger arbitrages, convertible arbitrages and other market neutral investments. Summarized combined financial information for all of the affiliated companies are as follows:

	2000	1999	1998
Total assets	\$ 149,571	\$136,434	\$ 119,276
Total liabilities	102,950	87,503	84,607
Revenues	125,132	56,628	42,203
Income from operations	25,265	31,345	24,021
Net income	13,423	18,455	14,503
Dividends received	12,000	5,448	31,517

The recorded investment in affiliates at November 25, 2000, and November 27, 1999, exceeded the Company's interest in the underlying net assets of these entities by \$10,976 and \$8,818, respectively. These differences are being amortized and the related investment balance reduced utilizing the straight-line method over 20-35 years.

The Company had earnings in excess of distributions from these investments of \$3,234 at November 25, 2000, \$3,742 at November 27, 1999, and \$3,854 at November 28, 1998. Deferred income taxes related to these items have been provided in the accompanying consolidated financial statements.

#### G. AFFILIATE INVESTMENT - LRG FURNITURE, LLC

Effective November 28, 1999, the Company combined its eight retail stores with five stores owned and managed by a licensee and formed LRG Furniture, LLC (LRG). The Company retains a 51% ownership of the joint venture and accounts for the investment using the equity method since the Company does not maintain control of the joint venture. LRG opened three stores during the year and closed one store. The joint venture operated fifteen stores at November 25, 2000.

To capitalize the joint venture, the Company contributed cash of \$4,200 and net assets of \$1,500. The effect of the merger has been included in the changes in operating assets and liabilities in the consolidated statement of cash flows. During 2000, the Company had sales to LRG of \$24,622. Also, as of November 25, 2000, the Company had outstanding accounts receivable balances from LRG of \$9,129, and an outstanding notes receivable balance of \$6,000. Related lease information between the Company and LRG can be found in Note P-Leases and Loan Guarantees.

LRG incurred start-up related losses in fiscal 2000 and expects improved profitability, yet may incur additional losses in 2001. In addition, the Company has outstanding accounts and notes receivable from LRG and has leases and loan guarantees with LRG. The Company has committed to provide financial support to LRG, as needed, over the next two years.

#### H. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	November 25, 2000	November 27, 1999
	-----	-----
Compensation and related benefits	\$ 11,114	\$ 11,954
Severance and employee benefits	1,343	1,900
Advertising and rebates	1,250	3,214
Legal and environmental	3,633	3,316
Financial instrument liability	604	3,423
Other	3,639	2,999
	-----	-----
	\$ 21,583	\$ 26,806
	=====	=====

#### I. INCOME TAXES

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

	2000	1999	1998
	-----	-----	-----
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
Dividends received exclusion	(0.8)	(0.6)	(1.0)
Tax exempt interest	-	(0.8)	(2.0)
Undistributed affiliate income	(9.9)	(5.4)	(7.7)
Corporate owned life insurance	3.2	(0.5)	(3.2)
State income tax, net of federal benefit	3.2	3.6	3.1
Other	0.3	0.2	1.3
	-----	-----	-----
Effective income tax rate	31.0 %	31.5 %	25.5 %
	=====	=====	=====

The components of the income tax provision are as follows:

	2000	1999	1998
	-----	-----	-----
Current:			
Federal	\$ 2,636	\$ 3,928	\$ 1,762
State	327	224	101
Deferred:			
Federal	1,533	3,906	3,340
State	175	206	176
	-----	-----	-----
Total	\$ 4,671	\$ 8,264	\$ 5,379

=====



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

	November 25, 2000	November 27, 1999
-----		
Deferred income tax assets:		
Trade accounts receivable	\$ 3,328	\$ 1,648
Inventories	836	1,825
Fixed asset writedowns	3,089	1,862
Retirement benefits	5,074	5,121
Net operating loss carry forwards	212	24
Distribution from affiliates in excess of income	2,216	2,465
Contribution carryforward (expires 2002)	909	989
Alternative minimum tax credit carryforward (no expiration)	3,744	1,756
Loss on financial instrument	695	1,335
Other accrued liabilities	3,511	5,983
	-----	
Total gross deferred income tax assets	23,614	23,008
	-----	
Deferred income tax liabilities:		
Property and equipment	7,555	5,689
Undistributed affiliate income	4,274	3,497
Prepaid expenses and other	220	549
Unrealized holding gains	3,047	5,111
	-----	
Total gross deferred income tax liabilities	15,096	14,846
	-----	
Net deferred income tax assets	\$ 8,518	\$ 8,162
	=====	

#### J. LONG-TERM LIABILITIES AND RETIREMENT PLANS

The Company has a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers all employees with over six months of service who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched by the Company at the rate of 115% of the first 2% through 5% of the employee's contribution, based on seniority. The Plan incorporates provisions of Section 401(k) of the Internal Revenue Code. The expenses for the Plan for 2000, 1999 and 1998 were approximately \$1,853, \$2,209 and \$2,273, respectively.

The Company has a supplemental retirement Income Plan that covers certain senior executives and provides additional retirement and death benefits. Also, the Company has a Deferred Compensation Plan for certain senior executives that provides for voluntary deferral of compensation otherwise payable. The unfunded future liability of the Company under these Plans is included in long-term liabilities. The expenses for these plans for 2000, 1999, and 1998 were \$1,184, \$1,161 and \$1,020, respectively.

#### K. NOTES PAYABLE

In 1999, the Company entered into a \$50,000 unsecured revolving credit facility with a bank. Borrowings under the facility, which matures October 2002, totaled \$18,000 at November 27, 1999.

In October 2000, the Company replaced borrowings under its \$50,000 credit facility by entering into a three-year \$70,000 revolving credit facility with a new lender and three other participants. The new facility is secured by certain receivables and inventories of the Company with borrowing rates ranging from LIBOR plus .625% to LIBOR plus 1.375%, based on various debt to earnings ratios. Borrowings under the facility, which matures October 2003, totaled \$45,000 at November 25, 2000. After coverage for letters of credit, the Company had \$18,471 available for borrowing under the facility at November 25, 2000. The average interest rate was 8.0% at November 25, 2000.

The new facility contains, among other provisions, certain defined financial requirements regarding leverage and fixed charge ratios and certain restrictions involving future indebtedness and contingent liabilities. The Company was in compliance (or had obtained waivers) with all of these provisions as of November 25, 2000.

#### L. CAPITAL STOCK AND STOCK COMPENSATION

The Company has a Long Term Incentive Stock Option Plan that was adopted in 1993 (the 1993 Plan). Under the 1993 Plan, the Company has reserved for issuance 450,000 shares of common stock of which 2,279 were available for grant at November 30, 1997. Options outstanding under the 1993 Plan expire at various dates through 2007. The Company adopted a second Employee Stock Plan in 1998 (the 1998 Plan). Under the 1998 Plan, the Company has reserved for issuance 950,000 shares of common stock. The terms of the 1998 Plan also allow for the issuance of the 2,279 shares, which remained as of December 1, 1997 from the

1993 Plan. In addition, the terms of the 1998 Plan allow for the reissuance of any stock options, which have been forfeited before being exercised. An additional 500,000 shares of common stock were authorized for issuance by the Stockholders at the 1999 Annual Shareholders Meeting. Options granted under the 1998 Plan may be for such terms and exercised at such times as determined by the Organization, Compensation, and Nominating Committee of the Board of Directors. Shares available for grant under the 1998 Plan were 421,440 at November 25, 2000.

The Company has a Stock Plan for Non-Employee Directors which was adopted in 1993 and amended in 2000. Under this

stock option plan, the Company has reserved for issuance 125,000 shares of common stock, 42,983 of which are available for grant at November 25, 2000. Under the terms of this plan, each non-employee director will automatically be granted an option to purchase 1,000 shares of common stock on April 1 of each year. These options are exercisable for 10 years commencing six months after the date of grant.

Option activity under these plans is as follows:

	Number of shares	Weighted average price per share
	-----	-----
Outstanding at November 30, 1997	652,798	\$ 26.80
Granted in 1998	875,759	\$ 30.25
Exercised in 1998	(11,000)	\$ 24.18
Forfeited in 1998	(126,142)	\$ 31.67
	-----	
Outstanding at November 28, 1998	1,391,415	\$ 28.51
Granted in 1999	320,406	\$ 22.58
Exercised in 1999	-	\$ -
Forfeited in 1999	(341,032)	\$ 27.19
	-----	
Outstanding at November 27, 1999	1,370,789	\$ 27.46
Granted in 2000	526,672	\$ 14.87
Exercised in 2000	-	\$ -
Forfeited in 2000	(173,210)	\$ 26.89
	-----	
Outstanding at November 25, 2000	1,724,251	\$ 23.67
	=====	
Exercisable at November 25, 2000	504,858	\$ 24.62
Exercisable at November 27, 1999	508,877	\$ 24.48
Exercisable at November 28, 1998	614,386	\$ 26.17

The following table summarizes information about stock options outstanding at November 25, 2000:

Range of exercise prices	Options Outstanding		Options Exercisable		
	Number outstanding at Nov. 25, 2000	Weighted average remaining contractual life (years)	Weighted average exercisable price	Number exercisable Nov. 25, 2000	Weighted average exercisable price
\$11.91 - 16.25	493,338	9.1	\$ 14.87	7,000	\$ 14.00
16.25 - 27.75	613,264	6.9	22.67	418,264	23.28
27.76 - 37.40	617,649	7.0	31.70	79,594	32.57
\$11.91 - 37.40	1,724,251	7.6	\$ 23.67	504,858	\$24.62
	=====	=====	=====	=====	=====

The Company has elected to continue to account for stock options granted to employees and directors under APB Opinion No. 25 and is required to provide pro forma disclosures of what net income and earnings per share would have been had the Company adopted the new fair value method for recognition purposes under SFAS No. 123. The following information is presented as if the Company had adopted SFAS No. 123 and restated its results:

	2000	1999	1998
	-----	-----	-----
Net income			
As reported	\$10,032	\$17,954	\$ 15,717
Pro forma	\$ 9,082	\$16,879	\$14,863
Basic earnings per share:			
As reported	\$ 0.85	\$ 1.44	\$ 1.21
Pro forma	\$ 0.77	\$ 1.35	\$ 1.14
Diluted earnings per share			
As reported	\$ 0.85	\$ 1.44	\$ 1.20
Pro forma	\$ 0.77	\$ 1.35	\$ 1.14

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

	2000	1999	1998
Expected lives	5 years	5 years	5 years
Risk-free interest rate	6.8%	4.5%	5.3%
Expected volatility	36.0%	34.5%	34.2%
Dividend yield	5.8%	3.3%	3.0%

The weighted average fair values of options granted during 2000, 1999 and 1998 were \$3.71, \$5.64, and \$9.45 respectively.

During 2000 and 1998, the Company issued 4,724 and 16,836 shares respectively, of restricted common stock under the 1998 Long Term Incentive Plan as compensation for certain key salaried employees. These shares carry dividend and voting rights. Sale of these shares is restricted prior to the date of vesting, which is five years from the date of grant. Shares issued under this plan were recorded at their fair market value on the date of the grant with a corresponding charge to stockholders' equity. The unearned portion is being amortized as compensation expense on a straight-line basis over the related vesting period. Compensation expense related to these grants was \$17 in 2000, \$240 in 1999, and \$204 in 1998.

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

The Company implemented an Employee Stock Purchase Plan (ESPP) in the fourth quarter of fiscal year 2000. This plan allows eligible employees to purchase a limited number of shares of the Company's stock at 85% of market value. Under the plan the Company sold 1,552 shares to employees in 2000. Under APB 25, no compensation expense is recognized for shares purchased under the ESPP.

## M. OTHER INCOME, NET

	2000	1999	1998
Corporate owned life insurance, net of interest expense	\$ 1,595	\$ 3,109	\$ (91)
Net gain from sales of investment securities	2,356	1,795	1,446
Dividends	674	835	825
Interest income (principally tax exempt)	-	571	3,195
Captive insurance dividend	4,500	-	-
Rental, net	1,053	-	-
Net gain (loss) on financial instrument	1,641	(3,423)	-
Other, net	780	(718)	286
	=====	=====	=====
	\$ 12,599	\$ 2,169	\$ 5,661

Interest expense on corporate owned life insurance policy loans was \$1,476 in 2000, \$1,769 in 1999, and \$5,450 in 1998.

## N. RESTRUCTURING, IMPAIRED FIXED ASSET AND OTHER UNUSUAL AND NONRECURRING CHARGES

During fiscal year 2000, a decision and subsequent announcement was made to consolidate wood manufacturing operations at two of the Company's facilities in Bassett, VA. One of the manufacturing plants will be reduced to its rough end operations supporting the operations of two other facilities. The consolidation also eliminated the rough end operations at one of the remaining plants. These and other reorganization actions resulted in the elimination of approximately 300 positions, including the severance of approximately 80 salaried employees. The following summarizes the fiscal 2000 restructuring:

	Fourth quarter charges	Fixed asset write-downs	Reserves utilized	Nov. 25, 2000 reserve balance
Non-cash writedown of property and equipment net realizable value	\$ 5,800	\$ 5,800	\$ -	\$ -
Severance and related employee benefit costs	880	-	388	492
	=====	=====	=====	=====
	\$ 6,680	\$ 5,800	\$ 388	\$ 492

In addition to the restructuring charges recognized in 2000, the Company recorded unusual and nonrecurring charges of \$600 for inventory losses and \$3,150 for bad debt expense. Inventory charges are related to the restructuring. The bad debt charges were to increase reserves related to expected losses on the Company's accounts receivable due to the pending bankruptcies of two national retailers.

Of the total restructuring, impaired fixed asset and other unusual charges, \$600 is included in cost of sales and \$3,150 is included in selling, general and administrative expenses and \$6,680 is included in restructuring and impaired fixed asset charges in the accompanying 2000 consolidated statement of income.

The Company expects to have additional charges, as a result of the 2000 restructuring, in 2001 of approximately \$2,000. These charges may include severance and related employee benefit costs as well as other related nonrecurring costs.

During 1999, the Company reorganized its retail operations and subsequently formed a new joint venture to operate its stores. (see Note G) The Company recorded \$1,156 of nonrecurring charges related to this transaction and the closing of one upholstery plant. The charges were primarily severance and related employee benefit costs. Of these costs, \$676 are included in cost of sales and \$480 are included in selling, general and administrative expenses in the accompanying 1999 consolidated statement of operations. All remaining balances were utilized in 2000.

During 1997, the Company restructured certain of its operations and recorded restructuring and impaired fixed asset charges of \$20,646. Of the total restructuring charges, the Company had remaining balances primarily related to lease exit costs of \$851 and \$1,316 at November 25, 2000 and November 27, 1999, respectively.

## O. CONTINGENCIES

A suit was filed in June 1997, in California against the Company, two major retailers and certain current and former employees of the Company. Following the dismissal of the class action allegations contained in such suit, the suit consisted of damage claims by nine named plaintiffs, together with restitution claims for other purchasers under Business & Professions Code 17200 which were dismissed subsequent to the end of the fiscal year.

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative reductions to income tax expense of approximately \$8,000 as the result of COLI interest deductions through 1998. The Internal Revenue Service, on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. The IRS has received favorable rulings on the non-deductibility of COLI loan interest. Management understands that these rulings and the

adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in potential income tax and interest payments which could be material to the Company's future results of operations.

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

#### P. LEASES AND LOAN GUARANTEES

The Company leases land and buildings that were originally used in the operation of its Company-owned retail stores. These properties were subleased to LRG Furniture, LLC effective November 28, 1999. The subleases contain the same terms and rental rates as the original leases and thus offset rental expense on a dollar for dollar basis. Lease terms range from three to 15 years and generally have renewal options of between five and 15 years. The following schedule shows future minimum lease payments under non-cancelable leases having remaining terms in excess of one year as of November 25, 2000:

2001	\$ 2,131
2002	1,913
2003	1,920
2004	1,829
2005	1,806
Thereafter	14,505
	-----
	\$ 24,104
	=====

Rental expense, net of rental income, related to these leases was \$0 in 2000, as sublease income fully offset the Company's net rental expense. Rental expense was, \$1,330 in 1999, and \$0 in 1998, respectively.

As part of the Company's expansion strategy for its retail stores, Bassett has guaranteed certain lease obligations and construction loan obligations of licensee operators of the Bassett Furniture Direct program. Lease guarantees generally do not exceed five years. The Company was contingently liable under licensee lease obligation guarantees in the amount of \$23,233 at November 25, 2000. Additionally, the Company was contingently liable under licensee construction loan guarantees in the amount of \$10,369 at November 25, 2000.

The Company has also guaranteed loans from a bank to certain of its BFD dealers to finance initial inventory packages for those stores. The total contingent liability with respect to these loan guarantees as of November 25, 2000, was \$9,195.

#### Q. EARNINGS PER SHARE

The following table reconciles basic and diluted earnings per share:

	Shares	Net Income	Earnings Per Share
	-----	-----	-----
2000:			
Basic EPS	11,812,962	\$ 10,032	\$ 0.85
Add effect of dilutive securities:			
Options and restricted stock	9,070	-	-
	-----	-----	-----
Diluted EPS	11,822,032	\$ 10,032	\$ 0.85
	=====	=====	=====
1999:			
Basic EPS	12,499,481	\$ 17,954	\$ 1.44
Add effect of dilutive securities:			
Options and restricted stock	6,992	-	-
	-----	-----	-----
Diluted EPS	12,506,473	\$ 17,954	\$ 1.44
	=====	=====	=====
1998:			
Basic EPS	12,984,639	\$ 15,717	\$ 1.21
Add effect of dilutive securities:			
Options and restricted stock	80,449	-	(0.01)
	-----	-----	-----
Diluted EPS	13,065,088	\$ 15,717	\$ 1.20
	=====	=====	=====

Options to purchase 1,715,181 shares of common stock in 2000, 1,363,797 shares

in 1999, and 1,310,966 shares in 1998, were outstanding at the end of each fiscal year that could potentially dilute basic EPS in the future.

#### R. SEGMENT INFORMATION

The Company's primary business is in wholesale home furnishings. The wholesale home furnishings business is involved principally in the manufacture, sale and distribution of furniture products to a network of independently-owned stores and stores owned by an affiliate of the Company. The wholesale business consists primarily of two operating segments, wood and upholstery.

The wood segment is engaged in the manufacture and sale of wood furniture to independent and affiliated retailers. The upholstery segment is involved in the manufacture and sale of upholstered frames and cut upholstery items having a variety of frame and fabric options.

The Company's other business segment consists of the Bedding Division, a contemporary furniture business and corporate operations, all included to reconcile segment information to the consolidated financial statements. The



Bedding Division activity is included for five months in 1999 and 12 months in 1998. A retail segment was included in 1999 (see Note G). Restructuring, impaired fixed assets and other unusual charges are included for 2000 and 1999 as discussed in Note N to the consolidated financial statements.

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

2000	Wood	Upholstery	Other	Consolidated
	-----	-----	-----	-----
Net sales	\$ 257,025	\$ 97,773	\$ 12,646	\$ 367,444
Operating income (loss)	33,647	8,024	(44,867)	(3,196)
Identifiable assets	112,022	17,997	216,661	346,680
Depreciation and amortization	4,796	961	4,275	10,032
Capital expenditures	5,772	2,111	10,436	18,319
1999	Wood	Upholstery	Other	Consolidated
	-----	-----	-----	-----
Net sales	\$ 259,825	\$ 103,520	\$ 31,067	\$ 394,412
Operating income (loss)	44,363	9,398	(41,287)	12,474
Identifiable assets	81,067	14,195	247,567	342,829
Depreciation and amortization	3,846	753	3,787	8,386
Capital expenditures	16,075	2,825	28,796	47,696
1998	Wood	Upholstery	Other	Consolidated
	-----	-----	-----	-----
Net sales	\$ 233,626	\$ 110,223	\$ 53,708	\$ 397,557
Operating income (loss)	36,730	8,260	(35,339)	9,651
Identifiable assets	80,340	15,134	226,040	321,514
Depreciation and amortization	3,287	568	3,015	6,870
Capital expenditures	6,363	1,358	14,889	22,610

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated (a Virginia corporation) and subsidiaries as of November 25, 2000 and November 27, 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended November 25, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bassett Furniture Industries, Incorporated and subsidiaries as of November 25, 2000 and November 27, 1999, and the results of their operations and their cash flows for each of the three years in the period ended November 25, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Greensboro, North Carolina,  
January 15, 2001.

## OTHER BUSINESS DATA

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

## Selected Financial Data

	2000	1999	1998	1997	1996
	-----	-----	-----	-----	-----
Net sales	\$ 367,444	\$ 394,412	\$ 397,557	\$ 446,893	\$ 450,717
Cost of sales	\$ 302,281	\$ 309,316	\$ 323,904	\$ 396,875	\$ 379,259
Operating profit (loss)	\$ (3,196)(1)	\$ 12,474	\$ 9,651	\$ (55,322)(1)	\$ 7,306
Other income, net	\$ 18,263	\$ 13,744	\$ 11,445	\$ 13,367	\$ 14,982
Income (loss) before income taxes	\$ 15,067	\$ 26,218	\$ 21,096	\$ (41,955)(1)	\$ 22,288
Income taxes	\$ 4,671	\$ 8,264	\$ 5,379	\$ (22,346)(1)	\$ 3,787
Net income (loss)	\$ 10,032	\$ 17,954	\$ 15,717	\$ (19,609)(1)	\$ 18,501
Diluted earnings (loss) per share	\$ 0.85	\$ 1.44	\$ 1.20	\$ (1.50)(1)	\$ 1.39
Cash dividends declared	\$ 9,497	\$ 9,983	\$ 10,393	\$ 13,041	\$ 10,626
Cash dividends per share	\$ 0.80	\$ 0.80	\$ 0.80	\$ 1.00	\$ 0.80
Total assets	\$ 346,680	\$ 342,829	\$ 321,514	\$ 320,325	\$ 335,166
Current ratio	3.27 to 1	2.39 to 1	3.21 to 1	4.12 to 1	6.42 to 1
Book value per share	\$ 21.09	\$ 20.46	\$ 20.40	\$ 20.01	\$ 22.29
Weighted average number of shares	11,812,962	12,499,481	12,984,639	13,045,789	13,351,585

## Quarterly Results of Operations

	2000			
	-----	-----	-----	-----
	First	Second	Third	Fourth
	-----	-----	-----	-----
Net sales	\$ 94,981	\$ 92,366	\$ 91,155	\$ 88,942
Gross profit	18,573	17,898	15,868	12,824 (1)
Net income (loss)	4,354	4,515	4,305	(3,142)(1)
Basic earnings per share	0.36	0.38	0.37	(0.26)(1)
Diluted earnings per share	0.36	0.38	0.37	(0.26)(1)
	1999			
	-----	-----	-----	-----
	First	Second	Third	Fourth
	-----	-----	-----	-----
Net sales	\$ 99,809	\$ 103,659	\$ 88,803	\$ 102,141
Gross profit	19,576	22,464	20,224	22,832
Net income	4,415	5,060	4,405	4,074
Basic earnings per share	0.34	0.40	0.36	0.34
Diluted earnings per share	0.34	0.40	0.36	0.34

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

## RESULTS OF OPERATIONS:

In 2000, Bassett reported net sales of \$367,444, which was a decline of 7% compared to \$394,412 in 1999. The decline in sales reflects both a softer overall business climate and the elimination and disposition of divisions and products that did not adequately contribute to earnings. During the second half of 2000, the Company, as well as many in the furniture industry, experienced a softening business environment due in part to increased energy costs and the financial difficulties of several major retailers. In April of 1999, the Company sold its Bedding Division, which had revenues of \$12,000 in 1999 (prior to the sale), and \$39,000 in 1998. Included only in 1999 but not in fiscal 2000 was \$4,911 of net sales for the retail segment, which the Company merged in December of 1999 with an existing licensee to form LRG Furniture, LLC. Comparable sales for 2000 were down 3% from 1999, following an increase of 6% from 1998 to 1999. Also, during 2000, the Company implemented a new enterprise-wide software system, which included sales order processing, logistics, upholstery manufacturing and some wood manufacturing. As a result, the Company experienced some disruptions that impacted shipping performance and customer service. The utilization of the system has steadily improved and the Company expects much better shipping performance and service ability in fiscal 2001.

Although overall sales have declined, sales to the Bassett Furniture Direct (BFD) and @t Home With Bassett (@t Home) channels increased by 33% in 2000, while sales to national accounts, major furniture stores, and smaller furniture stores declined. The increase in sales in the BFD and @t Home channels was driven by the opening of additional BFD stores and signing additional @t Home retailers. Twelve new BFD stores were opened in 2000 (5 stores were closed in 2000), compared to opening a net 15 BFD stores in 1999 and net 17 stores in 1998, bringing the total BFD stores open at the end of fiscal 2000 to 58. The Company has targeted opening approximately 15 new BFD stores in each of the next five years. The Company opened or converted 50 @t Home galleries with retailers in 2000, bringing the total @t Homes at the end of fiscal 2000 to 169, and expects to open 40 such galleries in 2001.

During 2000, five BFD stores were closed. Two of these were converted to @t Home stores, while the remaining three were closed due to issues with locations, operators and profitability. The Company is committed to working with all of its licensees to improve the profitability of existing stores as the performance of these stores is critical to the overall sales growth of the Company. Towards this objective, the Company will move into a new distribution center in Martinsville, VA, in early 2001 to facilitate complete on-time deliveries and improved customer service.

Gross margin; selling, general, and administrative (S,G&A) expenses; and operating income as a percentage of net sales were as follows for the years ended November 25, 2000, November 27, 1999, and November 28, 1998:

	2000	1999	1998
	-----	-----	-----
Gross margin	17.7%	21.6%	18.5%
S,G&A expenses	16.8%	18.4%	16.1%
Operating income (loss)	(0.9%)	3.2%	2.4%

The improvement in gross margin from 18.5% in 1998 to 21.6% in 1999 reflects the disposition of unprofitable divisions, the inclusion in 1999 of retail gross margins, and operational changes made by the Company. Restructuring and nonrecurring charges negatively impacted results in 1998 and 2000. On a continuing operations basis, margins improved from 19.5% in 1998 to 20.6% in 1999 (excluding the retail segment) due to consolidation and absorption efficiencies, new investments in equipment, manufacturing process improvements, and product enhancements. The deterioration in gross margin from 20.6% in 1999 to 17.7% in 2000 was the result of several factors including inventory writedowns related to restructuring, lumber price increases, reduced production levels and under absorbed fixed costs. Prior to restructuring and non-recurring charges in 2000, the gross margin was 17.9%. These factors contributed to the decision to restructure manufacturing operations in the fourth quarter of fiscal 2000.

In our continuing efforts to more efficiently structure manufacturing capacity to current business levels, the Company made a decision in late 2000 to consolidate production in our Wood Division. This included transferring certain product groups to different facilities, reducing one facility to rough-end operations only, and eliminating approximately 300 salaried and hourly positions. This will enable the Company to operate the remaining facilities with more cost efficient schedules in 2001. As a result, the Company recorded a restructuring charge in 2000 of \$6,680, of which, \$5,800 related to the write-down of property and equipment and \$880 related to severance and related employee benefits costs. The Company expects reductions in cost of sales of approximately \$6,000 in 2001, as a result of this restructuring.

The Company is committed to continuing its gross margin improvement initiatives. These initiatives may include the further consolidation of plants in the Wood Division, investments in equipment and technology, engineering efforts to streamline production processes and efforts to supplement

our product offerings with more imported goods. The Company continually evaluates its pricing practices, its capacity utilization, and its labor and overhead cost structure in an effort to improve its overall gross margin.

S,G&A expenses decreased from 18.4% of net sales in 1999 to 16.8% in 2000, following an increase from 16.1% of sales in 1998. The decrease in 2000 was a result of a major focus on both reducing and controlling S,G&A spending and the elimination of retail segment expenses, including both store expenses and the corporate support structure. Included in SG&A expense in fiscal 2000 is an unusual increase to the Company's bad debt reserve of \$3,150 due to the bankruptcies of two national retailers. Prior to non-recurring charges, the S,G&A expenses were 15.9% of net sales in 2000. The increase in 1999 was attributable to many of these same costs including the Company's entry into the retail furniture business and the related support structure, brand building and marketing programs required for this segment. Spending related to information technology and systems has also increased in each of the last two years. Management is committed to reducing costs and expects S,G&A spending to approximate 15% of sales over the next three years.

Non-operating income increased from \$13,744 in 1999 to \$18,263 in 2000, following an increase in 1999 from \$11,445 in 1998. Non-operating income includes three major components; equity in undistributed income of affiliated companies, interest expense and other income. The latter of these is further detailed in Note M in the Notes to Consolidated Financial Statements. The increases in both 1999 and 2000 were due principally to better returns on the Company's investment portfolio. Also included in these increases was income from the Company's COLI plan. COLI income is realized as proceeds from policy claims exceed interest on policy loans and changes in the cash surrender value of the policies. Included in the 2000 results was a one-time cash dividend the Company received in the fourth quarter from a captive insurance program. These favorable results were partially offset by the Company's share of the losses in the LRG joint venture, which was approximately \$5,000, and interest expense on increased indebtedness in fiscal 2000. Non-operating income will continue to be an integral component of the Company's future earnings, however, it may be lower in 2001, returning to levels consistent with previous years.

The effective income tax rate was 31.0% in 2000 compared to 31.5% in 1999 and 25.5% in 1998. The income tax rates were lower than the statutory federal income tax rate due to exclusions for tax exempt and undistributed affiliate income and the Company's COLI Plan (1998 only). Note I in the Notes to Consolidated Financial Statements contains complete disclosure of the Company's income tax status. The increase in the effective income tax rate for 1999 is due to the final phase-out of the COLI loan interest deduction and the reduction in tax-exempt bond income.

For the year ended November 25, 2000, net income was \$10,032, or \$0.85 per diluted share after restructuring and nonrecurring charges which negatively impacted net income by \$7,197 and diluted earnings per share by \$0.61 per share. These results compare to net income of \$17,954 or \$1.44 per diluted share in fiscal year 1999 and net income of \$15,717 or \$1.20 per diluted share in fiscal 1998.

#### SEGMENT INFORMATION:

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

#### WOOD DIVISION

	2000	1999	1998
Net Sales	\$257,025	\$259,825	\$233,626
Contribution to Profit and Overhead	33,647	44,363	36,730

Wood Division net sales decreased 1% in 2000 for many of the same reasons discussed above. This compares to an increase of 11% in 1999 due to the expansion of the BFD store program, successful new product introductions, and improvements in product styling, quality, and service. During 2000, sales of domestically manufactured product decreased, while sales of imported goods doubled. Domestic production levels in fiscal 2000 declined 18% compared to fiscal 1999 and were reduced to near breakeven levels in the second half of the year. The decline in domestic product sales and the increase in demand for imported product also resulted in significant increases in finished goods inventories. In order to improve sales and margins in this segment, the Company is introducing new products, opening more BFD stores, and refocusing on its furniture store channel in addition to the cost reduction initiatives outlined below.

Contribution to profit and overhead is defined by the Company as gross profit less direct divisional operating expenses but excluding any allocation of corporate overhead expenses, interest expense, or income taxes. For the Wood division, contribution to profit and overhead decreased from 15.7% as a percentage of net sales in 1998 and 17.1% in 1999 to 13.1% in 2000. This decrease was a result of decreased sales coupled with excess capacity, reduced production schedules and lumber price increases. As a result, a decision was made in 2000 to consolidate certain manufacturing operations. Related costs are reflected in the restructuring charges for 2000. These cost reduction efforts, which will reduce overall headcount by approximately 300 employees, coupled with other cost reduction efforts, should result in a gross reduction to cost of sales of approximately \$6,000 in 2001.

UPHOLSTERY DIVISION

	2000	1999	1998
Net Sales	\$ 97,773	\$ 103,520	\$ 110,223
Contribution to Profit and Overhead	8,024	9,398	8,260

Net sales for the Upholstery Division have declined in each of the past two years, as the Company continues its overall

repositioning of this product segment. During 2000, two major national accounts had significant declines in sales which affected overall upholstery division sales. In 1999, management decided to exit certain distribution channels, which it concluded were incompatible with the Bassett brand image and its current primary channels of distribution. The Company has decided to focus this segment on its BFD stores, its Home galleries, and several of its major customers. Also, during 2000, the Company hired a new merchandising team in the Upholstery division to reverse the declining sales trend and enhance the product line repositioning.

Contribution to profit and overhead has remained relatively unchanged despite the sales decline. For the Upholstery Division, contribution to profit and overhead decreased to 8.2% of sales in 2000 after increasing from 7.5% in 1998 to 9.1% in 1999. Repositioning the segment away from lower margin accounts and products and into higher quality, more stylish goods combined with operational initiatives have propelled the profit improvement. However, these changes were offset by unfavorable absorption and labor inefficiencies resulting from decreased sales in 2000. The operational initiatives include the entry into cellular manufacturing and investments in new cutting and sewing equipment. At the beginning of 2001, due largely to the bankruptcy of a national retailer, the upholstery division consolidated certain manufacturing operations as part of its continuing gross margin improvement plan.

#### RETAIL AND LRG FURNITURE

At the beginning of fiscal year 2000, the Company formed LRG Furniture, LLC, which is a joint venture between the Company and its licensee partner in Houston, TX (The Ladin Group). The Company's eight BFD stores in 1999 were combined with the five Ladin Group stores in Texas to form LRG. Bassett retains a 51% ownership of the joint venture and accounts for the investment using the equity method since the Company does not maintain control of the joint venture.

LRG experienced significant difficulties in the initial integration and start-up activities of operating East Coast stores with stores in Texas and Nevada. The stores were initially managed centrally from Houston, Texas. This method of management proved to be costly and ineffective. Additionally, LRG's revenues were temporarily impacted by the implementation of the Company's enterprise software system. LRG adopted a decentralized (regional) method of management mid-way through the year to attack cost issues on a store by store basis. Substantial costs were subsequently eliminated from the LRG corporate overhead. Regional managers have begun to see improved top-line sales growth. Store expenses, including start-up costs, were subsequently reduced or eliminated. Bassett's shipments to LRG are also improved due to the complete implementation of the enterprise system. The Company is committed to the success of LRG and will provide financial support to LRG, as needed, over the next two years. A much-reduced loss is expected for fiscal 2001 and the Company plans for LRG to be profitable in fiscal 2002. Included in the Company's 1999 results were net sales for the retail segment of \$11,319 and operating losses of \$2,570.

#### LIQUIDITY AND CAPITAL RESOURCES:

Cash used by operating activities was \$4,329 in 2000 compared to cash provided by operating activities of \$16,728 in 1999 and \$4,454 in 1998. The decrease in 2000 was attributable to lower net income levels and significant increases in working capital, primarily accounts receivable and wholesale inventories. Increases in accounts receivable were a result of increased sales to the BFD's, slow payment patterns of certain BFD's, and the financial difficulties of several furniture retailers. The decline in rates of sale versus what was planned for 2000 coupled with increases in imported products caused the increase in wholesale inventories. The Company has adopted plans to reduce both accounts receivable and inventory levels in 2001. These plans include new terms for BFD's, more aggressive collection efforts, reduced production schedules and inventory promotion and liquidation programs. Also in 2000, there was a reduction in accounts payable and accrued liabilities reducing these accounts to levels more consistent with historical levels, and well below the unusually high balances of these accounts in 1999. The significant increase in accounts payable and accrued liabilities in 1999 was largely timing related and included several unusual and nonrecurring items some of which related to the Company's retail operations.

The Company invested \$47,700 in property and equipment in 1999 for BFD store real estate, a new enterprise-wide information system, new manufacturing equipment, and a new dining table top manufacturing facility. Given the significant spending levels in both 1999 and 1998, the Company reduced its capital spending in 2000. Spending in 2000 was primarily for new machinery and equipment, and information technology. The Company expects capital spending to approximate \$10,000 in fiscal 2001 and to be funded out of its operating cash flow.

In 2000, the Company liquidated a portion of its investment portfolio and generated \$5,785 in cash proceeds. The Company also received a cash dividend from an affiliated company of \$12,000 in 2000. This follows the decision made by management in 1998 to reinvest a large portion (\$50,000) of its investment portfolio into an investment partnership which has enabled the Company to generate improved investment returns in 1999 and 2000. The Company invested \$4,200 in the LRG joint venture in 2000. Notes receivable were issued to LRG in 2000 for \$6,000 to fund start-up losses. The Company plans to continue to liquidate the remainder of its investment portfolio on a scheduled basis over the next four years.

During 2000, the Company replaced borrowings under its \$50,000 credit facility by entering into a three-year \$70,000 revolving credit facility with a new lender and three other participants. At the end of fiscal 2000, the Company had borrowed \$45,000 against its credit line. Subsequent to the end of fiscal 2000, the Company received a \$25,000 cash dividend from the International Home Furnishings Center, Inc. (IHFC), the net proceeds of which were used primarily to reduce





borrowings. This dividend does not affect the earnings of the Company as its investment in IHFC is recorded on the equity method of accounting. The Company does not expect to substantially increase its level of borrowings in fiscal 2001.

The Company purchased and retired 332,000 shares of its Common Stock during 2000. These purchases were part of the Company's stock repurchase program, approved in 1998, which allows the Company to repurchase its shares for an aggregate purchase price not to exceed \$40,000. The average cost of the shares purchased in 2000 was \$14.20, resulting in a total expenditure of \$4,716. In 1999, the Company purchased and retired 793,000 shares for \$17,138. The Company plans to continue its share repurchase program in fiscal 2001. The Company paid dividends during fiscal year 2000 of \$9,497.

The current ratio for the past two years was 3.27 to 1 and 2.39 to 1, respectively. Working capital was \$94,982 at November 25, 2000, and \$79,329 at November 27, 1999.

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

#### CONTINGENCIES:

The Company is involved in various claims and litigation, including a lawsuit concerning a subsidiary, E. B. Malone Corporation, as well as environmental matters, which arise in the normal course of business. The details of these matters are described in Note O in the Notes to Consolidated Financial Statements. Although the final outcome of these legal and environmental matters cannot be determined, based on the facts presently known, it is management's opinion that the final resolution of these matters will not have a material adverse effect on the Company's financial position or future results of operations.

Legislation has phased out interest deductions on certain policy loans related to Company owned life insurance (COLI) as of January 1, 1999. The Company has recorded cumulative

reductions to income tax expense of approximately \$8,000 as the result of COLI interest deductions through 1998. The Internal Revenue Service (IRS), on a national level, has pursued an adverse position regarding the deductibility of COLI policy loan interest for years prior to January 1, 1999. The IRS has received favorable rulings on the non-deductibility of COLI loan interest. Management understands that these rulings and the adverse position taken by the IRS will be subjected to extensive challenges in court. In the event that the IRS prevails, the outcome could result in a potential income tax and interest payments which could be material to the Company's future results of operations.

#### MARKET RISK:

The Company is exposed to market risk for changes in market prices of its various types of investments. The Company's investments include equity securities, a financial instrument entered into in order to hedge its equity securities, and an investment partnership included in its investments in affiliated companies. The Company does not use these securities for trading purposes and is not party to any leveraged derivatives.

The Company's equity securities portfolio, which totaled \$15,043 at November 25, 2000, is diversified among over twenty different medium to large capitalization interests. The Company entered into an equity collar in 1999 to reduce its exposure to fluctuations in the market value of these securities. In 2000, management decided to liquidate this financial instrument and enter into a new financial instrument which more clearly correlates to its equity portfolio. Although there are no maturity dates for the Company's equity investments, management has plans to liquidate both its current equity portfolio and the related financial instrument on a scheduled basis over the next four years. See Note E to the Consolidated Financial statements for more information on these investment securities.

The Company's investment in a limited partnership, which totaled \$57,091 at November 25, 2000 and \$58,109 at November 27, 1999, invests in various other private limited partnerships which contain contractual commitments with elements of market risk. These contractual commitments, which include fixed-income securities and derivatives, may involve future settlements, which give rise to both market and credit risk. The investment partnership's exposure to market risk is determined by a number of factors, including the size, composition, and diversification of positions held, volatility of interest, market currency rates, and liquidity.

## SAFE-HARBOR, FORWARD-LOOKING STATEMENTS:

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

- - competitive conditions in the home furnishings industry
- - general economic conditions that are less favorable than expected
- - overall consumer demand for home furnishings
- - new BFD openings
- - BFD closings
- - not fully realizing cost reductions through restructurings
- - cost and availability of raw materials and labor
- - information and technology advances
- - success of marketing and advertising campaigns
- - future tax legislation, or regulatory or judicial positions related to COLI

## INVESTOR INFORMATION

## CORPORATE INFORMATION:

The Company's annual report and proxy statement together contain much of the information presented in the Form 10-K report filed with the Securities and Exchange Commission. Individuals who wish to receive the Form 10-K or other corporate literature should contact Grover S. Elliott, Vice President, Finance and Investor Relations at 540-629-6000.

## INVESTOR INQUIRIES:

Those seeking further information about the corporation should contact Grover S. Elliott, Vice President, Finance and Investor Relations at 540-629-6000.

## TRANSFER AGENT/STOCKHOLDER INQUIRIES:

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

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

## ANNUAL MEETING:

The Bassett Annual Meeting of Shareholders will be held Tuesday, March 27, 2001, at 1:00 p.m. at the Company's headquarters in Bassett, Virginia.

## MARKET AND DIVIDEND INFORMATION:

Bassett's common stock trades on the NASDAQ national market system under the symbol "BSET." The Company had approximately 1,690 registered stockholders at November 25, 2000. The range of per share amounts for the closing high and low market prices and dividends declared for the last two fiscal years are listed below:

Quarter	Market Prices of Common Stock				Dividends Declared	
	2000		1999		2000	1999
	High	Low	High	Low		
First	\$16.50	\$13.25	\$27.99	\$19.87	.20	.20
Second	17.19	12.25	24.31	19.50	.20	.20
Third	14.19	11.44	24.91	20.37	.20	.20
Fourth	15.75	11.44	20.25	15.87	.20	.20

## FORWARD-LOOKING STATEMENTS:

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

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

## WEB SITE:

Our Web site on the Internet is filled with information about Bassett Furniture, including this annual report, detailed financial information and updates, information about our fine home furnishings products, and a directory of Bassett Furniture Direct stores and other stores that feature Bassett products. Visit us at [www.basettfurniture.com](http://www.basettfurniture.com).

## EXHIBIT 21 - LIST OF SUBSIDIARIES

- (a) Bassett Furniture Industries of North Carolina, Inc. (North Carolina Corporation)
- (b) The E.B. Malone Corporation (Delaware Corporation)
- (c) Bassett Direct Stores, Inc. (Virginia Corporation)
- (d) Bassett Direct NC, LLC (Virginia limited liability company)
- (e) Bassett Direct SC, LLC (Virginia limited liability company)

## CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports dated January 15, 2001 included in and incorporated by reference in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 33-52405, 33-52407, 333-60327, and 333-43188.

/s/ Arthur Andersen LLP

Greensboro, North Carolina,  
February 22, 2001.

## EXHIBIT 23B

## CONSENT OF INDEPENDENT AUDITORS

Board of Directors  
Bassett Furniture Industries, Incorporated  
Bassett, Virginia

We consent to incorporation by reference in the Registration Statements (Nos. 33-52405, 33-52407, 333-60327 and 333-43188) on Form S-8 of Bassett Furniture Industries, Incorporated and subsidiaries of our report dated November 29, 2000, relating to the balance sheets of International Home Furnishings Center, Inc. as of October 31, 2000 and 1999, and the related statements of income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended October 31, 2000, which report is incorporated by reference in the November 25, 2000 annual report on Form 10-K of Bassett Furniture Industries, Incorporated and subsidiaries.

/s/ Dixon Odom PLLC

High Point, North Carolina  
February 22, 2001