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

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 24, 2012

OR

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

For the transition period from ______ to ______

Commission File No. 0-209

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site , if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ☐ No

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one) Large Accelerated Filer ☐ Accelerated Filer x Non-Accelerated Filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of May 26, 2012 was $106,478,858.

The number of shares of the Registrant's common stock outstanding on January 31, 2013 was 10,844,152.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Bassett Furniture Industries, Incorporated definitive Proxy Statement for its 2011 Annual Meeting of Stockholders to be held March 6, 2013, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

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As used herein, unless the context otherwise requires, "Bassett," the "Company," "we," "us" and "our" refer to Bassett Furniture Industries, Incorporated and its subsidiaries. References to 2012, 2011, 2010, 2009 and 2008 mean the fiscal years ended November 24, 2012, November 26, 2011, November 27, 2010, November 28, 2009 and November 29, 2008. Please note that fiscal 2008 contained 53 weeks.

SAFE-HARBOR, FORWARD-LOOKING STATEMENTS

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

- competitive conditions in the home furnishings industry
- general economic conditions
- overall retail traffic levels and consumer demand for home furnishings
- ability of our customers and consumers to obtain credit
- Bassett store openings
- store closings and the profitability of the stores (independent licensees and Company-owned retail stores)
- ability to implement our Company-owned retail strategies and realize the benefits from such strategies as they are implemented
- fluctuations in the cost and availability of raw materials, labor and sourced products
- results of marketing and advertising campaigns
- information and technology advances
- ability to execute global sourcing strategies
- future tax legislation, or regulatory or judicial positions
- ability to efficiently manage the import supply chain to minimize business interruption

PART I

ITEM 1. BUSINESS

(dollar amounts in thousands except per share data)

General

Bassett is a leading vertically integrated manufacturer, importer and retailer of high quality, mid-priced home furnishings. With 86 Bassett Home Furnishings ("BHF") stores at November 24, 2012, we have leveraged our strong brand name in furniture into a network of corporate and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. We created our store program in 1997 to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. The store features custom order furniture ready for delivery in less than 30 days, more than 1,000 upholstery fabrics, free in-home design visits, and perfectly coordinated decorating accessories. We believe that our capabilities in custom furniture have become unmatched in recent years. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its delivery. The selling philosophy in the stores is based on building strong long term relationships with each customer. Sales people are referred to as Design Consultants and are trained to evaluate customer needs and provide comprehensive solutions for their home decor. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

In September of 2011, we announced the formation of a strategic partnership with HGTV, a division of Scripps Networks, LLC., which combines our 110 year heritage in the furniture industry with the penetration of 99 million households in the United States that HGTV enjoys today. This alliance encompasses strategies for both the BHF store network and other open market sales channels. For the store network, the in-store design centers have been co-branded with HGTV to more forcefully market the concept of a "home makeover", an important point of differentiation for our stores that also mirrors much of the programming content on the HGTV network. In addition, we have developed, in conjunction with HGTV, a new line of furniture that contains only the HGTV® Home Collection brand and will be primarily marketed through select top-100 furniture retailers.

Operating Segments

We have strategically aligned our business into three reportable segments: Wholesale, Retail and Investments/Real Estate.

The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of BHF stores (independently-owned stores and Company-owned retail stores) and independent furniture retailers. The wholesale segment accounted for 52%, 55% and 59% of net sales during fiscal 2012, 2011, and 2010, respectively.

Our retail segment consisted of 53 Company-owned stores and accounted for 48%, 45% and 41% of total net sales in fiscal 2012, 2011 and 2010, respectively. The following table shows the number of Company-owned stores by state as of November 24, 2012:

State	Number of Stores	State	Number of Stores
Arizona	2	Missouri	1
Arkansas	1	Nevada	1
California	4	New Jersey	2
Connecticut	3	New York	3
Delaware	1	North Carolina	4
Florida	3	Ohio	1
Georgia	3	South Carolina	1
Kentucky	1	Tennessee	2
Maryland	2	Texas	11
Massachusetts	2	Virginia	4
Mississippi	1		
		Total	53

Our investments/real estate business segment consists of our holdings of retail real estate leased or previously leased as licensee stores, the equity investment in Zenith Freight Lines, LLC ("Zenith"), which hauls freight and warehouses inventory for the Company, and International Home Furnishings Center, Inc. ("IHFC") until sold on May 2, 2011. We also hold an interest in the Fortress Value Recovery Fund I, LLC ("Fortress") which we fully reserved during fiscal 2012. We formerly held a portfolio of marketable securities which we liquidated during the fourth quarter of fiscal 2012.

Wholesale Segment Overview

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

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

	2012		2011		2010	
Wood	$ 78,194	42.2%	$ 77,410	43.6%	$ 77,325	43.9%
Upholstery	105,377	56.9%	98,577	55.6%	97,258	55.2%
Other	1,616	0.9%	1,385	0.8%	1,672	0.9%
Total	$ 185,187	100.0%	$ 177,372	100.0%	$ 176,255	100.0%

Approximately 50% of our 2012 wholesale sales were of imported product compared to 52% in 2011. We define imported product as fully finished product that is sourced. Our domestic product includes certain products that contain components which were also sourced. We continue to believe that a blended strategy including domestically produced products primarily of a custom-order nature combined with sourcing of major collections provides the best value and quality of products to our customers.

The dollar value of our wholesale backlog, representing orders received but not yet shipped to the BHF store network or independent dealers, was $11,988 at November 24, 2012 and $10,325 at November 26, 2011. We expect that the November 24, 2012 backlog will be filled within fiscal 2013, with the majority of our backlog being filled during the first quarter.

We use lumber, fabric, leather, foam and other materials in the production of wood and upholstered furniture. These components are purchased from a variety of domestic and international suppliers and are widely available. The price of foam, which is highly-dependent on the cost of petroleum, has shown significant volatility in recent years. Prices for the other production components have recently experienced increases over rates of prior years. We currently assemble and finish these components in our two plants in the United States.

Retail Segment Overview – Company-Owned Retail Stores

The retail furniture industry remains very competitive and includes local furniture stores, regional furniture retailers, national department and chain stores and single-vendor branded retailers. As a whole, our store network with 53 Company-owned stores and 33 licensee-owned, ranks in the top 25 in retail furniture sales in the United States. We expect to increase the number of our Company-owned stores during 2013, primarily through a limited number of new store openings in selected markets.

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

	2012	2011	2010
Net sales	$ 171,633	$ 147,961	$ 122,241

Maintaining and enhancing our brand are critical to our ability to expand our base of customers and drive increased traffic at both Company-owned and licensee-owned stores. Our advertising and marketing campaign utilizes television, direct mail, catalogs, newspapers, magazines, radio and the internet in an effort to maintain and enhance our existing brand equity.

Our stores incorporate a stylish, residential feel while highlighting our unmatched custom manufacturing capabilities. It leverages our customization capabilities by dedicating space in the stores to design solutions for dining, upholstery, home entertainment and storage. Domestic custom manufacturing capabilities make it possible for us to offer a 30 day delivery promise on custom products. We also believe this design, organized around three targeted lifestyles, better communicates our capabilities to the consumer. Our lifestyle presentations are Contemporary, Casual and Traditional as described below:

- Contemporary—Youthful spirited lifestyle of a sophisticated city life much like Boston's Back Bay, the Village in Manhattan or Washington's Georgetown.
- Casual—Family-oriented with a relaxed atmosphere.
- Traditional—Sensible lifestyle of established affluence.

With the introduction of our strategic alliance with HGTV, the in-store design centers have been co-branded with HGTV to more forcefully market the concept of a "home makeover", an important point of differentiation for our stores that also mirrors much of the programming content on the HGTV network. Coupled with expanded national advertising on the HGTV network, we believe this alliance will help to increase store traffic and, consequently, comparable store sales.

To further solidify ourselves as a complete home furnishings retailer, we have expanded accessory product lines including lighting, rugs decorative wall art, mirrors and accent pillows that coordinate with each lifestyle presentation throughout the store. We have also increased our mattress offerings such that our stores now carry Sealy, Tempurpedic and Bassett branded products.

Investments/Real Estate Overview

We are committed to maintaining a strong balance sheet in order to withstand difficult industry conditions, allow us to take advantage of opportunities as market conditions improve, and to execute our long-term strategies. Our balance sheet currently includes an equity investment in Zenith, and certain retail real estate related to current and former licensee-owned stores. On May 2, 2011 we sold our equity investment in IHFC which is further discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation". Our investment balances at each of the last three fiscal year-ends are as follows:

	November 24, 2012	November 26, 2011	November 27, 2010
Certain retail real estate	$ 12,736	$ 16,257	$ 27,513
Zenith (Recorded in Other long-term assets)	6,484	6,137	5,147
Other marketable securities	-	2,939	14,279
Fortress	-	806	832
IHFC	-	-	(7,356)

We hold investments in retail store property that we either lease or have previously leased to licensees. These holdings, which also include closed store real estate currently leased to non-licensees, are presented as a long-term asset in our consolidated balance sheets. These real estate holdings are typically in urban, high-traffic retail locations. See Item 2, Properties, for additional information about our retail real estate holdings.

Our investment in Fortress represented the last remaining asset from the former hedge fund investment holdings of our Alternative Asset Fund, substantially all of which had been liquidated prior to 2010. Due to significant declines in net asset values of Fortress during the first quarter of fiscal 2012, the highly illiquid nature of the investment, and the high degree of uncertainty regarding our ability to recover our investment in the foreseeable future, we fully reserved the carrying amount of this investment.

During the fourth quarter of fiscal 2012 we completed the liquidation of our marketable securities portfolio, which had at the time consisted of bond mutual funds and fixed income securities. Previous holdings of equity securities had been liquidated during 2009 and 2010. In addition, money market fund assets previously classified as part of our investment portfolio at November 27, 2010 were reclassified as cash equivalents during fiscal 2011 due to the release of collateral restrictions which had been in place as part of a former credit agreement.

Trademarks and Patents

Our trademarks, including "Bassett" and the names of some of our marketing divisions, products and collections, are significant to the conduct of our business. This is important due to consumer recognition of the names and identification with our broad range of products. Certain of our trademarks are licensed to independent retailers for use in full store and store gallery presentations of our products. We also own copyrights that are important in the conduct of our business.

Research and Development

The furniture industry is considered to be a "fashion" industry subject to constant fluctuations to meet changing consumer preferences and tastes. As such, we are 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. We are not otherwise involved in "traditional" research and development activities nor do we sponsor the research and development activities of any of our customers.

Government Regulations

We believe that we have materially complied with all federal, state and local standards in the areas of safety, health and pollution and environmental controls. We are involved in environmental matters at certain of our plant facilities, which arise in the normal course of business. Although the final outcome of these environmental matters cannot be determined, based on the present facts, we do not believe that the final resolution of these matters will have a material adverse effect on our financial position or future results of operations.

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

People

We employed 1,412 people as of November 24, 2012, of which 715 were employed in our retail segment and 697 were employed in our wholesale segment. None of our employees are subject to collective bargaining arrangements and we have not experienced any recent work stoppages. We consider our relationship with our employees to be good.

Foreign and Domestic Operations and Export Sales

We have no foreign manufacturing or retail operations. We define export sales as sales to any country or territory other than the United States or its territories or possessions. Our export sales were approximately $6,121, $6,598, and $5,350 in 2012, 2011, and 2010, respectively. At November 24, 2012 and November 26, 2011, we had $6,878 and $2,748, respectively of our finished goods inventory physically warehoused in Vietnam and Indonesia.

Major Customers

Our risk exposure related to our customers, consisting primarily of trade accounts receivable along with other notes receivable and certain guarantees, totaled approximately $18,075 and $18,826 at November 24, 2012 and November 26, 2011, respectively. At November 24, 2012 approximately 12% of the aggregate risk exposure, net of reserves, shown above was attributable to one licensee. At November 26, 2011, approximately 20% of the aggregate risk exposure, net of reserves, shown above was attributable to two licensees accounting for approximately 10% each. In fiscal 2012, 2011 and 2010, no customer accounted for more than 10% of total net sales. See note 2 to our Consolidated Financial Statements for additional information.

Available Information

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

ITEM 1A. RISK FACTORS

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

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

The home furnishings industry has experienced a difficult period over the last 5 years marked with depressed housing starts, high unemployment, changing consumer confidence and uncertain fiscal policies. While 2012 showed improvement, considerable economic uncertainty still exists. Historically, the home furnishings industry has been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Should the current economic recovery falter or the current recovery in housing starts stall, consumer confidence and demand for home furnishings could deteriorate which could adversely affect our business through its impact on the performance of our Company-owned stores, as well as our licensees and the ability of a number of them to meet their obligations to us.

Unsuccessful implementation of the HGTV open market strategy and the development of a new furniture brand could be detrimental to future operating results.

In September of 2011, we announced the formation of a strategic partnership with HGTV, a division of Scripps Networks, LLC., which combines our 110 year heritage in the furniture industry with the penetration of 99 million households in the United States that HGTV enjoys today. As part of this alliance, we have developed, in conjunction with HGTV, a new line of furniture that contains only the HGTV® Home Collection brand and will be primarily marketed through select top-100 furniture retailers. We have incurred significant expense to design and procure the furniture and develop the in-house infrastructure to manage the brand. Should we not generate the incremental sales necessary to appropriately leverage the additional costs, future operating results could be adversely impacted.

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

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

Our company-owned stores may not achieve the anticipated growth and profitability.

Our Company-owned stores currently operate at a loss. Our goal is to operate these stores at a level of modest profitability to enhance operating margins generated by our wholesale operation. To be successful, we need to increase our sales per store while decreasing the support costs as a percentage of sales. As part of our strategy, we must hire, train and retain a qualified staff of design consultants to improve the customer experience. Competition with other furniture retailers for qualified design consultants also continues to increase. We also compete with other retailers for management personnel and appropriate retail locations. Failures and delays in implementing our retail strategies or failure to realize the benefits of these strategies could adversely impact our business and operating results.

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

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

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

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

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

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

Manufacturing realignments could result in a decrease in our near-term earnings.

We regularly review and evaluate our domestic manufacturing operations and offshore (import) sourcing capabilities. As a result, we sometimes realign those operations and capabilities and institute cost savings programs. These programs can include the consolidation and integration of facilities, functions, systems and procedures. We also may shift certain products from domestic manufacturing to offshore sourcing. These realignments and cost savings programs generally involve some initial cost and can result in decreases in our near-term earnings until we achieve the expected cost reductions. Failure to accomplish these actions as quickly as planned, or failure to fully achieve the expected cost reductions, could adversely impact our operating results and financial conditions.

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

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

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

Our pre-tax income for the year ended November 26, 2011 includes a significant non-recurring gain from the sale of our investment in IHFC and is therefore not typical of our recent results nor indicative of future results, and earnings and cash flows previously provided by our investment in IHFC will no longer continue in the future.

Our results for the year ended November 26, 2011 were favorably impacted by a non-recurring gain of $85,542 resulting from the sale of our interest in IHFC, and our liquidity position was substantially improved by the receipt of $70,562 in proceeds from that sale. Absent the IHFC transaction, we had not reported pretax income for any of the five fiscal years through November 26, 2011. Furthermore, significant earnings and cash flows previously realized from our investment in IHFC have ceased following the sale, and we have distributed a significant portion of the cash proceeds to our shareholders through dividends and share repurchases. Should we be unable to generate sufficient operating profit and cash flow from our continuing operations in the future, our liquidity will be adversely impacted as the funds provided by the IHFC sale transaction are exhausted. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations under Part II, Item 7 of this Annual Report on Form 10-K for a full discussion of our operating results.

The implementation of a new point of sale system for our retail operations could disrupt our business and have a negative impact on our results from operations.

We are in the process of implementing a new company-wide point of sale system for our retail operations. This system implementation may not result in improvements that outweigh its costs and may disrupt our operations. Our inability to mitigate future disruptions could negatively affect our business, results of operations and financial condition. The implementation subjects us to substantial costs and inherent risks associated with migrating from our legacy system.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

We own our corporate office building located in Bassett, Va.

We own the following facilities, by segment:

Wholesale Segment:

Facility	**Location**
Bassett Wood Division	Martinsville, Va.
Bassett Upholstery Division	Newton, N.C.
3 Warehouses	Bassett, Va.

In general, these facilities are suitable and are considered to be adequate for the continuing operations involved. All facilities are in regular use and provide more than adequate capacity for our manufacturing needs.

The following properties have ceased manufacturing operations and are currently held as idle facilities in connection with previous restructuring efforts:

Facility	**Location**
Bassett Superior Lines *	Bassett, Va.
Bassett Table *	Bassett, Va.
Outlet Store	Bassett, Va.
Bassett Fiberboard	Bassett, Va.
Warehouse†	Mt. Airy, N.C.

* Demolition substantially completed during 2012. Property now consists of vacant land.

† Property sold on January 25, 2013.

Retail Segment:

Real estate associated with our retail segment consists of 11 owned locations with an aggregate square footage of 276,887 and a net book value of $29,043. These stores are located as follows:

Concord, North Carolina	Greensboro, North Carolina
Greenville, South Carolina	Fredericksburg, Virginia
Houston, Texas (3 locations)	Gulfport, Mississippi
Knoxville, Tennessee	Las Vegas, Nevada
Louisville, Kentucky	

Of these locations, two are subject to land leases and two are subject to mortgages. Our remaining 42 store locations are leased from third-parties.

Other Real Estate Owned:

We hold investments in retail store property that we either lease or have previously leased to licensees. These are summarized as follows:

	Number of Locations	Aggregate Square Footage	Net Book Value (in thousands)
Leased to operating licensee	1	18,000	$ 3,841
Leased to others	3	67,521	6,726
Available for sale or lease	1	26,500	1,840
Total	5	112,021	$ 12,407

At November 24, 2012, there are 10 closed stores where we are paying the monthly lease amount due to being the lessee or subject to a lease guarantee. We have sublease agreements on 6 of these properties which help to defray a portion of the on-going cash requirements. We are actively marketing to sublease the remaining properties. From time-to-time, we may sublease these properties on a short-term basis to defray some of the cash costs. In addition, we may negotiate cash settlements to terminate our obligations under the leases.

See Note 18 to the Consolidated Financial Statements included under Item 8 of this Annual Report for more information with respect to our operating lease obligations.

ITEM 3. LEGAL PROCEEDINGS

In 2004, the US Environmental Protection Agency (EPA) advised us that we had been identified as a potentially responsible party (PRP) at the Ward Transformer Superfund site in Wake County, North Carolina. The EPA alleges that we are a responsible party because, prior to 1990, we sent transformers to the site for repair that contained certain polychlorinated biphenyls (PCBs) which were allegedly mishandled by the owner/operator of the site. Pursuant to a settlement agreement that we and several other PRPs (the “Initial PRP Group”) entered into with the EPA in 2005, the Initial PRP Group has paid for remediation work conducted at the Ward Transformer site. To date we have spent approximately $1,000 on the remediation of the site, however we estimate that our share of the total liability for remediation of the site should be approximately $295. Therefore, through litigation and collection efforts by the Initial PRP Group, we intend to seek recovery from dozens of other PRPs for our costs in excess of $295.

In 2009, our former vendor, Colonial Trading, Inc. (“Colonial”), filed a lawsuit against us alleging, among other things, breach of contract by the Company after we cancelled orders for cribs following product recalls. We filed counterclaims for breach of contract and warranty. On August 1, 2012, a jury returned a verdict in favor of Colonial and in October 2012 judgment was entered in the amount of $1,437. Colonial’s motion for attorney’s fees is pending. Both Bassett and Colonial have appealed; with Bassett seeking a new trial for damages for breach of express warranty, among other things, and Colonial seeking, among other things, to treble its breach of contract damages. We currently have sufficient reserves to cover the judgment amount.

ITEM 4B. EXECUTIVE OFFICERS OF THE REGISTRANT

John E. Bassett III, 54, has been with the Company since 1981 and served as Vice President of Wood Manufacturing from 1997 to 2001, as Vice President Global Sourcing from 2001 to 2006 and as Senior Vice-President of Global Sourcing since 2006

Jason W. Camp, 44, joined the Company in 2006 as Senior Vice President of Retail. Prior to joining Bassett, Mr. Camp was with Restoration Hardware, Inc. for nine years advancing to the position of Senior Vice President and General Manager of the Retail Division.

Bruce R. Cohenour, 54, has been with the Company since 2011 serving as Senior Vice President of Upholstery Merchandising. In January 2013, he was promoted to Senior Vice President of Sales and Merchandising. Prior to joining Bassett, Mr. Cohenour was with Hooker Furniture Corp. from 2007 through 2010, serving as Senior Vice President of National Accounts and Business Development unitl 2009. In 2009, he was promoted to Executive Vice President of Marketing and in 2010, he was promoted to President of the Case Goods Division.

J. Michael Daniel, 51, joined the Company in 2007 as Corporate Controller. From April 2009 through December 2009, he served as Corporate Controller and Interim Chief Financial Officer. In January 2010, he was appointed Vice President and Chief Accounting Officer. In January 2013, he was promoted to Senior Vice President and Chief Financial Officer.

Jay R. Hervey, Esq., 53, has served as the General Counsel, Vice President – Real Estate and Secretary for the Company since 1997.

Mark S. Jordan, 59, joined the Company in 1999 as Plant Manager. In 2001, he was promoted to Vice President of Upholstery Manufacturing and in 2002 he was promoted to Vice President and General Manager-Upholstery. He has served as Senior Vice President of Upholstery since 2006.

Robert H. Spilman, Jr., 56, has been with the Company since 1984. Since 2000, he has served as Chief Executive Officer and President.

PART II

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

Market and Dividend Information:

Bassett's common stock trades on the NASDAQ global select market system under the symbol "BSET." We had approximately 900 registered stockholders at November 24, 2012. The range of per share amounts for the high and low market prices and dividends declared for the last two fiscal years are listed below:

	Market Prices of Common Stock				Dividends Declared	
	2012		2011			
Quarter	**High**	**Low**	**High**	**Low**	**2012**	**2011**
First	$ 8.17	$ 7.38	$ 7.80	$ 3.98	$ 0.05	$ -
Second	10.87	8.15	9.03	6.73	0.05	0.03
Third	12.25	9.08	8.56	7.18	0.05	0.03
Fourth	13.00	10.60	8.05	6.62	1.30	0.54

Issuer Purchases of Equity Securities

(dollar amounts in thousands, except share and per share data)

	Total Shares Purchased	Avg Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1)
August 26 – September 29, 2012	—	—	—	$ 14,781
September 30 – October 27, 2012	96,600	$ 11.13	96,600	$ 13,705
October 28 – November 24, 2012	31,400	$ 11.70	31,400	$ 13,338

(1) The Company's Board of Directors has authorized the repurchase of up to $60,000 in Company stock. This repurchase plan was initially announced on June 23, 1998. On March 17, 2009, the Board of Directors increased the repurchase plan by $20,000.

ITEM 6. SELECTED FINANCIAL DATA

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

	2012	2011	2010	2009	2008
Net sales	$ 269,672	$ 253,208	$ 235,254	$ 232,722	$ 288,298
Gross profit	$ 141,322	$ 127,566	$ 112,688	$ 102,840	$ 114,899
Operating income (loss)	$ 5,080 (1)	$ (20,622) (1)	$ (4,687)	$ (21,575)	$ (18,576)
Gain on sale of affiliate	$ -	$ 85,542 (2)	$ -	$ -	$ -
Other income (loss), net	$ 6,934 (3)	$ (5,169) (3)	$ 2,479(3)	$ (2,878)	$ (4,834)
Income (loss) before income taxes	$ 12,014	$ 59,751	$ (2,208)	$ (24,453)	$ (23,410)
Income tax expense (benefit)	$ (14,699) (4)	$ 4,409 (4)	$ (206)	$ (1,754)	$ 16,945
Net income (loss)	$ 26,713	$ 55,342	$ (2,002)	$ (22,699)	$ (40,355)
Diluted earnings (loss) per share	$ 2.41	$ 4.79	$ (0.17)	$ (1.99)	$ (3.46)
Cash dividends declared	$ 15,920	$ 6,757	$ -	$ -	$ 17,464
Cash dividends per share	$ 1.45	$ 0.60	$ -	$ -	$ 1.50
Total assets	$ 227,180	$ 223,174	$ 197,317	$ 216,229	$ 245,042
Long-term debt	$ 3,053	$ 3,662	$ 4,295	$ 31,953	$ 40,346
Current ratio	2.52 to 1	2.71 to 1	1.48 to 1	2.42 to 1	2.34 to 1
Book value per share	$ 14.51	$ 13.44	$ 9.20	$ 9.63	$ 11.40
Weighted average number of shares	11,095,411	11,544,170	11,459,257	11,395,789	11,663,857

(1) See note 16 to the Consolidated Financial Statements related to restructuring and asset impairment charges recorded in 2012 and 2011.
(2) See note 11 to the Consolidated Financial Statements related to the gain resulting from the sale of our interest in IHFC on May 2, 2011.
(3) See note 9 to the Consolidated Financial Statements related to funds received from the Continued Dumping and Subsidy Offset Act in 2012, 2011 and 2010.
(4) See note 12 to the Consolidated Financial Statements related to the effects of changes in our valuation allowance on deferred tax assets during fiscal 2012 and 2011.

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

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 110-year history has instilled the principles of quality, value, and integrity in everything that we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and to meet the demands of a global economy.

With 86 BHF stores at November 24, 2012, we have leveraged our strong brand name in furniture into a network of corporate and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. We created our store program in 1997 to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. The store features custom order furniture ready for delivery in less than 30 days, more than 1,000 upholstery fabrics, free in-home design visits, and coordinated decorating accessories. We believe that our capabilities in custom furniture have become unmatched in recent years. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its delivery. The selling philosophy in the stores is based on building strong long term relationships with each customer. Sales people are referred to as Design Consultants and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. We continue to strengthen the sales and design talent within our Company-owned retail stores. During 2011, our Design Consultants completed extensive Design Certification training coursework. This coursework has strengthened their skills related to our house call and design business, and is intended to increase business with our most valuable customers.

In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

In September of 2011, we announced the formation of a strategic partnership with HGTV, a division of Scripps Networks, LLC., which combines our 110 year heritage in the furniture industry with the penetration of 99 million households in the United States that HGTV enjoys today. This alliance encompasses strategies for both the BHF store network and other open market sales channels. For the store network, the in-store design centers have been co-branded with HGTV to more forcefully market the concept of a "home makeover", an important point of differentiation for our stores that also mirrors much of the programming content on the HGTV network. In addition, we have developed, in conjunction with HGTV, a new line of furniture that contains only the HGTV® Home Collection brand and will be primarily marketed through select top-100 furniture retailers in a phased approach. Shipments of floor samples for phase I were completed in January 2013 for 13 retailers with over 50 floors. Floor sample shipments for phase II dealers will begin in February with completion by April 2013. Phase III will begin later in 2013.

Our store network included 53 Company-owned and operated stores and 33 licensee-owned stores at November 24, 2012. During fiscal 2012, we opened two new stores, one in Torrance, California in the Los Angeles market and one in Paramus, New Jersey in the New York City/Bergen County market; and we acquired three stores, one store from a licensee in Knoxville, Tennessee, and two from a licensee in Orange County, California. We also relocated a store within the Richmond, Virginia market, closing the previous location in Glen Allen, Virginia and opening the new location in Short Pump, Virginia. One additional store located in Austin, Texas was closed during the second quarter of 2012. In December 2012, a new licensee-owned store was opened in San Jose, California.

The following table summarizes the changes in store count during fiscal 2012:

	November 26, 2011	Openings	Closed	Transfers	November 24, 2012
Company-owned stores	49	3	(2)	3	53
Licensee-owned stores	39	-	(3)	(3)	33
Total	88	3	(5)	-	86

Our wholesale operations include an upholstery plant in Newton, North Carolina that produces a wide range of upholstered furniture. We believe that we are an industry leader with our quick-ship custom upholstery offerings. We also operate a custom dining manufacturing facility in Martinsville, Va. Most of our wood furniture and certain of our upholstery offerings are sourced through several foreign plants, primarily in Vietnam and Indonesia. We define imported product as fully finished product that is sourced internationally. For fiscal 2012, approximately 50% of our wholesale sales were of imported product compared to 52% for fiscal 2011.

Traffic to our website, www.bassettfurniture.com, continues to grow. The ultimate goal of our digital strategy is to drive traffic to our retailers while deepening interactions with our consumers. Understanding that more and more consumers are using the web to research before making a purchase, we have worked diligently to enhance our online presence by making it easier for consumers to browse our wide array of goods and build custom furniture. In 2013, we will continue to make improvements to our website and increase our social media presence to drive more visitors to our website and more qualified prospects to our stores. While sales through our website are currently not material, they have increased significantly in the last several years. We are leveraging our Company-owned and licensed store network to handle delivery and customer service for orders placed online.

Although overall conditions for our industry and our Company have been difficult over the past several years, there has been improvement during the last year. Housing starts, which our industry tracks as a key leading economic indicator, have been steadily improving for several quarters, although they still remain well below pre-recession levels. Consumers continue to be faced with general economic uncertainty fueled by continuing high unemployment and uncertain fiscal policy. These conditions have limited the resumption of growth for "big ticket" consumer purchases such as furniture. Consequently, this put pressure on certain of our dealers' ability to generate adequate profits to fully pay us for the furniture we have sold to them. As a result, prior to 2012, we incurred significant bad debt and notes receivable valuation charges. Beginning during the second half of 2011 and continuing into 2012, this trend improved significantly as we only incurred bad debt charges of $376 for fiscal 2012 compared with $13,490 and $6,567 for fiscal 2011 and 2010, respectively, reflecting improved credit positions with our current fleet of licensees. We believe that the current level of bad debt and notes receivable valuation charges during fiscal 2012 is more indicative of the expected trend of future charges. Although management will continue to work closely with our licensees to ensure the success of both the licensee and Bassett, further store closures are possible should any licensees experience severe deteriorations in their credit positions from which we believe they are unlikely to recover.

Analysis of Operations

Our fiscal year ends on the last Saturday of November, which periodically results in a 53-week year. Fiscal 2012, 2011 and 2010 each contained 52 weeks. Net sales, gross profit, selling, general and administrative (SG&A) expense, and operating income (loss) were as follows for the years ended November 24, 2012, November 26, 2011 and November 27, 2010:

	2012		2011		2010	
Net sales	$ 269,672	100.0%	$ 253,208	100.0%	$ 235,254	100.0%
Gross profit	141,322	52.4%	127,566	50.4%	112,688	47.9%
SG&A	134,796	50.0%	122,023	48.2%	110,808	47.1%
Bad debt and notes receivable valuation charges	376	0.1%	13,490	5.3%	6,567	2.8%
Other charges	1,070	0.4%	12,675	5.0%	-	0.0%
Income (loss) from operations	$ 5,080	1.9%	$ (20,622)	-8.1%	$ (4,687)	-2.0%

Sales for fiscal 2012 were $269,672 as compared to $253,208 for 2011 and $235,254 for 2010, representing increases of 6.5% and 7.6%, respectively. This trend primarily reflects the increase in the number of stores owned and operated by us, as well as growth in our wholesale shipments outside of our licensee network. Our consolidated net sales by segment were as follows:

	2012	2011	2010
Wholesale	$ 185,187	$ 177,372	$ 176,255
Retail	171,633	147,961	122,241
Inter-company elimination	(87,148)	(72,125)	(63,242)
Consolidated net sales	$ 269,672	$ 253,208	$ 235,254

Gross margins for fiscal 2012, 2011, and 2010 were 52.4%, 50.4%, and 47.9%, respectively. The margin increases are primarily attributable to additional retail markup realized as the result of the continued expansion of our Company-owned store network in our retail segment. Selling, general and administrative expenses, excluding bad debt and notes receivable valuation charges, increased $12,773 in 2012 as compared to 2011 and increased $11,215 in 2011 as compared to 2010 primarily due to the increase in the number of Company-owned retail stores as each additional store opening or acquisition results in incremental fixed overhead costs, primarily associated with local store personnel, occupancy costs and warehousing expenses. The incremental SG&A expenses associated with each new store will be ongoing. In addition, wholesale SG&A increased in 2012 over 2011 primarily due to spending associated with the development of our HGTV initiative. Bad debt and notes receivable valuation charges for fiscal 2012 decreased from the prior year by $13,114, reflecting the improved credit positions of our current fleet of licensees, whereas bad debt and notes receivable valuation charges had increased $6,923 in 2011 from 2010 levels. This increase reflected the continued deterioration of certain of our licensees during the first half of 2011. As a result, we acquired nine stores from four licensees and closed six stores with three other licensees during fiscal 2011. Following the takeover or closure of these troubled licensee-owned stores, our bad debt and notes receivable valuation charges have averaged approximately $140 per quarter since the third quarter of 2011. We believe that this average level of bad debt and notes receivable valuation charges is more indicative of the expected trend of future charges.

Certain items affecting comparability between periods are noted below in “Investment and Real Estate Segment and Other Items Affecting Net Loss”.

The following table presents certain significant items that have negatively impacted our results of operations. We believe these items should be presented separately in order to understand and evaluate our results and trends. See note 16 of our Consolidated Financial Statements for additional information regarding these charges:

	2012	2011	2010
Restructuring and impaired asset charges:			
Impairment of leasehold improvements	$ 123	$ 1,156	$ -
Asset impairment charge associated with closed plants	588	1,312	-
Severance & other restructuring	-	32	-
Lease exit costs	359	3,728	-
Licensee debt cancellation charges	-	6,447	-
	$ 1,070	$ 12,675	$ -

Segment Information

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

- **Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores. We eliminate the sales between our wholesale and retail segments as well as the imbedded profit in the retail inventory for the consolidated presentation in our financial statements.

- **Retail – Company-owned Stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities (including real estate) and capital expenditures directly related to these stores.

- **Investments and Real Estate.** Our investments/real estate business segment consists of our holdings of retail real estate leased or previously leased as licensee stores, the equity investment in Zenith Freight Lines, LLC (“Zenith”), which hauls freight and warehouses inventory for the Company, and International Home Furnishings Center, Inc. (“IHFC”) until sold on May 2, 2011. We also hold an interest in the Fortress Value Recovery Fund I, LLC (“Fortress”) which we fully reserved during fiscal 2012. We formerly held a portfolio of marketable securities which we liquidated during the fourth quarter of fiscal 2012. Although this segment does not have operating earnings, income from the segment is included in other income (loss), net, in our consolidated statements of operations.

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

	Year Ended November 24, 2012			
	Wholesale	Retail	Eliminations	Consolidated
Net sales	$ 185,187	$ 171,633	$ (87,148) (1)	$ 269,672
Gross profit	59,817	82,361	(856) (2)	141,322
SG&A expense	51,941	84,428	(1,573) (3)	134,796
Bad debt and notes receivable valuation charges	376	-	-	376
Income (loss) from operations (4)	$ 7,500	$ (2,067)	$ 717	$ 6,150

	Year Ended November 26, 2011			
	Wholesale	Retail	Eliminations	Consolidated
Net sales	$ 177,372	$ 147,961	$ (72,125) (1)	$ 253,208
Gross profit	57,804	69,862	(100) (2)	127,566
SG&A expense	48,708	74,357	(1,042) (3)	122,023
Bad debt and notes receivable valuation charges	13,490	-	-	13,490
Income (loss) from operations (4)	$ (4,394)	$ (4,495)	$ 942	$ (7,947)

	Year Ended November 27, 2010			
	Wholesale	Retail	Eliminations	Consolidated
Net sales	$ 176,255	$ 122,241	$ (63,242) (1)	$ 235,254
Gross profit	55,010	58,628	(950) (2)	112,688
SG&A expense	46,012	66,015	(1,219) (3)	110,808
Bad debt and notes receivable valuation charges	6,567	-	-	6,567
Income (loss) from operations (4)	$ 2,431	$ (7,387)	$ 269	$ (4,687)

(1) Represents the elimination of sales from our wholesale segment to our Company-owned BHF stores.
(2) Represents the change for the period in the elimination of intercompany profit in ending retail inventory.
(3) Represents the elimination of rent charged to our retail stores occupying Company-owned real estate.
(4) Excludes the effects of restructuring and impairment charges, lease exit costs, and, with respect to the 2011 period, licensee debt cancellation charges. These charges are not allocated to our segments.

Wholesale Segment

Net sales, gross profit, selling, general and administrative (SG&A) expense, and operating income (loss) for our Wholesale Segment were as follows for the years ended November 24, 2012, November 26, 2011 and November 27, 2010:

	2012		**2011**		**2010**	
Net sales	$ 185,187	100.0%	$ 177,372	100.0%	$ 176,255	100.0%
Gross profit	59,817	32.3%	57,804	32.6%	55,010	31.2%
SG&A	51,941	28.0%	48,708	27.5%	46,012	26.1%
Bad debt and notes receivable valuation charges	376	0.2%	13,490	7.6%	6,567	3.7%
Income (loss) from operations	$ 7,500	4.0%	$ (4,394)	-2.5%	$ 2,431	1.4%

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

	2012		2011		2010	
Wood	$ 78,194	42.2%	$ 77,410	43.6%	$ 77,326	43.9%
Upholstery	105,377	56.9%	98,577	55.6%	97,258	55.2%
Other	1,616	0.9%	1,385	0.8%	1,671	0.9%
Total	$ 185,187	100.0%	$ 177,372	100.0%	$ 176,255	100.0%

Fiscal 2012 as Compared to Fiscal 2011

Net sales for the wholesale segment were $185,187 for 2012 as compared to $177,372 for 2011, an increase of 4.4%. Wholesale shipments to the BHF store network increased 0.7% while shipments outside of the network increased 15.4%. The slight increase in sales to the store network came in spite of a decline in the total number of BHF stores. The increase in the wholesale shipments outside the network was primarily due to an 18% increase in the traditional channel partially offset by lower shipments to a significant national account customer.

Gross margins for the wholesale segment were 32.3% for 2012, down slightly from the gross margin of 32.6% for 2011. Wholesale SG&A, excluding bad debt and notes receivable valuation charges, increased $3,233 to $51,941 for 2012 as compared to $48,708 for 2011. As a percentage of net sales, SG&A increased 0.5 percentage points to 28.0% for 2012 as compared to 27.5% for 2011. This increase was primarily due to incremental marketing spend of $1,478 associated with the development of the HGTV initiative and a temporary showroom in High Point to display the new HGTV furniture. This increase was partially offset by improved leverage of fixed costs associated with higher sales. We recorded $376 of bad debt and notes receivable valuation charges during 2012 as compared with $13,490 for 2011, which reflects the improved credit positions with our current fleet of licensees. The bad debt and notes receivable valuation charges which we have experienced since the third quarter of 2011 have averaged approximately $140 per quarter. We believe that this average level of bad debt and notes receivable valuation charges is more indicative of the expected trend of future charges

Fiscal 2011 as Compared to Fiscal 2010

Net sales for the wholesale segment were $177,372 for 2011 as compared to $176,255 for 2010, an increase of 0.6%. Reductions in wholesale sales due to 13 fewer stores in the network were offset by a 10.5% increase in sales through other channels.

Gross margins for the wholesale segment were 32.6% for 2011 as compared to 31.2% for 2010. This increase was primarily due to lower promotional discounts and improved margins in our wood operations largely from reduced container freight costs. Wholesale SG&A, excluding bad debt and notes receivable valuation charges, increased $2,696 to $48,708 for 2011 as compared to $46,012 for 2010. As a percentage of net sales, SG&A increased 1.4 percentage points to 27.5% for 2011 as compared to 26.1% for 2010. This increase was primarily due to higher sales and marketing costs, including costs to prepare for the launch of the HGTV product line. We recorded $13,490 of bad debt and notes receivable valuation charges for 2011 as compared with $6,567 for 2010. This increase reflected the continued deterioration of certain of our licensees during 2011. As a result, we acquired nine and closed six licensee-owned stores during 2011.

Wholesale Backlog

The dollar value of our wholesale backlog, representing orders received but not yet delivered to dealers and Company stores as of November 24, 2012, November 26, 2011, and November 28, 2009, was as follows:

	2012	2011	2010
Year end wholesale backlog	$ 11,988	$ 10,325	$ 12,451

Retail Segment – Company Owned Stores

Net sales, gross profit, selling, general and administrative (SG&A) expense, and operating loss for our Retail Segment were as follows for the years ended November 24, 2012, November 26, 2011 and November 27, 2010:

	2012		**2011**		**2010**	
Net sales	$ 171,633	100.0%	$ 147,961	100.0%	$ 122,241	100.0%
Gross profit	82,361	48.0%	69,862	47.2%	58,628	48.0%
SG&A	84,428	49.2%	74,357	50.3%	66,015	54.0%
Loss from operations	$ (2,067)	-1.2%	$ (4,495)	-3.0%	$ (7,387)	-6.0%

The following tables present operating results on a comparable store basis for each comparative set of periods. Table A compares the results of the 40 stores that were open and operating for all of 2012 and 2011. Table B compares the results of the 32 stores that were open and operating for all of 2011 and 2010.

Comparable Store Results:

	Table A: 2012 vs 2011 (40 Stores)				Table B: 2011 vs 2010 (32 Stores)			
	2012		2011		2011		2010	
Net sales	$ 140,345	100.0%	$ 128,580	100.0%	$ 99,924	100.0%	$ 95,342	100.0%
Gross profit	67,875	48.4%	62,180	48.4%	48,366	48.4%	46,567	48.8%
SG&A expense	67,835	48.3%	64,191	49.9%	50,429	50.5%	49,993	52.4%
Income (loss) from operations	$ 40	0.0%	$ (2,011)	-1.6%	$ (2,063)	-2.1%	$ (3,426)	-3.6%

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

All Other (Non-Comparable) Store Results:

	2012 vs 2011 All Other Stores				2011 vs 2010 All Other Stores			
	2012		2011		2011		2010	
Net sales	$ 31,288	100.0%	$ 19,381	100.0%	$ 48,037	100.0%	$ 26,899	100.0%
Gross profit	14,486	46.3%	7,682	39.6%	21,496	44.7%	12,061	44.8%
SG&A expense	16,593	53.0%	10,166	52.5%	23,928	49.8%	16,022	59.6%
Loss from operations	$ (2,107)	-6.7%	$ (2,484)	-12.8%	$ (2,432)	-5.1%	$ (3,961)	-14.7%

Fiscal 2012 as Compared to Fiscal 2011

Our Company-owned stores had sales of $171,633 in fiscal 2012 as compared to $147,961 in fiscal 2011, an increase of 16.0%. The increase was comprised of an $11,765, or 9.1%, increase in comparable store sales, along with an $11,907 increase in non-comparable store sales. Contributing to the improvement in comparable store sales were the successful introduction of new products during the second half of 2012, improved merchandising in our stores and improvements in the quality and training of the design associates who sell our products. In addition, a general improvement in the retail environment in combination with targeted advertising also produced increased traffic through our stores. While we do not recognize sales until goods are delivered to the customer, our management tracks written sales (the dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 10.6% for fiscal 2012 as compared to fiscal 2011.

Gross margins for fiscal 2012 increased 0.8 percentage points to 48.0% as compared to fiscal 2011 due primarily to the adverse impact of store liquidation sales run during 2011 related to the closure of seven retail locations. This increase in margins was also attributable in part to improved pricing strategies and increased sales of higher margin mattresses. SG&A increased $10,071, primarily due to increased store count as each additional store opening or acquisition results in incremental fixed overhead costs, primarily associated with local store personnel, occupancy costs and warehousing expenses. The incremental SG&A expenses associated with each new store will be ongoing. On a comparable store basis, SG&A as a percentage of sales decreased 1.1 percentage points to 49.2% for fiscal 2012 as compared to the fiscal 2011 due to increased sales leveraging fixed costs and improved operating efficiencies. Comparable stores had operating income of $40 for fiscal 2012, essentially breaking even for the first time on an annual basis, as compared to a loss of $2,011, or 1.6% of sales, for fiscal 2011. In all other stores, the operating loss was $2,107, or 6.7%, of sales, for fiscal 2012, as compared to $2,432, or 5.1%, of sales for fiscal 2011.

Fiscal 2011 as Compared to Fiscal 2010

Our Company-owned stores had sales of $147,961 in 2011 as compared to $122,241 in 2010, an increase of 21.0%. The increase was comprised of a $21,138 increase primarily from additional Company-owned stores and a $4,582, or 4.8%, increase in comparable store sales. While we do not recognize sales until goods are delivered to the customer, we track written sales (the dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 2.9% in 2011 over 2010.

Gross margins for 2011 decreased 0.8 percentage points to 47.2% as compared to 2010 due primarily to lower margins from the store liquidation sales at the seven stores closed, as well as slightly lower margins from comparable stores. SG&A increased $8,342, primarily due to increased store count. On a comparable store basis, SG&A decreased 1.9 percentage points to 50.5% for 2011 as compared to 2010 due to increased sales leveraging fixed costs and improved operating efficiencies. Operating losses for the comparable stores decreased by $1,363 to $2,063, or 2.1% of sales. In all other stores, the operating loss was $2,432 or 5.1% of sales. This higher level of operating losses reflects the fact that the acquired stores were struggling or failing at the time of acquisition. It has generally taken six to twelve months of operations by corporate retail management to either implement the changes necessary to improve performance in the acquired stores or to make a final determination regarding their on-going viability.

Retail Comparable Store Sales Increases (Decreases)

	Delivered	**Written**
Fiscal 2012	9.1%	10.6%
Fiscal 2011	4.8%	2.9%
Fiscal 2010	-4.7%	-1.3%

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers as of November 24, 2012, November 26, 2011, and November 27, 2010, was as follows:

	2012	**2011**	**2010**
Year end retail backlog	$ 18,180	$ 14,101	$ 13,689
Retail backlog per open store	$ 343	$ 288	$ 291

Investment and Real Estate Segment and Other Items Affecting Net Income (Loss)

At November 24, 2012, our investments and real estate segment consists of our equity investment in Zenith, and our investments in retail real estate related to current and former licensee stores. Previously, this segment had also included our investments in marketable securities (which were liquidated during the fourth quarter of fiscal 2012), our investment in the Fortress Value Recovery Fund I, LLC ("Fortress", which was fully impaired during the first quarter of fiscal 2012), and our equity investment in IHFC (sold during the second quarter of fiscal 2011). Although this segment does not have operating earnings, income or loss from the segment is included in other income in our consolidated statements of operations. Our equity investment in IHFC was not included in the identifiable assets of this segment at November 27, 2010 since it had a negative book value and was therefore included in the long-term liabilities section of our consolidated balance sheet. As more fully discussed under "Liquidity and Capital Resources" below, our entire investment in IHFC was sold during the second quarter of 2011 resulting in a gain of $85,542.

We own 49% of Zenith Freight Lines, LLC ("Zenith"), which provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors and also provides home delivery services to furniture retailers. We have contracted with Zenith to provide for substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for several of our Company-owned retail stores. We believe our partnership with Zenith allows us to focus on our core competencies of manufacturing and marketing home furnishings. Zenith focuses on offering Bassett customers best-of-class service and handling. We consider the expertise that Zenith exhibits in logistics to be a significant competitive advantage for us. In addition, we believe that Zenith is well positioned to take advantage of current growth opportunities for providing logistical services to the furniture industry. At November 24, 2012 and November 26, 2011, our investment in Zenith was $6,484 and $6,137, respectively. During the second quarter of fiscal 2011, we made an additional cash investment of $980, which represented our 49% share of a total $2,000 equity contribution to Zenith to partially fund its acquisition of a warehouse facility.

Investment and real estate income (loss) and other items affecting net income (loss) for fiscal 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Gain on sale of IHFC (1)	$ -	$ 85,542	$ -
Income from unconsolidated affiliated companies, net (1)	347	1,840	4,700
Income from Continued Dumping & Subsidy Offset Act (2)	9,010	765	488
Gain on sale of equity securities (3)	-	-	2,024
Other than temporary impairment of investments (4)	(806)	-	-
Interest expense (5)	(295)	(912)	(1,994)
Retail real estate impairment charges (6)	-	(3,953)	-
Lease exit costs (6)	-	(837)	-
Loan and lease guarantee (expense) recovery (7)	41	(1,282)	(1,407)
Gain on mortgage settlements (8)	-	1,305	-
Other	(1,363)	(2,095)	(1,332)
Total income	$ 6,934	$ 80,373	$ 2,479

(1) See note 11 to the Consolidated Financial Statements for information related to our gain on the sale of IHFC as well as information related to our income from unconsolidated affiliated companies.
(2) See note 9 to the Consolidated Financial Statements for information related to our income from the Continued Dumping and Subsidy Offset Act ("CDSOA").
(3) Represents the gain realized upon the completion of the liquidation of our portfolio of marketable equity securities during the first quarter of fiscal 2010. This liquidation had been initiated during fiscal 2009.
(4) Represents the full impairment of our investment in Fortress. See note 8 to the Consolidated Financial Statements for additional information.
(5) Our interest expense consists primarily of interest on our retail real estate mortgage obligations. This expense has been declining steadily as those obligations have been repaid.
(6) See note 16 to the Consolidated Financial Statements for additional information related to impairment charges and lease exit costs related to our retail real estate.
(7) Loan and lease guarantee expense consists of adjustments to our reserves for the net amount of our estimated losses on loan and lease guarantees that we have entered into on behalf of our licensees. The recovery (expense) recognized for fiscal 2012, 2011 and 2010 reflects the changes in our estimates of the additional risk that we may have to assume the underlying obligations with respect to our guarantees.
(8) See note 13 to the Consolidated Financial Statements for information related to the gain on mortgage settlements during fiscal 2011.

Provision for Income taxes

We recorded an income tax provision (benefit) of $(14,699), $4,409 and $(206) in fiscal 2012, 2011 and 2010, respectively. For fiscal 2012, our effective tax rate of approximately (122.3)% differs from the statutory rate of 35.0% primarily due to the reversal of the majority of the valuation allowance on existing deferred tax assets, resulting in a credit to income of $18,704. For fiscal 2011, our effective tax rate of 7.3% differed from the statutory rate of 35.0% primarily due to our utilization of net operating loss carryforwards and credits to significantly offset the taxable gain on the sale of our investment in IHFC, resulting in a benefit of $6,341 against our tax provision. The benefit recognized in fiscal 2010 arose primarily as a result of the lapse of the statute of limitations on unrecognized state tax benefits, partially offset by the accrual of income taxes to be paid in certain states and penalties associated with certain unrecognized tax benefits. See note 12 to the Consolidated Financial Statements for additional information regarding our income tax provision (benefit), as well as our net deferred tax assets and other matters.

With the release of the majority of the valuation allowance on our deferred tax assets, we now have net deferred tax assets of $17,317 as of November 24, 2012, which, upon utilization, are expected to reduce our cash outlays for income taxes in future years. It will require approximately $49,000 of future taxable income to utilize our net deferred tax assets.

Liquidity and Capital Resources

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

With significant additional liquidity provided by the sale of our interest in IHFC, the final distribution of funds from the CDSOA, and the gradual recovery of our sales from the low point reached during the recession, we have strengthened our balance sheet and have begun to see a return to operating profitability. Furthermore, the vast majority of the stores that were operated by the licensees experiencing the most severe financial distress have since been taken over by us or closed, resulting in a remaining fleet of licensees which we believe to be considerably more financially sound.

Sale of IHFC & Final Distribution of CDSOA Funds

During the second quarter of fiscal 2012, we received $9,010 representing our share of the final distribution of duties that had been withheld by U.S. Customs and Border Protection under the Continued Dumping and Subsidy Offset Act. See note 9 to the Consolidated Financial Statements for additional information regarding the CDSOA final distribution and claims that could possibly result in the return of some or all of this distribution.

On May 2, 2011, we completed the sale of our investment in IHFC, receiving cash proceeds of $69,152 upon closing and recording a gain of $85,542. During the first quarter of fiscal 2012 we received an additional $1,410 representing our share of the release of a tax indemnification escrow which had been withheld from proceeds at closing. At November 24, 2012, we still carried a receivable in the amount of $4,695 representing a general indemnification escrow withheld at closing. On December 19, 2012, we received $2,348 for the release of half of the general indemnification escrow, with the remainder, provided it is not used for contingencies, being due for release to us during 2014. Currently, we have no reason to believe that any obligations will arise out of such contingencies and therefore expect that the escrowed funds, along with earnings thereon, will be released to us in their entirety as scheduled. See note 11 to the Consolidated Financial Statements for additional information regarding the sale of IHFC.

With the additional liquidity provided by these events, we have retired certain debt and other long-term obligations, settled various closed stores and idle facilities obligations, resumed paying a quarterly dividend, began buying back stock and paid special dividends of $0.50 per share and $1.25 per share during fiscal 2012, as well as regular and special dividends of $0.10 and $0.50 per share, respectively, during 2011. We will continue to evaluate appropriate uses of available cash which may include more of such items previously listed along with future working capital needs and investments in new or repositioned Company-owned stores.

Cash Flows

Cash provided by operations during fiscal 2012 was $7,956 compared to cash used in operations of $5,431 during fiscal 2011, representing an improvement of $13,387 in cash flows from operations. Fiscal 2012 included $9,010 received from the final CDSOA distribution while no similar distributions were received during fiscal 2011. The remaining improvement of $4,377 represents improved operations, offset in part by planned investment in additional inventory associated with the launch of new products.

Our overall cash position declined during fiscal 2012 by $24,035. Offsetting the $7,956 of cash provided by operating activities was $28,184 of cash used in financing activities for the payment of regular and special dividends and for the repurchase of common stock. Cash used in investing activities of $3,807 included: investments in property and equipment of $9,000, primarily related to our new store locations and the purchase of a new retail data processing system expected to become operational during the first half of fiscal 2013, partially offset by net proceeds from the liquidation of our remaining portfolio of marketable securities, the release of previously escrowed funds from the sale of IHFC, and collections on our notes receivable. See our Consolidated Statement of Cash Flows for additional information regarding our sources and uses of cash during fiscal 2012, 2011 and 2010. With cash and cash equivalents of $45,566 on hand at November 24, 2012, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Receivables and Inventory

We recorded $376 of bad debt and notes receivable valuation charges during fiscal 2012 as compared to $13,490 during fiscal 2011, reflecting improved credit positions with our current fleet of licensees. Over the six quarters ended with the second quarter of 2011, we recorded $19,593 of bad debt and notes receivable valuation charges. The vast majority of these charges related to licensee stores that were closed or taken over. During that time period, we terminated operating licenses covering 29 stores as these licensees were struggling to meet their obligations to us. Of these 29 stores, 9 were closed and 20 were acquired to be operated as Company-owned stores. Although future store closures and acquisitions are possible, we expect the pace to be significantly less than during that time period. In addition, we believe the remaining fleet of licensees is more financially sound than those we terminated during that time period. The bad debt and notes receivable valuation charges which we have experienced since the third quarter of 2011 have averaged approximately $140 per quarter. We believe that this average level of bad debt and notes receivable valuation charges is more indicative of the expected trend of future charges. See notes 2, 4 and 6 to the Consolidated Financial Statements for additional information regarding our accounts and notes receivable at November 24, 2012 and November 26, 2011.

Certain of our accounts and notes receivable are secured by the filing of security statements in accordance with the Uniform Commercial Code and/or real estate owned by the note holder and in some cases, personal guarantees by our licensees. Our practice has generally been to work with the store owner to run a going out of business sale and use any proceeds to fund the remaining receivable. Our success with these events has varied. However, typically the amounts recovered have not been materially different from the carrying amount of the receivable. Consequently, we generally have not been required to record significant bad debt expenses upon the conclusion of the event.

Our investment in inventory affects our liquidity in several different ways. First, cash paid for raw materials, labor, and factory overhead for the manufacture or assembly of our domestic inventories is typically paid out well in advance of receiving cash from the sale of these inventories. Payments for our imported inventories are funded much further in advance of receiving cash from the sale of these inventories as compared to our domestically manufactured or assembled inventories. The length of our import supply chain necessitates complex forecasting of future demand levels and is highly judgmental. In economic downturns, the speed at which we can respond to decreasing demand is slowed, as we typically have imported inventory in shipment or being manufactured at any given time. In addition, we may also have inventory commitments under purchase orders that have not begun the manufacturing process. Consequently, as inventories build temporarily during downturns or as we near new product roll-outs, our liquidity is reduced as we have more cash invested in our products. Second, the availability under our revolving credit facility is impacted by changes in our inventory balances. Lastly, if we fail to respond to changes in consumer tastes quickly enough, inventories may build and decrease our liquidity. See note 5 to the Consolidated Financial Statements for additional information regarding the composition of our inventories as well as our reserves for excess quantities and obsolete items.

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

	Wholesale Segment	Retail Segment	Total
Balance at November 27, 2010	$ 1,519	$ 209	$ 1,728
Additions charged to expense	688	272	960
Write-offs	(1,220)	(293)	(1,513)
Balance at November 26, 2011	987	188	1,175
Additions charged to expense	1,334	443	1,777
Write-offs	(1,606)	(257)	(1,863)
Balance at November 24, 2012	$ 715	$ 374	$ 1,089

The increase in additions charged to expense for fiscal 2012 over 2011 is primarily related to reserves taken on discontinued products as new product offerings were rolled out during the second half of 2012.

Our estimates and assumptions used in the determination of our inventory reserves have been reasonably accurate in the past. We did not make any significant changes to our methodology for determining inventory reserves in 2012 and do not anticipate that our methodology is reasonably likely to change in the future. A plus or minus 10% change in our inventory reserves would not have been material to our financial statements for the periods presented.

Our annual inventory turnover rate and ending days supply on hand for the years ended November 24, 2012, November 26, 2011 and November 27, 2010 are as follows:

	2012	2011	2010
Consolidated:			
Annual inventory turns	2.5	2.9	3.3
Ending days supply on hand	164	131	122
Wholesale segment:			
Annual inventory turns	3.9	4.5	5.3
Ending days supply on hand	107	84	77
Retail Segment:			
Annual inventory turns	4.1	4.1	3.9
Ending days supply on hand	99	90	105

On a consolidated basis and for the wholesale segment, the reduced inventory turnover rate and increased supply on hand for fiscal 2012 as compared to 2011 is primarily due to an investment in inventory for the HGTV initiative, timing of receipt of certain inventory from Asia, planned increases to support other upholstery growth initiatives, and the increasing proportion of Company-owned BHF stores in the total store network (62% of BHF stores were Company-owned at November 24, 2012 as compared with 56% at November 26, 2011). Inventory sold by our wholesale segment to our retail segment remains on our consolidated balance sheet for a longer period of time. At our retail segment, the turnover rate was consistent for fiscal 2012 as compared to 2011, while the slight increase in days supply on hand is due in part to the acquisition of two Company-owned stores late in the fourth quarter of fiscal 2012.

The decline in consolidated and wholesale inventory turns, along with the related increase in days supply on hand, for fiscal 2011 as compared to 2010 was largely related to our inventory reduction efforts in fiscal 2009 in response to the economic recession. We had reduced inventories to such a low level as we entered fiscal 2010 that, as business began to recover, we experienced stock shortages which impeded our ability to serve our customers. As a result, we began planned increases in inventory levels during the latter half of 2010.

Debt and Other Obligations

On December 18, 2012, we entered into a new credit facility with our bank extending us a line of credit of up to $15,000. This new line is secured by our accounts receivable and inventory. The new facility contains certain covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future.

At November 24, 2012, we had $1,966 outstanding under standby letters of credit.

We have two mortgages totaling $3,294 outstanding as of November 24, 2012. We expect to satisfy the remaining mortgage obligations using cash flow from operations or our available cash on hand.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of licensee-owned stores. We had obligations of $72,800 at November 24, 2012 for future minimum lease payments under non-cancelable operating leases having remaining terms in excess of one year. We also have guaranteed certain lease obligations of licensee operators. Remaining terns under these lease guarantees range from one to three years. We were contingently liable under licensee lease obligation guarantees in the amount of $2,007 at November 24, 2012.

Dividends and Share Repurchases

During fiscal 2012, four quarterly dividends totaling $2,070 and two special dividends totaling $19,371 were paid to shareholders. We also repurchased 644,395 shares of our stock for $7,015. The weighted-average effect of these share repurchases was to increase our basic and diluted earnings per share in 2012 by $0.05 and $0.06, respectively.

Capital Expenditures

We currently anticipate that total capital expenditures for fiscal 2013 will be between $9,000 and $11,000 which will be used primarily for the build out of new stores, remodeling of existing Company-owned stores and the implementation of a new retail store enterprise system. Our capital expenditure and working capital requirements in the foreseeable future may change depending on many factors, including but not limited to the overall performance of the new stores, our rate of growth, our operating results and any adjustments in our operating plan needed in response to industry conditions, competition or unexpected events. We believe that our existing cash, together with cash from operations, will be sufficient to meet our capital expenditure and working capital requirements for the foreseeable future.

Fair Value Measurements

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

Areas which involve significant fair value estimates in determining the amounts recognized in our financial statements and the level of inputs utilized are as follows (note references refer to our Consolidated Financial Statements included under Item 8 in this Annual Report):

	Hierarchy Level of Utilized Inputs	Financial Statement Note Reference
Marketable securities	Level 1	Note 8
Investment in Fortress	Level 3	Note 8
Acquisitions & goodwill	Level 3	Note 10
Loan & lease guarantees	Level 3	Note 18

All other fair value estimates which are made for disclosure purposes only utilize Level 3 Inputs (see Note 8 to our Consolidated Financial Statements).

Contractual Obligations and Commitments:

We enter into contractual obligations and commercial commitments in the ordinary course of business (See Note 18 to the Consolidated Financial Statements for a further discussion of these obligations). The following table summarizes our contractual payment obligations and other commercial commitments and the fiscal year in which they are expected to be paid.

	2013	2014	2015	2016	2017	Thereafter	Total
Post employment benefit obligations (1)	$ 1,226	$ 1,252	$ 1,158	$ 1,113	$ 1,050	$ 9,320	$ 15,119
Real estate notes payable	241	258	276	295	315	1,909	3,294
Other obligations & commitments	625	850	800	800	100	500	3,675
Contractual advertising	2,500	2,500	2,500	2,500	-	-	10,000
Interest payable	214	198	180	161	141	340	1,234
Letters of credit	1,966	-	-	-		-	1,966
Operating leases (2)	18,358	14,550	11,983	9,015	6,393	12,501	72,800
Lease guarantees (4)	1,408	407	389	-		-	2,204
Purchase obligations (3)	-	-	-	-		-	-
Total	$ 26,538	$ 20,015	$ 17,286	$ 13,884	$ 7,999	$ 24,570	$ 110,292

(1) Does not reflect a reduction for the impact of any company owned life insurance proceeds to be received. Currently, we have life insurance policies with net death benefits of $4,244 to provide funding for these obligations. See Note 14 to the Consolidated Financial Statements for more information.

(2) Does not reflect a reduction for the impact of sublease income to be received. See Note 18 to the Consolidated Financial Statements for more information.

(3) The Company is not a party to any long-term supply contracts with respect to the purchase of raw materials or finished goods. At the end of fiscal year 2012, we had approximately $15,240 in open purchase orders, primarily for imported inventories, which are in the ordinary course of business.

(4) Lease guarantees relate to payments we would only be required to make in the event of default on the part of the guaranteed parties.

Off-Balance Sheet Arrangements:

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of BHF stores. We have guaranteed certain lease obligations of licensee operators as part of our retail strategy. We also have guaranteed loans of certain of our licensees to finance initial inventory packages for these stores. See Contractual Obligations and Commitments table above and Note 18 to the Consolidated Financial Statements, included in Item 8 of this Annual Report on Form 10-K, for further discussion of operating leases, lease guarantees and loan guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

Contingencies:

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

In 2009, our former vendor, Colonial Trading, Inc. (“Colonial”), filed a lawsuit against us alleging, among other things, breach of contract by the Company after we cancelled orders for cribs following product recalls. We filed counterclaims for breach of contract and warranty. On August 1, 2012, a jury returned a verdict in favor of Colonial and in October 2012 judgment was entered in the amount of $1,437. Colonial’s motion for attorney’s fees is pending. Both Bassett and Colonial have appealed; with Bassett seeking a new trial for damages for breach of express warranty, among other things, and Colonial seeking, among other things, to treble its breach of contract damages. We currently have sufficient reserves to cover the judgment amount.

See Note 9 to our Consolidated Financial Statements regarding claims which could possibly result in the return of all or a portion of the CDSOA final distribution.

Critical Accounting Policies and Estimates

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

Consolidation – The consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated and its majority-owned subsidiaries for whom we have operating control. In accordance with ASC Topic 810, we have evaluated our licensees and certain other entities to determine whether they are variable interest entities ("VIEs") of which we are the primary beneficiary and thus would require consolidation in our financial statements. To date we have concluded that none of our licensees nor any other of our counterparties represent VIEs.

Revenue Recognition - Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This generally occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. Our payment terms generally vary from 30 to 60 days. An estimate for returns and allowances has been provided in recorded sales. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us.

Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB 104") outlines the four basic criteria for recognizing revenue as follows: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured. SAB 104 further asserts that if collectibility of all or a portion of the revenue is not reasonably assured, revenue recognition should be deferred until payment is received. During fiscal 2012, 2011 and 2010, there were zero, four and seven dealers, respectively, for which these criteria were not met and therefore revenue was being recognized on a cost recovery basis. As of November 24, 2012 and November 26, 2011, two and four dealers, respectively, remained on the cost recovery basis.

Allowance for Doubtful Accounts - We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Our accounts receivable reserves were $1,789 and $2,092 at November 24, 2012 and November 26, 2011, respectively, representing 10.2% and 12.4% of our gross accounts receivable balances at those dates, respectively. The allowance for doubtful accounts is based on a review of specifically identified customer accounts in addition to an overall aging analysis. We evaluate the collectibility of our receivables from our licensees and other customers on a quarterly basis based on factors such as their financial condition, our collateral position, potential future plans with licensees and other similar factors. Our allowance for doubtful accounts represents our best estimate of potential losses on our accounts and notes receivable and is adjusted accordingly based on historical experience, current developments and present economic conditions and trends. In the current economic environment, our historical experience with customers carries less weight than in previous years. The timeliness of a licensee's or customer's ability to pay us can deteriorate at a much faster pace than in previous years. As such, despite our best efforts, the ultimate precision with respect to our allowance for doubtful accounts is likely to be less when compared to previous periods. Although actual losses have not differed materially from our previous estimates, future losses could differ from our current estimates. Unforeseen events such as a licensee or customer bankruptcy filing could have a material impact on our results of operations. We recorded $376 of bad debt and notes receivable valuation charges during fiscal 2012 as compared to $13,490 during fiscal 2011, reflecting improved credit positions with our current fleet of licensees. Over the six quarters ended with the second quarter of 2011, we recorded $19,593 of bad debt and notes receivable valuation charges. The vast majority of these charges related to licensee stores that were closed or taken over. During that time period, we terminated operating licenses covering 29 stores as these licensees were struggling to meet their obligations to us. Of these 29 stores, 9 were closed and 20 were acquired to be operated as Company-owned stores. Although future store closures and acquisitions are possible, we expect the pace to be significantly less than during that time period. In addition, we believe the remaining fleet of licensees is more financially sound than those we terminated during that time period. The bad debt and notes receivable valuation charges which we have experienced since the third quarter of 2011 have averaged approximately $140 per quarter. We believe that this average level of bad debt and notes receivable valuation charges is more indicative of the expected trend of future charges.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out method. The cost of imported inventories is determined on a first-in, first-out basis. We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required. Our average annual write-offs of excess and obsolete inventory over the past three fiscal years have not materially exceeded the average opening balance of our reserves for that same period.

Valuation Allowance on Deferred Tax Assets –We evaluate our deferred income tax assets to determine if valuation allowances are required or should be adjusted. A valuation allowance is established against our deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified. Due to the losses incurred prior to fiscal 2011, we were in a cumulative loss position for the preceding three years which is considered significant negative evidence that is difficult to overcome on a "more likely than not" standard through objectively verifiable data. While our long-term financial outlook remained positive, we concluded that our ability to rely on our long-term outlook and forecasts as to future taxable income was limited due to uncertainty created by the weight of the negative evidence. As a result, we previously recorded a valuation allowance on certain of the deferred tax assets. In fiscal 2011, due to the gain recognized on the sale of our interest in IHFC, we were able to utilize net operating loss carryforwards and credits to significantly offset the taxable gain, resulting in a significant reduction of the valuation allowances. However, as the gain on the sale of IHFC did not represent a source of recurring future taxable income, we continued to record a valuation allowance against substantially all of our deferred tax assets as of November 26, 2011. Due to our positive earnings during fiscal 2012, and the absence of any significant negative evidence to the contrary, we have concluded that we can rely on our positive long-term outlook and forecasts as to future taxable income in evaluating our ability to realize our deferred tax assets. Accordingly, the reserve against the majority of our deferred tax assets was removed in fiscal 2012, resulting in a credit to income of $18,704, which is included in our net income tax benefit for the year. The remaining valuation allowance of $908 is primarily related to state net operating loss carryforwards for which it is currently considered to be more likely than not that they will not be utilized prior to their expiration.

Goodwill – Goodwill represents the excess of the purchase price over the value assigned to tangible assets and liabilities and identifiable intangible assets of businesses acquired. The acquisition of assets and liabilities and any resulting goodwill is allocated to the respective reporting unit; Wholesale, Retail or Real Estate/Investments. We review goodwill at the reporting unit level annually for impairment or more frequently if events or circumstances indicate that assets might be impaired.

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other*, the goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the two-step process.

The first step compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step is performed whereby we must calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. This second step represents a hypothetical purchase price allocation as if we had acquired the reporting unit on that date. Our impairment methodology uses a discounted cash flow analysis requiring certain assumptions and estimates to be made regarding future profitability of the reporting unit and industry economic factors. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts.

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

Recent Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in the value of foreign currencies. Substantially all of our imports purchased outside of North America are denominated in U.S. dollars. Therefore, we believe that gains or losses resulting from changes in the value of foreign currencies relating to foreign purchases not denominated in U.S. dollars would not be material to our results from operations in fiscal 2013.

We are exposed to market risk from changes in the cost of raw materials used in our manufacturing processes, principally wood, woven fabric, and foam products. A recovery in home construction could result in increases in wood and fabric costs from current levels, and the cost of foam products, which are petroleum-based, is sensitive to changes in the price of oil.

We have potential exposure to market risk related to the current weakness in the commercial real estate market. Our retail real estate holdings of $12,736 and $16,657 at November 24, 2012 and November 26, 2011, respectively, for stores currently or formerly operated by licensees as well as our holdings of $29,043 and $26,774 at November 24, 2012 and November 26, 2011, respectively, for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties in the current market. Additionally, if we are required to assume responsibility for payment under the lease obligations of $2,007 and $2,515 which we have guaranteed on behalf of licensees as of November 24, 2012 and November 26, 2011, respectively, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees.

	Number of Locations	Aggregate Square Footage	Net Book Value (in thousands)
Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1)	11	276,887	$ 29,043
Investment real estate:			
Leased to operating licensee	1	18,000	3,841
Leased to others	3	67,521	6,726
Available for sale or lease	1	26,500	1,840
Other (2)	-	-	329
Total included in retail real estate	5	112,021	12,736
Total Company investment in retail real estate	16	388,908	$ 41,779

(1) Includes two properties encumbered under mortgages totaling $3,294 at November 24, 2012.
(2) Consists of leasehold improvements in locations leased by the Company and subleased to licensees.

We are no longer exposed to market risk for changes in the market prices of our marketable securities due to the liquidation of our portfolio during the fourth quarter of fiscal 2012.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Bassett Furniture Industries, Incorporated and Subsidiaries:

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated and Subsidiaries as of November 24, 2012 and November 26, 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended November 24, 2012. Our audits also included Financial Statement Schedule II – Analysis of Valuation and Qualifying Accounts. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits. The financial statements of International Home Furnishings Center, Inc. (a corporation in which the Company had a 47% interest until it was sold on May 2, 2011) for each of the two years in the period ended November 26, 2011 have been audited by other auditors whose report has been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to the amounts included for International Home Furnishings Center, Inc., is based solely on the report of the other auditors. In the consolidated financial statements, the Company's investment in International Home Furnishings Center, Inc. is stated at $(7,356,000) at November 27, 2010. In the consolidated financial statements, the Company's equity in the net income of International Home Furnishings Center, Inc. is stated at $1,832,000 and $4,535,000 for the years ended November 26, 2011 and November 27, 2010.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bassett Furniture Industries, Incorporated and subsidiaries at November 24, 2012 and November 26, 2011, and the consolidated results of their operations and their cash flows for each of the three years in the period ended November 24, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bassett Furniture Industries, Incorporated and Subsidiaries' internal control over financial reporting as of November 24, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 4, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Raleigh, North Carolina

February 4, 2013

Consolidated Balance Sheets
Bassett Furniture Industries, Incorporated and Subsidiaries
November 24, 2012 and November 26, 2011
(In thousands, except share and per share data)

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 45,566	$ 69,601
Accounts receivable, net of allowance for doubtful accounts of $1,789 and $2,092 as of November 24, 2012 and November 26, 2011, respectively	15,755	14,756
Inventories	57,916	45,129
Deferred income taxes, net	6,832	393
Other current assets	6,439	10,324
Total current assets	132,508	140,203
Property and equipment, net	56,624	49,946
Other long-term assets		
Retail real estate	12,736	16,257
Deferred income taxes, net	10,485	767
Other	14,827	16,001
Total other long-term assets	38,048	33,025
Total assets	$ 227,180	$ 223,174
Liabilities and Stockholders’ Equity		
Current liabilities		
Accounts payable	$ 22,405	$ 18,821
Accrued compensation and benefits	6,926	7,201
Customer deposits	12,253	9,238
Dividends payable	542	6,063
Other accrued liabilities	10,454	10,504
Total current liabilities	52,580	51,827
Long-term liabilities		
Post employment benefit obligations	11,577	11,226
Real estate notes payable	3,053	3,662
Other long-term liabilities	2,690	4,024
Total long-term liabilities	17,320	18,912
Commitments and Contingencies		
Stockholders’ equity		
Common stock, $5 par value; 50,000,000 shares authorized; issued and outstanding 10,836,840 at November 24, 2012 and 11,342,332 at November 26, 2011	54,184	56,712
Retained earnings	104,319	96,331
Accumulated other comprehensive loss	(1,223)	(608)
Total stockholders' equity	157,280	152,435
Total liabilities and stockholders’ equity	$ 227,180	$ 223,174

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

Consolidated Statements of Operations
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 24, 2012, November 26, 2011, and November 27, 2010
(In thousands, except per share data)

	2012	2011	2010
Net sales	$ 269,672	$ 253,208	$ 235,254
Cost of sales	128,350	125,642	122,566
Gross profit	141,322	127,566	112,688
Selling, general and administrative expenses excluding bad debt and notes receivable valuation charges	134,796	122,023	110,808
Bad debt and notes receivable valuation charges	376	13,490	6,567
Licensee debt cancellation charges	-	6,447	-
Restructuring and impairment charges	711	2,500	-
Lease exit costs	359	3,728	-
Income (loss) from operations	5,080	(20,622)	(4,687)
Gain on sale of affiliate	-	85,542	-
Income from Continued Dumping & Subsidy Offset Act	9,010	765	488
Income from investments	453	163	2,325
Other than temporary impairment of investments	(806)	-	-
Income from unconsolidated affiliated companies, net	347	1,840	4,700
Interest expense	(295)	(912)	(1,994)
Retail real estate impairment charges	-	(3,953)	-
Other loss, net	(1,775)	(3,072)	(3,040)
Income (loss) before income taxes	12,014	59,751	(2,208)
Income tax benefit (provision)	14,699	(4,409)	206
Net income (loss)	$ 26,713	$ 55,342	$ (2,002)
Net income (loss) per share			
Basic income (loss) per share	$ 2.43	$ 4.84	$ (0.17)
Diluted income (loss) per share	$ 2.41	$ 4.79	$ (0.17)

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

Consolidated Statements of Comprehensive Income
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 24, 2012, November 26, 2011, and November 27, 2010
(In thousands)

	2012	2011	2010
Net income (loss)	$ 26,713	$ 55,342	$ (2,002)
Other comprehensive loss:			
Actuarial adjustment to supplemental executive retirement defined benefit plan (SERP)	(656)	(619)	(666)
Income taxes related to SERP	277	486	-
Net change in unrealized holding gains	(211)	(73)	(1,879)
Income taxes related to unrealized holding gains	(25)	25	-
Other comprehensive income loss, net of tax	(615)	(181)	(2,545)
Total comprehensive income (loss)	$ 26,098	$ 55,161	$ (4,547)

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

Consolidated Statements of Cash Flows
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 24, 2012, November 26, 2011, and November 27, 2010
(In thousands)

	2012	2011	2010
Operating activities:			
Net income (loss)	$ 26,713	$ 55,342	$ (2,002)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,473	5,514	5,966
Equity in undistributed income of investments and unconsolidated affiliated companies	(347)	(1,840)	(4,737)
Provision for restructuring and asset impairment charges	711	2,500	-
Licensee debt cancellation charges	-	6,447	-
Lease exit costs	359	2,228	-
Provision for lease and loan guarantees	(41)	1,283	1,407
Provision for losses on accounts and notes receivable	376	13,490	6,567
Other than temporary impairment of investments	806	-	-
Gain on sale of equity securities	-	-	(2,024)
Gain on mortgage settlement	-	(1,305)	-
Gain on sale of affiliate	-	(85,542)	-
Impairment and lease exit charges on retail real estate	-	4,790	-
Deferred income taxes	(15,822)	236	-
Other, net	642	214	256
Changes in operating assets and liabilities			
Accounts receivable	(2,967)	1,034	(4,467)
Inventories	(11,307)	299	(5,443)
Other current assets	(276)	2,300	5,262
Accounts payable and accrued liabilities	3,636	(12,421)	7,003
Net cash provided by (used in) operating activities	7,956	(5,431)	7,788
Investing activities:			
Purchases of property and equipment	(9,000)	(4,168)	(2,013)
Proceeds from sales and condemnation of property and equipment	19	211	4,247
Acquisition of retail licensee stores	(549)	-	(378)
Proceeds from sale of affiliate	1,410	69,152	-
Release of collateral restrictions on cash equivalents	-	11,240	-
Proceeds from sales of investments	4,854	3,297	9,101
Purchases of investments	(1,781)	(3,132)	(8,851)
Dividends from affiliates	-	3,756	937
Equity contribution to affiliate	-	(980)	-
Cash received on notes receivable	1,240	127	494
Net cash provided by (used in) investing activities	(3,807)	79,503	3,537
Financing activities:			
Net repayments under revolving credit facility	-	-	(15,000)
Repayments of real estate notes payable	(570)	(8,647)	(7,530)
Repayments of other notes	-	(3,406)	(1,087)
Issuance of common stock	842	170	142
Repurchases of common stock	(7,015)	(2,964)	-
Cash dividends	(21,441)	(695)	-
Net cash used in financing activities	(28,184)	(15,542)	(23,475)
Change in cash and cash equivalents	(24,035)	58,530	(12,150)
Cash and cash equivalents - beginning of year	69,601	11,071	23,221
Cash and cash equivalents - end of year	$ 45,566	$ 69,601	$ 11,071

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 24, 2012. November 26, 2011, and November 27, 2010
(In thousands, except share and per share data)

	Common Stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Shares	Amount				
Balance, November 28, 2009	11,454,716	$ 57,274	$ 481	$ 50,461	$ 2,118	$ 110,334
Comprehensive loss						
Net loss	-	-	-	(2,002)	-	(2,002)
Actuarial adjustment to SERP	-	-	-	-	(666)	(666)
Net change in unrealized holding gains	-	-	-	-	(1,879)	(1,879)
Total comprehensive loss						(4,547)
Issuance of common stock	104,258	521	(379)	-	-	142
Stock-based compensation	-	-	376	-	-	376
Balance, November 27, 2010	11,558,974	57,795	478	48,459	(427)	106,305
Comprehensive income						
Net income	-	-	-	55,342	-	55,342
Actuarial adjustment to SERP	-	-	-	-	(133)	(133)
Net change in unrealized holding gains	-	-	-	-	(48)	(48)
Total comprehensive income						55,161
Regular dividends ($0.10 per share)	-	-	-	(1,092)	-	(1,092)
Special dividend ($0.50 per share)	-	-	-	(5,665)	-	(5,665)
Issuance of common stock	154,158	771	(506)	-	-	265
Purchase and retirement of common stock	(370,800)	(1,854)	(398)	(713)	-	(2,965)
Stock-based compensation	-	-	426	-	-	426
Balance, November 26, 2011	11,342,332	56,712	-	96,331	(608)	152,435
Comprehensive income						
Net income	-	-	-	26,713	-	26,713
Actuarial adjustment to SERP, net of tax	-	-	-	-	(379)	(379)
Net change in unrealized holding gains, net of tax	-	-	-	-	(236)	(236)
Total comprehensive income						26,098
Regular dividends ($0.20 per share)	-	-	-	(2,214)	-	(2,214)
Special dividend ($1.25 per share)	-	-	-	(13,706)	-	(13,706)
Issuance of common stock	138,903	694	352	-	-	1,046
Purchase and retirement of common stock	(644,395)	(3,222)	(988)	(2,805)	-	(7,015)
Stock-based compensation	-	-	636	-	-	636
Balance, November 24, 2012	10,836,840	$ 54,184	$ -	$ 104,319	$ (1,223)	$ 157,280

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

Notes to Consolidated Financial Statements

(In thousands, except share and per share data)

1. Description of Business

Bassett Furniture Industries, Incorporated (together with its consolidated subsidiaries, “Bassett”, “we”, “our”, the “Company”) based in Bassett, Va., is a leading manufacturer, marketer and retailer of branded home furnishings. Bassett’s full range of furniture products and accessories, designed to provide quality, style and value, are sold through an exclusive nation-wide network of 86 retail stores known as Bassett Home Furnishings (referred to as “BHF”). Of the 86 stores, the Company owns and operates 53 stores (“Company-owned retail stores”) with the other 33 being independently owned (“licensee operated”). We also distribute our products through other multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants.

The Company sourced approximately 50% of its wholesale products to be distributed through the store network from various countries, with the remaining volume produced at its two domestic manufacturing facilities.

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company’s fiscal year ends on the last Saturday in November, which periodically results in a 53-week year. Fiscal 2012, 2011, and 2010 each contained 52 weeks. The Consolidated Financial Statements include the accounts of Bassett Furniture Industries, Incorporated and our majority-owned subsidiaries for whom we have operating control. All significant intercompany balances and transactions are eliminated in consolidation. The financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP"). Unless otherwise indicated, references in the Consolidated Financial Statements to fiscal 2012, 2011 and 2010 are to Bassett's fiscal year ended November 24, 2012, November 26, 2011 and November 27, 2010, respectively. References to the “ASC” included hereinafter refer to the Accounting Standards Codification established by the Financial Accounting Standards Board as the source of authoritative GAAP.

For comparative purposes, certain amounts in the 2011 and 2010 financial statements have been reclassified to conform to the 2012 presentation.

The equity method of accounting is used for our investments in affiliated companies in which we exercise significant influence but do not maintain operating control. Consolidated net income or net loss includes our proportionate share of the net income or net loss of these companies.

We analyzed our licensees under the requirements for variable interest entities (“VIEs”). All of these licensees operate as BHF stores and are furniture retailers. We sell furniture to these licensees, and in some cases have extended credit beyond normal terms, made lease guarantees, guaranteed loans, or loaned directly to the licensees. We have recorded reserves for potential exposures related to these licensees. See Note 18 for disclosure of leases, lease guarantees and loan guarantees. Based on financial projections and best available information, all licensees have sufficient equity to carry out their principal operating activities without subordinated financial support. Furthermore, we believe that the power to direct the activities that most significantly impact the licensees’ operating performance continues to lie with the ownership of the licensee dealers. Our rights to assume control over or otherwise influence the licensees’ significant activities only exist pursuant to our license and security agreements and are in the nature of protective rights as contemplated under ASC Topic 810. We completed our assessment for other potential VIEs, and concluded that there were none. We will continue to reassess the status of potential VIEs including when facts and circumstances surrounding each potential VIE change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include allowances for doubtful accounts, valuation of inventories, valuation of deferred taxes, sales returns, loan and lease guarantees and insurance reserves. Actual results could differ from those estimates.

(In thousands, except share and per share data)

Revenue Recognition

Revenue is recognized when the risks and rewards of ownership and title to the product have transferred to the buyer. This occurs upon the shipment of goods to independent dealers or, in the case of Company-owned retail stores, upon delivery to the customer. We offer terms varying from 30 to 60 days for wholesale customers. Estimates for returns and allowances for advertising and promotional arrangements have been recorded as a reduction to revenue. The contracts with our licensee store owners do not provide for any royalty or license fee to be paid to us. Revenue is reported net of any taxes collected.

Staff Accounting Bulletin No. 104, *Revenue Recognition* ("SAB 104") outlines the four basic criteria for recognizing revenue as follows: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the seller's price to the buyer is fixed or determinable, and (4) collectability is reasonably assured. SAB 104 further asserts that if collectability of all or a portion of the revenue is not reasonably assured, revenue recognition should be deferred until payment is received. During fiscal 2012, 2011 and 2010 there were two, four and seven dealers, respectively, for which these criteria were not met and therefore revenue was being recognized on a cost recovery basis. As of November 24, 2012, November 26, 2011, and November 27, 2010 there were zero, two, and seven dealers, respectively, that remained on the cost recovery basis. The cumulative amount of deferred gross profit is carried in the accompanying balance sheets as a reduction of gross accounts receivable until payment is received. The following table details the reduction of gross accounts receivable related to deferred gross profit:

	November 24, 2012	November 26, 2011	November 27, 2010
Reduction of gross accounts receivable	$ -	$ -	$ 494

The following table details the total revenue and cost deferred for each fiscal year, prior to any subsequent recognition due to the transaction meeting the revenue recognition requirements:

	2012	2011	2010
Revenue deferred	$ -	$ 1,678	$ 947
Cost deferred	$ -	$ 1,175	$ 663

Cash Equivalents

The Company considers cash on hand, demand deposits in banks and all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Supplemental Cash Flow Information

In addition to the amounts paid, net of cash acquired, for the acquisition of licensee stores reported under investing activities in our consolidated statements of cash flows, the majority of such acquisitions were funded primarily through non-cash transactions in which receivables due from the licensees were settled in exchange for certain inventory and property and equipment of the licensees as well as the assumption of certain liabilities. The value of the non-cash portion of such transactions was $1,592, $2,298 and $2,751 for 2012, 2011, and 2010, respectively.

(In thousands, except share and per share data)

Accounts Receivable

Substantially all of our trade accounts receivable is due from customers located within the United States. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates. The majority of our trade accounts receivable and allowance for doubtful accounts are attributable to amounts owed to us by our licensees, with the remaining receivables due primarily from national account customers and traditional distribution channel customers. The percentages of our trade accounts receivable and related allowance for doubtful accounts owed to us by our licensees were as follows at November 24, 2012 and November 26, 2011:

	2012	**2011**
Portion of trade accounts receivable owed by licensees	52%	67%
Portion of allowance for doubtful accounts attributable to licensees	84%	79%

Notes Receivable

Previously, when in the ordinary course of business a licensee had substantial past due amounts due to the Company, but was otherwise considered viable and likely to continue as a going concern, we may have decided to move all or a portion of a licensee's past due accounts receivable to a long-term interest-bearing note receivable. We believed that the note receivable allowed the licensee to focus on keeping current and future amounts current, while continuing to meet its financial obligations to us. This is no longer our policy, and we do not plan to convert additional past due receivables into long-term interest bearing notes in the foreseeable future. While the majority of our notes receivable were issued as conversions of existing accounts receivable, some were issued to assist licensees in opening or acquiring new stores in underserved markets, which we believed would benefit both the licensee and the Company. Some of these notes are collateralized by real estate.

We examine notes receivable for evidence of impairment, considering factors such as licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee, licensee sales and any underlying collateral. After considering these factors, should we believe that all or a portion of the expected cash flows attributable to the note receivable will not be received, we record an impairment charge on the note by estimating future cash flows and discounting them at the effective interest rate. Any difference between the estimated discounted cash flows and the carrying value of the note is recorded as an increase to the allowance for doubtful accounts. We do not accrue interest income due on notes for which the licensee is unable to make interest payments.

Concentrations of Credit Risk and Major Customers

Financial instruments that subject us to credit risk consist primarily of investments, accounts and notes receivable and financial guarantees. Investments are managed within established guidelines to mitigate risks. Accounts and notes receivable and financial guarantees subject us to credit risk partially due to the concentration of amounts due from and guaranteed on behalf of independent licensee customers. At November 24, 2012 and November 26, 2011, our aggregate exposure from receivables and guarantees related to customers consisted of the following:

	2012	**2011**
Accounts receivable, net of allowances (Note 4)	$ 15,755	$ 14,756
Notes receivable, net of allowances (Note 6)	636	1,877
Contingent obligations under lease and loan guarantees, less amounts recognized (Note 18)	1,684	2,193
Total credit risk exposure related to customers	$ 18,075	$ 18,826

At November 24, 2012 approximately 12% of the aggregate risk exposure, net of reserves, shown above was attributable to one licensee. At November 26, 2011, approximately 20% of the aggregate risk exposure, net of reserves, shown above was attributable to two licensees accounting for approximately 10% each. In fiscal 2012, 2011 and 2010, no customer accounted for more than 10% of total net sales.

We have no foreign manufacturing or retail operations. We define export sales as sales to any country or territory other than the United States or its territories or possessions. Our export sales were approximately $6,121, $6,598, and $5,350 in fiscal 2012, 2011, and 2010, respectively.

Inventories

Inventories (retail merchandise, finished goods, work in process and raw materials) are stated at the lower of cost or market. Cost is determined for domestic manufactured furniture inventories using the last-in, first-out ("LIFO") method because we believe this methodology provides better matching of revenue and expenses. The cost of imported inventories is determined on a first-in, first-out ("FIFO") basis. Inventories accounted for under the LIFO method represented 18% and 15% of total inventory before reserves at November 24, 2012 and November 26, 2011, respectively. We estimate inventory reserves for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Property and Equipment

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

Retail Real Estate

Retail real estate is comprised of owned and leased properties which have been utilized by licensee operated BHF stores, including properties which are now leased or subleased to non-licensee tenants or are currently vacant. These properties are located in high traffic, upscale locations that are normally occupied by large successful national retailers. This real estate is stated at cost less accumulated depreciation and is depreciated over the useful lives of the respective assets utilizing the straight line method. Buildings and improvements are generally depreciated over a period of 10 to 39 years. Leasehold improvements are amortized based on the underlying lease term, or the asset's estimated useful life, whichever is shorter. As of November 24, 2012 and November 26, 2011, the cost of retail real estate included land totaling $4,602 and $5,731, respectively, and building and leasehold improvements of $12,680 and $15,431, respectively. As of November 24, 2012 and November 26, 2011, accumulated depreciation of retail real estate was $4,547 and $4,905, respectively. Depreciation expense was $501, $876, and $1,306 in fiscal 2012, 2011, and 2010, respectively. Impairment charges related to retail real estate totaled $3,953 for 2011 and are included in retail real estate impairment charges in other income, a component of non-operating expense in our Consolidated Statements of Operations. There were no retail real estate impairment charges in 2010 and 2012.

Goodwill

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

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other,* the goodwill impairment test consists of a two-step process, if necessary. However, we first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary and our goodwill is considered to be unimpaired. However, if based on our qualitative assessment we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we will proceed with performing the two-step process.

The first step compares the carrying value of each reporting unit that has goodwill with the estimated fair value of the respective reporting unit. Should the carrying value of a reporting unit be in excess of the estimated fair value of that reporting unit, the second step is performed whereby we must calculate the implied fair value of goodwill by deducting the fair value of all tangible and intangible net assets of the reporting unit from the fair value of the reporting unit. This second step represents a hypothetical application of the acquisition method of accounting as if we had acquired the reporting unit on that date. Our impairment methodology uses a discounted cash flow analysis requiring certain assumptions and estimates to be made regarding future profitability of the reporting unit and industry economic factors. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts. As of November 24, 2012 and November 26, 2011, goodwill of $1,731 and $435, respectively, all resulting from the acquisition of retail stores (see Note 10) is included in other assets in the accompanying balance sheet. Based on our qualitative assessment as described above, we have concluded that this goodwill is not impaired.

Impairment of Long Lived Assets

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

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

Income Taxes

We account for income taxes under the liability method which requires that we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, significant judgment is required in evaluating our federal, state and foreign tax positions and in the determination of our tax provision. Despite our belief that our liability for unrecognized tax benefits is adequate, it is often difficult to predict the final outcome or the timing of the resolution of any particular tax matters. We may adjust these liabilities as relevant circumstances evolve, such as guidance from the relevant tax authority or our tax advisors, or resolution of issues in the courts. These adjustments are recognized as a component of income tax expense in the period in which they are identified.

We evaluate our deferred income tax assets to determine if valuation allowances are required or should be adjusted. A valuation allowance is established against our deferred tax assets based on consideration of all available evidence, both positive and negative, using a "more likely than not" standard. This assessment considers, among other matters, the nature, frequency and severity of recent losses, forecasts of future profitability, the duration of statutory carryforward periods, our experience with tax attributes expiring unused and tax planning alternatives. In making such judgments, significant weight is given to evidence that can be objectively verified. See Note 12.

Shipping and Handling Costs

Costs incurred to deliver wholesale merchandise to customers are recorded in selling, general and administrative expense and totaled $13,548, $13,680, and $13,308 for fiscal 2012, 2012 and 2010, respectively. Costs incurred to deliver retail merchandise to customers are also recorded in selling, general and administrative expense and totaled $9,957, $7,452, and $4,721 for fiscal 2012, 2011 and 2010, respectively.

Advertising

Costs incurred for producing and distributing advertising and advertising materials are expensed when incurred and are included in selling, general and administrative expenses. Advertising costs totaled $13,296, $10,399, and $8,462 in fiscal 2012, 2011, and 2010, respectively.

Business Insurance Reserves

We have self-funded insurance programs in place to cover workers' compensation and health insurance. For the period from July 2011 through June 2012, workers' compensation was covered under a guaranteed cost program. These insurance programs are subject to various stop-loss limitations and are partially re-insured through a captive insurance program. We accrue estimated losses using historical loss experience. Although we believe that the insurance reserves are adequate, the reserve estimates are based on historical experience, which may not be indicative of current and future losses. We adjust insurance reserves, as needed, in the event that future loss experience differs from historical loss patterns.

Recent Accounting Pronouncements

In December 2010, the FASB issued ASU No. 2010-29, which updates the guidance in ASC Topic 805, *Business Combinations*. The objective of ASU 2010-29 is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in ASU 2010-29 specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments affect any public entity as defined by ASC 805 that enters into business combinations that are material on an individual or aggregate basis. This guidance became effective for us for acquisitions occurring on or after the beginning of our 2012 fiscal year. The adoption of this guidance has not had and is not expected to have a material impact upon our financial position or results of operations.

In May 2011, the FASB issued ASU No. 2011-04, which updated the guidance in ASC Topic 820, *Fair Value Measurement.* The amendments in this Update generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This Update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011, and early application is not permitted. This guidance became effective for us as of the beginning of our second quarter of fiscal 2012. The adoption of this guidance did not have a material impact on our financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, which updated the guidance in ASC Topic 220, *Comprehensive Income*. Under the amendments in this Update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this Update should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and early application is permitted. In December of 2011, the FASB issued ASU No. 2011-12, which defers only those provisions within ASU 2011-05 pertaining to reclassification adjustments out of accumulated other comprehensive income. We have adopted this guidance, except for those provisions deferred by ASU 2011-12, will become effective for us as of the end of our 2012 fiscal year. We have elected to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in two separate but consecutive statements. The adoption of this guidance did not have an impact on our financial position or results of operations.

(In thousands, except share and per share data)

3. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) is comprised of the following, net of taxes:

	November 24, 2012	November 26, 2011
Actuarial adjustment to SERP	$ (1,066)	$ (656)
Unrealized holding gains	-	236
Excess of additional pension liability over unamortized transition obligation	(157)	(188)
	$ (1,223)	$ (608)

4. Accounts Receivable

Accounts receivable consists of the following:

	November 24, 2012	November 26, 2011
Gross accounts receivable	$ 17,544	$ 16,848
Allowance for doubtful accounts	(1,789)	(2,092)
Net accounts receivable	$ 15,755	$ 14,756

Activity in the allowance for doubtful accounts was as follows:

	2012	2011
Balance, beginning of the year	$ 2,092	$ 7,366
Additions charged to expense	377	8,778
Write-offs	(680)	(14,052)
Balance, end of the year	$ 1,789	$ 2,092

We believe that the carrying value of our net accounts receivable approximates fair value. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 8.

(In thousands, except share and per share data)

5. **Inventories**

Inventories consist of the following:

	November 24, 2012	November 26, 2011
Wholesale finished goods	$ 33,110	$ 26,873
Work in process	273	222
Raw materials and supplies	8,586	5,660
Retail merchandise	23,938	20,504
Total inventories on first-in, first-out method	65,907	53,259
LIFO adjustment	(6,902)	(6,955)
Reserve for excess and obsolete inventory	(1,089)	(1,175)
	$ 57,916	$ 45,129

We source a significant amount of our wholesale product from other countries. During 2012, 2011 and 2010, purchases from our two largest vendors located in China and Vietnam were $23,416, $24,996 and $24,229 respectively.

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

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

	Wholesale Segment	**Retail Segment**	**Total**
Balance at November 27, 2010	$ 1,519	$ 209	$ 1,728
Additions charged to expense	688	272	960
Write-offs	(1,220)	(293)	(1,513)
Balance at November 26, 2011	987	188	1,175
Additions charged to expense	1,334	443	1,777
Write-offs	(1,606)	(257)	(1,863)
Balance at November 24, 2012	$ 715	$ 374	$ 1,089

(In thousands, except share and per share data)

6. **Notes Receivable**

Our notes receivable, included in other long-term assets in our consolidated balance sheets, consist of the following:

	November 24, 2012	November 26, 2011
Notes receivable	$ 4,775	$ 6,017
Allowance for doubtful accounts and discounts on notes receivable	(4,139)	(4,140)
Notes receivable, net	636	1,877
Less: current portion of notes receivable	(35)	(75)
Long term notes receivable	$ 601	$ 1,802

Our notes receivable, which bear interest at rates ranging from 2% to 6%, consist primarily of amounts due from current or former licensees from loans made by the Company to help licensees fund their operations. Approximately 54% and 43% of our notes receivable represent conversions of past due accounts receivable at November 24, 2012 and November 26, 2011, respectively. We have discontinued these conversions and have no plans to resume this practice. Interest income on the notes receivable, which is included in other income (loss), net, was as follows:

	2012	2011	2010
Interest income	$ 85	$ 129	$ 463

The initial carrying value of the notes receivable was determined using present value techniques which consider the fair market rate of interest based on the licensee's risk profile and estimated cash flows to be received. The estimated fair value of our notes receivable portfolio approximates the carrying value of the notes at November 24, 2012 and November 26, 2011. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 8.

Substantially all of our notes receivable comprise a single portfolio segment of financing receivables consisting of notes receivable from current and former licensees. These notes receivable are evaluated in three classes – those due from current licensees, those due from former licensees which are secured by real estate, and those due from former licensees which are unsecured. We periodically examine these notes receivable for evidence of impairment.

With respect to current licensees, we consider factors such as licensee capitalization, projected operating performance, the viability of the market in which the licensee operates and the licensee's operating history, including our cash receipts from the licensee, licensee sales and any underlying collateral. At November 24, 2012 and November 26, 2011, all notes due from current licensees were fully reserved, and interest income on those notes for the 2012, 2011 and 2010 fiscal years was recognized only on a cash basis.

Our evaluation of former licensees is primarily based upon payment history and an evaluation of the underlying collateral. After considering these factors, should we believe that all or a portion of the expected cash flows attributable to the note receivable will not be received, we record an impairment charge on the note by estimating future cash flows and discounting them at the effective interest rate. At November 24, 2012 and November 26, 2011, the carrying amount of notes receivable from former licensees, net of reserves and discounts, was $583 and $1,682. One note due from a former licensee was collected in full during the fourth quarter of fiscal 2012. The remaining note is secured by a second mortgage lien on real estate.

Any difference between the estimated discounted cash flows and the carrying value of these notes is recorded as an increase to the allowance for doubtful accounts. Notes receivable are charged off if they are deemed to be uncollectible with no recoverable collateral value. Each note is evaluated individually using the criteria described above as applicable to its respective class.

(In thousands, except share and per share data)

Activity in the allowance for doubtful accounts and discounts was as follows:

	2012	2011
Balance, beginning of the year	$ 4,140	$ 6,748
Additions charged (credited) to expense	(1)	4,712
Write-offs	-	(7,292)
Amortization of discounts	-	(28)
Balance, end of the year	$ 4,139	$ 4,140

These notes receivable, as well as our accounts receivable, are generally secured by the filing of security statements in accordance with the Uniform Commercial Code and/or real estate owned by the maker of the note and in some cases, personal guarantees by our licensees.

7. **Property and Equipment**

Property and equipment consist of the following:

	November 24, 2012	November 26, 2011
Land	$ 11,926	$ 10,750
Buildings and leasehold improvements	71,207	66,113
Machinery and equipment	65,024	66,961
	148,157	143,824
Less accumulated depreciation	(91,533)	(93,878)
	$ 56,624	$ 49,946

Depreciation expense for property and equipment was $5,127, $4,837, and $4,917, in fiscal 2012, 2011, and 2010, respectively, and is primarily included in our selling, general and administrative expenses related to our retail segment. The net book value of property and equipment utilized by Company-owned stores at November 24, 2012 and November 26, 2011 was $44,620 and $39,317, respectively.

(In thousands, except share and per share data)

8. **Financial Instruments, Investments and Fair Value Measurements**

Financial Instruments
Our financial instruments include cash and cash equivalents, accounts receivable, notes receivable, investment securities, cost and equity method investments, accounts payable and long-term debt. Because of their short maturities, the carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value. Our cost and equity method investments generally involve entities for which it is not practical to determine fair values.

Investments

Prior to November 24, 2012, our investments consisted of a portfolio of marketable securities and our investment in the Fortress Value Recovery Fund I, LLC ("Fortress"), During the fourth quarter of fiscal 2012 we liquidated our entire portfolio of marketable securities, resulting in a net gain of $313 which is included in income from investments in our accompanying consolidated statement of operations for the year ended November 24, 2012. Our marketable securities had been classified as available-for-sale and were marked to market and recorded at their fair value. We measure the fair value of our marketable securities in accordance with ASC Topic 820, *Fair Value Measurements and Disclosures*. Our available-for-sale securities at November 26, 2011, included in other current assets in our accompanying consolidated balance sheet, were as follows:

	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Bond mutual funds	$ 1,175	$ 149	$ (4)	$ 1,320
Government agency obligations	908	38	-	946
US Treasury Obligations	648	26	(1)	673
	$ 2,731	$ 213	$ (5)	$ 2,939

Prior to the liquidation of our available for sale securities, unrealized holding gains and losses, net of the related income tax effect, had been excluded from income and were reported as other comprehensive income in stockholders' equity. At November 26, 2011, accumulated other comprehensive loss in our consolidated balance sheet included unrealized holding gains, net of tax, of $236. Realized gains and losses from securities classified as available-for-sale were determined using the specific identification method for ascertaining the cost of securities sold.

The realized earnings from our marketable securities portfolio include realized gains and losses, based upon specific identification, and dividend and interest income. Realized earnings were $453, $163 and $2,272 for fiscal 2012, 2011, and 2010 respectively. Realized earnings for the year ended November 24, 2012 include $208 of gains previously recorded in other comprehensive income. These amounts are recorded in income (loss) from investments in our consolidated statements of operations.

Our investment in Fortress has been valued at fair value primarily based on the net asset values which are determined by the fund manager, less a discount for illiquidity. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. At November 26, 2011 the fair value of Fortress was $806 and is included in other long-term assets in our accompanying consolidated balance sheet. Due to significant declines in net asset values during the first quarter of fiscal 2012, the highly illiquid nature of the investment, and the high degree of uncertainty regarding our ability to recover our investment in the foreseeable future, we have fully impaired the carrying amount of this investment resulting in a charge of $806 during the year ended November 24, 2012, which is reported as other than temporary impairment of investments in the consolidated statement of operations.

Fair Value Measurement

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

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

(In thousands, except share and per share data)

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

All of our fair value measurements are based upon Level 3 inputs, with our investment in Fortress having been the only asset measured at fair value on a recurring basis.

The table below provides a reconciliation of all assets measured at fair value on a recurring basis which use level three or significant unobservable inputs for the period of November 26, 2011 to November 24, 2012.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3 Inputs)
Balance at November 26, 2011	$ 806
Total gains (losses) included in earnings related to change in underlying net assets	(806)
Balance November 24, 2012	$ -

The carrying values and approximate fair values of financial instruments as of November 24, 2012 and November 26, 2011 were as follows:

	November 24, 2012		November 26, 2011	
	Carrying value	Fair value	Carrying value	Fair value
Assets:				
Cash and cash equivalents	$ 45,566	$ 45,566	$ 69,601	$ 69,601
Accounts receivable, net	15,755	15,755	14,756	14,756
Notes receivable, net	636	636	1,877	1,877
Investments, including marketable securities	-	-	2,939	2,939
Liabilities:				
Accounts payable	$ 22,405	$ 22,405	$ 18,821	$ 18,821
Real estate notes payable	3,294	3,668	3,864	3,804
Lease/loan guarantee reserves	347	347	508	508

9. **Income from the Continued Dumping and Subsidy Offset Act**

During the year ended November 24, 2012, the U.S. Customs and Border Protection ("Customs") made a distribution to us of $9,010 representing our share of the final distribution of duties that have been withheld by Customs under the Continued Dumping and Subsidy Offset Act of 2000 ("CDSOA"). We have received annual distributions in past years under the CDSOA as a result of our support of an antidumping petition on imports of wooden bedroom furniture from China, such distributions having been recognized in income during the fourth quarter of each fiscal year when our annual share was determined. Income from such distributions recognized during fiscal 2011 and 2010 was $765 and $488, respectively. Certain manufacturers who did not support the antidumping petition ("Non-Supporting Producers") filed actions in the United States Court of International Trade challenging the CDSOA's "support requirement" and seeking to share in the distributions. As a result, Customs held back a portion of those distributions ("the Holdback") pending resolution of the Non-Supporting Producers' claims. The Court of International Trade dismissed all of the actions of the Non-Supporting Producers, who appealed to the United States Court of Appeals for the Federal Circuit ("the Court of Appeals"). While the Court of Appeals denied the Non-Supporting Producers request for an injunction to block the final distribution of the Holdback and allowed Customs to distribute the funds in April of 2012, the appeal is still pending before the court. Should the Court of Appeals reverse the decisions of the United States Court of International Trade which ordered the release of the final distribution, it is possible that Customs may seek to have us return all or a portion of our share of the distribution.

(In thousands, except share and per share data)

10. **Licensee Acquisitions and Goodwill**

As we continually monitor business relationships with our licensees, we may determine from time to time that it is in our best interest to acquire a licensee's operations in order to mitigate certain risks associated with the poor performance or potential failure of a licensee. Such risks include loss of receivables or underlying collateral, potential impairment of the value of our investments in real estate used by a licensee or exposure to contingent liabilities under lease guarantees, and potential harm to our market share and brand integrity within a licensee's market. In addition, we are sometimes approached by our licensees to acquire all or certain stores operated by the licensee. We evaluate such opportunities considering, among other things, the viability of the market and our participation in the store real estate.

During fiscal 2012, we acquired one store located in Knoxville, Tennessee and two stores in the Orange County, California market. In each case our licensees desired to exit those markets. The acquisition price for the Knoxville store was $673, funded through the exchange of $485 in cash and $188 in existing accounts receivable for the net assets acquired from the licensee plus recognized goodwill of $375. The acquisition price for the two Orange County stores was $1,468, funded through the exchange of $64 in cash and $1,404 in existing accounts receivable for the net assets acquired plus recognized goodwill of $921.

During fiscal 2011, we acquired nine retail stores, operated by 4 licensees, in Nevada, Virginia, Ohio, Kentucky and Connecticut. These stores were acquired pursuant to strict foreclosure and settlement agreements on the underlying assets subject to the terms of our security agreements with the licensees. These acquisitions were funded through the exchange of existing accounts receivable for the net assets acquired from the licensee.

During fiscal 2010, we acquired eleven retail stores, operated by eight licensees, in Maryland, Missouri, Illinois, New York, Alabama, Mississippi, California, Delaware and North Carolina. Nine stores were acquired pursuant to strict foreclosure and settlement agreements on the underlying assets subject to the terms of our security agreements with the licensees. One store was acquired from a licensee following its request for a buyout where we already owned the real estate. Another acquired location had been previously closed and liquidated by the former licensee.

Our acquisitions were accounted for in accordance with ASC Topic 805, *Business Combinations*. The following table summarizes the net assets acquired and consideration given in the store acquisitions:

	2012	2011	2010
Net assets acquired:			
Inventory	$ 1,480	$ 3,618	$ 3,319
Property and equipment/other	592	1,293	3,113
Goodwill	1,296	-	435
Customer deposits and other accrued expenses	(1,227)	(2,613)	(3,738)
Total net assets acquired	$ 2,141	$ 2,298	$ 3,129
Consideration given:			
Accounts receivable	$ 1,592	$ 2,298	$ 2,751
Cash	549	-	378
Total consideration	$ 2,141	$ 2,298	$ 3,129

(In thousands, except share and per share data)

The assets acquired and liabilities assumed were measured at fair value in accordance with ASC 805. Acquired inventory is valued at expected retail sales price less an allowance for direct selling costs and profit thereon. Acquired property and equipment are valued based upon our estimate of replacement cost less an allowance for age and condition at the time of acquisition. Customer deposits and accrued expenses are expected to be settled at face value within a short period following acquisition; therefore face value is assumed to approximate fair value. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 8.

The pro forma impact of the acquisitions on current and prior periods is not presented as we believe it is impractical to do so. We were not able to compile what we believed to be complete, accurate and reliable accounting information to use as a basis for pro forma presentations without an unreasonable effort. Net sales and operating losses generated by these stores subsequent to their acquisition for the year in which they were acquired were as follows:

	2012	2011	2010
Net sales	$ 1,646	$ 11,264	$ 16,507
Operating losses	(62)	(874)	(1,972)

In connection with both the Knoxville and Orange County market store acquisitions, we recognized $1,296 of goodwill, primarily associated with the strength of the local market and the general health of the stores at the time of acquisition. The carrying value of our goodwill, which is included in other long-term assets in the accompanying consolidated balance sheets, by segment and the activity for fiscal 2012 and 2011 is as follows:

	Wholesale	Retail	Total
Balance as of November 27, 2010	$ 276	$ 159	$ 435
Goodwill from store acquisitions	-	-	-
Impairment charge	-	-	-
Balance as of November 26, 2011	276	159	$ 435
Goodwill from store acquisitions	853	443	1,296
Impairment charge	-	-	-
Balance as of November 24, 2012	$ 1,129	$ 602	$ 1,731

We perform our annual goodwill impairment review as of the beginning of our fiscal fourth quarter. No impairment charges have been required since fiscal 2009.

(In thousands, except share and per share data)

11. **Unconsolidated Affiliated Companies**

International Home Furnishings Center

On May 2, 2011 we sold our 46.9% interest in International Home Furnishings Center, Inc. ("IHFC") to International Market Centers, L.P. ("IMC"). Consideration received, the balance of our investment in IHFC at the time of sale, and the resulting gain from the sale are as follows:

Gain on sale of affiliate:		
Consideration received:		
Cash	$	69,152
Tax escrow receivable (1)		1,413
Indemnification escrow receivable (2)		4,695
Investment in IMC (3)		1,000
Total consideration received	$	76,260
Investment in IHFC:		
Distributions in excess of affiliate earnings		9,282
Gain on sale of affiliate	$	85,542

(1) Included in other current assets in the accompanying balance sheet at November 26, 2011, these funds were released to us during the first quarter of fiscal 2012.
(2) $2,348 included in other current assets in the accompanying consolidated balance sheets at November 24, 2012 and November 26, 2011, with the remainder included in other assets.
(3) Included in other assets in the accompanying consolidated balance sheets at November 24, 2012 and November 26, 2011.

$4,695 of proceeds was placed in escrow to indemnify the purchaser with respect to various contingencies. On December 19, 2012, we received $2,348 for the release of half of this escrow, with the remainder, provided it is not used for contingencies, being due for release to us during 2014. Currently, we have no reason to believe that any obligations will arise out of such contingencies and therefore expect that the escrowed funds, along with earnings thereon, will be released to us in their entirety as scheduled. Also in connection with the sale, we acquired a minority equity stake in IMC in exchange for $1,000. IMC is majority owned by funds managed by Bain Capital Partners and a subsidiary of certain investment funds managed by Oaktree Capital Management, L.P. Our investment in IMC is accounted for using the cost method as we do not have significant influence over IMC.

IHFC owned and leased out floor space in a showroom facility in High Point, North Carolina. Prior to the sale of our investment in IHFC, we accounted for the investment using the equity method since we did not maintain operating control of IHFC. We recorded income and received dividends from IHFC as follows:

	2012	2011	2010
Earnings recognized	$ -	$ 1,832	$ 4,535
Dividends received	-	3,756	937

(In thousands, except share and per share data)

Summarized financial information for IHFC for 2011 and 2010 is as follows:

	2011*	2010
Current assets	$ -	$ 22,575
Non-current assets	-	43,892
Current liabilities	-	13,163
Long-term liabilities	-	105,526
Revenues	19,955	39,518
Net income	3,470	9,680

*No balance sheet information is reported as of November 26, 2011 as we no longer have any ownership interest in IHFC, and IHFC no longer exists as a stand-alone legal entity. Revenues and net income are reported for the five month period ended May 2, 2011.

The complete financial statements of IHFC are included in our annual report on Form 10-K.

Zenith Freight Lines, LLC

We own 49% of Zenith Freight Lines, LLC, ("Zenith") which provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors and also provides home delivery services to furniture retailers. We have contracted with Zenith to provide for substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for several of our Company-owned retail stores. Our investment in Zenith was $6,484 at November 24, 2012 and $6,137 at November 26, 2011 and is recorded in other long-term assets. During the second quarter of 2011, we made an additional cash investment of $980, which represented our 49% share of a total $2,000 equity contribution to Zenith to partially fund its acquisition of a warehouse facility. We paid Zenith approximately $25,317, $23,665 and $20,667, for freight expense and logistical services in 2012, 2011, and 2010, respectively. At November 24, 2012 and November 26, 2011, we owed Zenith $2,547 and $2,114, respectively, for services rendered to us. We believe the transactions with Zenith are at current market rates. We recorded the following earnings (losses) in income from unconsolidated affiliated companies, net in our consolidated statements of operations:

	2012	2011	2010
Earnings recognized	$ 347	$ 8	$ 165

12. **Income Taxes**

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

	2012	2011	2010
Current:			
Federal	$ 1,611	$ 3,947	$ (10)
State	(487)	676	(196)
Deferred:			
Increase (decrease) in valuation allowance	(18,704)	(17,464)	2,962
Federal	2,458	14,934	(2,195)
State	423	2,316	(767)
Total	$ (14,699)	$ 4,409	$ (206)

The income tax provision for fiscal 2011 includes a benefit of $6,341 resulting from the utilization of Federal net operating loss carryforwards.

(In thousands, except share and per share data)

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:

	2012	2011	2010
Statutory federal income tax rate	35.0%	35.0%	(34.0)%
Dividends received deduction	-	(1.8)	(71.6)
Change in income tax valuation allowance	(155.6)	(29.2)	134.2
Change in income tax reserves	(3.3)	(0.1)	(13.2)
State income tax, net of federal benefit	1.5	3.4	(20.1)
Other	0.1	-	(4.6)
Effective income tax rate	(122.3)%	7.3%	(9.3)%

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 24, 2012	November 26, 2011
Deferred income tax assets:		
Trade accounts receivable	$ 688	$ 804
Inventories	1,946	2,036
Property and equipment	1,688	3,749
Notes receivable	1,592	1,592
Retirement benefits	5,547	5,162
Federal net operating loss and credit carryforwards	-	134
State net operating loss carryforwards	2,309	2,376
Unrealized holding loss	1,069	912
Lease termination accruals	1,005	1,676
Other	2,580	2,707
Gross deferred income tax assets	18,424	21,148
Valuation allowance	(908)	(19,612)
Total deferred income tax assets	17,516	1,536
Deferred income tax liabilities:		
Unrealized gains from affiliates, net	78	125
Prepaid expenses and other	121	169
Unrealized holding gains, net	-	81
Total deferred income tax liabilities	199	375
Net deferred income tax assets	$ 17,317	$ 1,161

Due to the losses incurred prior to fiscal 2011, we were in a cumulative loss position for the three years preceding fiscal 2011which is considered significant negative evidence that is difficult to overcome on a “more likely than not” standard through objectively verifiable data. While our long-term financial outlook remained positive, we concluded that our ability to rely on our long-term outlook and forecasts as to future taxable income was limited due to uncertainty created by the weight of the negative evidence. As a result, we previously recorded a valuation allowance on certain of the deferred tax assets. In fiscal 2011, due to the gain recognized on the sale of our interest in IHFC, we were able to utilize net operating loss carryforwards and credits to significantly offset the taxable gain, resulting in a significant reduction of the valuation allowances. However, as the gain on the sale of IHFC did not represent a source of recurring future taxable income, we continued to record a valuation allowance against substantially all of our deferred tax assets as of November 26, 2011. Due to our positive earnings during fiscal 2012, and the absence of any significant negative evidence to the contrary, we have concluded that we can rely on our positive long-term outlook and forecasts as to future taxable income in evaluating our ability to realize our deferred tax assets. Accordingly, the reserve against the majority of our deferred tax assets was removed in fiscal 2012, resulting in a credit to income of $18,704, or $1.70 and $1.69 per basic and diluted share, respectively, which is included in our net income tax benefit for the year. The remaining valuation allowance of $908 is primarily related to state net operating loss carryforwards for which it is currently considered to be more likely than not that they will not be utilized prior to their expiration.

(In thousands, except share and per share data)

The following table represents a summary of the valuation allowances against deferred tax assets:

	2012	2011	2010
Balance, beginning of the year	$ 19,612	$ 36,806	$ 33,003
Additions charged to expense	-	-	2,962
Deductions reducing expense	(18,704)	(17,464)	-
Additions (deductions) recorded as a component of other comprehensive (income) loss	-	270	841
Balance, end of the year	$ 908	$ 19,612	$ 36,806

We have state net operating loss carryforwards available to offset future taxable state income of $29,059, which expire in varying amounts between 2013 and 2030. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards.

Net income taxes paid (net refunds received) during 2012, 2011 and 2010 were $2,010, $3,651, and $(1,582), respectively.

As of November 24, 2012, the gross amount of unrecognized tax benefits was approximately $1,228 exclusive of interest and penalties. Of this balance, if we were to prevail on all unrecognized tax benefits recorded, approximately $175 would benefit the effective tax rate. As of November 26, 2011, the gross amount of unrecognized tax benefits was approximately $1,502, exclusive of interest and penalties. Of this balance, if we were to prevail on all unrecognized tax benefits recorded, approximately $440 would benefit the effective tax rate. We regularly evaluate, assess and adjust the related liabilities in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period.

The following table summarizes the activity related to our gross unrecognized tax benefits:

	2012	2011
Balance, beginning of the year	$ 1,502	$ 1,565
Gross increases	10	183
Gross decreases, primarily due to the expiration of statutes	(284)	(246)
Balance, end of the year	$ 1,228	$ 1,502

We recognize interest and penalties related to unrecognized tax benefits in income tax expense. During fiscal 2012, 2011, and 2010, we recognized $(63), $67, and $(112) of interest expense (expense recovery) and $57, $46, and $30 of penalty expense recovery, respectively, related to the unrecognized benefits noted above in our consolidated statements of operations. At November 24, 2012 and November 26, 2011, the consolidated balance sheets include accrued interest of $164 and $226, and penalties of $40 and $97, respectively, due to unrecognized tax benefits.

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

We remain subject to examination for tax years 2009 through 2011 for all of our major tax jurisdictions.

(In thousands, except share and per share data)

13. **Real Estate Notes Payable and Bank Credit Facility**

The real estate notes payable and bank debt are summarized as follows:

	November 24, 2012	November 26, 2011
Real estate notes payable	$ 3,294	$ 3,864
Less:		
Current portion of real estate notes payable	(241)	(202)
	$ 3,053	$ 3,662

Real Estate Notes Payable

Certain of our retail real estate properties have been financed through commercial mortgages with an interest rate of 6.73%. These mortgages are collateralized by the respective properties with net book values totaling approximately $6,397 and $6,558 at November 24, 2012 and November 26, 2011, respectively. The current portion of these mortgages, $241 and $202 as of November 24, 2012 and November 26, 2011, respectively, has been included in other accrued liabilities in the accompanying consolidated balance sheets. The long-term portion, $3,053 and $3,662 as of November 24, 2012 and November 26, 2011, respectively, is presented as real estate notes payable in the consolidated balance sheets. During fiscal 2011, we entered into Discounted Payoff Agreements ("DPOs") with the lenders on three mortgages which were subsequently paid off during the year. Under the terms of these DPOs the remaining balance owed was reduced, resulting in a $1,305 gain on the settlement of these mortgages. This gain is included in other loss, net, in our consolidated statements of operations.

The fair value of these mortgages was $3,668 and $3,804 at November 24, 2012 and November 26, 2011, respectively. In determining the fair value we utilized current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 8.

Maturities of real estate notes payable are as follows:

Fiscal 2013	241
Fiscal 2014	258
Fiscal 2015	276
Fiscal 2016	295
Fiscal 2017	315
Thereafter	1,909
	$ 3,294

Bank Credit Facility

On December 9, 2011, we entered into a new credit agreement with our bank which extended a $3,000 line of credit which is used primarily to back our outstanding letters of credit. This credit facility contained covenants requiring us to maintain certain key financial ratios; however, there is no requirement to pledge assets as collateral. We were in compliance with all covenants under the agreement at November 24, 2012.

On December 18, 2012, we entered into a new credit facility with our bank extending us a line of credit of up to $15,000. This new line is secured by our accounts receivable and inventory. The new facility contains certain covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the new agreement and expect to remain in compliance for the foreseeable future.

At November 24, 2012 and November 26, 2011, we had $1,966 and $2,318, respectively, outstanding under standby letters of credit, leaving availability under the then existing line of $1,034 and $682, respectively.

Total interest paid, including bank and mortgage debt, during fiscal 2012, 2011 and 2010 was $294, $895 and $1,830, respectively.

14. **Post-Employment Benefit Obligations**

Supplemental Retirement Income Plan

We have an unfunded Supplemental Retirement Income Plan (the "Supplemental Plan") that covers one current and certain former executives. Upon retirement, the Supplemental Plan provides for lifetime monthly payments in an amount equal to 65% of the participant's final average compensation as defined in the Supplemental Plan, which is reduced by certain social security benefits to be received and other benefits provided by us. The Supplemental Plan also provides a death benefit that is calculated as (a) prior to retirement death, which pays the beneficiary 50% of final average annual compensation for a period of 120 months, or (b) post-retirement death, which pays the beneficiary 200% of final average compensation in a single payment. We own life insurance policies with a current net death benefit of $4,244 on these executives and expect to substantially fund this death benefit through the proceeds received upon the death of the executive. Funding for the remaining cash flows is expected to be provided through operations. There are no benefits payable as a result of a termination of employment for any reason other than death or retirement, other than a change of control provision which provides for the immediate vesting and payment of the retirement benefit under the Supplemental Plan in the event of an employment termination resulting from a change of control.

(In thousands, except share and per share data)

Summarized information for the plan measured as of the end of each year presented, is as follows:

	2012	2011
Change in Benefit Obligation:		
Projected benefit obligation at beginning of year	$ 9,326	$ 8,866
Service cost	54	47
Interest cost	376	420
Actuarial losses	709	662
Benefits paid	(660)	(669)
Projected benefit obligation at end of year	$ 9,805	$ 9,326
Accumulated Benefit Obligation	$ 9,342	$ 9,102
Amounts recognized in the consolidated balance sheet:		
Current liabilities	$ 843	$ 866
Noncurrent liabilities	8,962	8,460
	$ 9,805	$ 9,326
Amounts recognized in accumulated other comprehensive income:		
Transition obligation	$ 255	$ 297
Actuarial loss	1,732	1,034
Net amount recognized	$ 1,987	$ 1,331
Total recognized in net periodic benefit cost and accumulated other comprehensive income:	$ 1,139	$ 1,129

	2012	2011	2010
Components of Net Periodic Pension Cost:			
Service cost	$ 54	$ 47	$ 44
Interest cost	376	420	422
Amortization of transition obligation	42	42	42
Amortization of other loss	11	-	-
Net periodic pension cost	$ 483	$ 509	$ 508
Assumptions used to determine net periodic pension cost:			
Discount rate	4.25%	5.00%	5.25%
Increase in future compensation levels	3.00%	3.00%	3.00%

Estimated Future Benefit Payments (with mortality):	
Fiscal 2013	$ 843
Fiscal 2014	879
Fiscal 2015	807
Fiscal 2016	770
Fiscal 2017	732
Fiscal 2018 through 2022	3,261

(In thousands, except share and per share data)

Deferred Compensation Plan
We have an unfunded Deferred Compensation Plan that covers one current and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or benefits permitted. We recognized expense of $312, $332, and $376 in fiscal 2012, 2011, and 2010, respectively, associated with the plan. Our liability under this plan was $2,615 and $2,766 as of November 24, 2012 and November 26, 2011, respectively, and is reflected in post employment benefit obligations.

Defined Contribution Plan
We have a qualified defined contribution plan (Employee Savings/Retirement Plan) that covers substantially all employees who elect to participate and have fulfilled the necessary service requirements. Employee contributions to the Plan are matched at the rate of 10% of up to 8% of gross pay, regardless of years of service. Expense for employer matching contributions was $175 during fiscal 2012. During fiscal 2011 and 2010, employer matching contributions were suspended and no expense was incurred.

15. **Capital Stock and Stock Compensation**

We account for our stock-based employee and director compensation plans in accordance with ASC 718, *Compensation – Stock Compensation*. ASC 718 requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period) which we recognize on a straight-line basis. Compensation expense related to restricted stock and stock options included in selling, general and administrative expenses in our consolidated statements of operations for fiscal 2012, 2011 and 2010 was as follows:

2012	2011	2010
$ 636	$ 426	$ 376

Stock Option Plans

In 1997, we adopted an Employee Stock Plan (the “1997 Plan”), and reserved for issuance 950,000 shares of common stock. An additional 500,000 shares of common stock were authorized for issuance in 2000. In addition, the terms of the 1997 Plan allow for the re-issuance of any stock options which have been forfeited before being exercised. Options granted under the 1997 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. Vesting periods typically range from one to three years. There are no shares available for grant under the 1997 Plan at November 24, 2012, however up to 500,000 shares associated with outstanding grants under the 1997 may become available for grant under the 2010 Plan (see below).

In 2005, we adopted a Non-Employee Directors Stock Incentive Plan (the “Incentive Plan”) and reserved 100,000 shares of common stock for grant. The Incentive Plan authorized incentive awards in the form of restricted stock or stock grants. All Directors of the Company who are not full-time employees of the Company are eligible to receive incentive awards under the Incentive Plan. There were no shares available for grant under the Incentive Plan at November 24, 2012 and 10,087 available at November 26, 2011.

On April 14, 2010, our shareholders approved the Bassett Furniture Industries, Incorporated 2010 Stock Incentive Plan (the “2010 Plan”). All present and future non-employee directors, key employees and outside consultants for the Company are eligible to receive incentive awards under the 2010 Plan. Our Organization, Compensation and Nominating Committee (the “Compensation Committee”) selects eligible key employees and outside consultants to receive awards under the 2010 Plan in its discretion. Our Board of Directors or any committee designated by the Board of Directors selects eligible non-employee directors to receive awards under the 2010 Plan in its discretion. Five hundred thousand (500,000) shares of common stock are reserved for issuance under the 2010 Plan. In addition, up to 500,000 shares that are represented by outstanding awards under the 1997 Employee Stock Plan which are forfeited, expire or are canceled after the effective date of the 2010 Plan will be added to the reserve and may be used for new awards under the 2010 Plan. Participants may receive the following types of incentive awards under the 2010 Plan: stock options, stock appreciation rights, payment shares, restricted stock, restricted stock units and performance shares. Stock options may be incentive stock options or non-qualified stock options. Stock appreciation rights may be granted in tandem with stock options or as a freestanding award. Non-employee directors and outside consultants are eligible to receive restricted stock and restricted stock units only. We expect to issue new common stock upon the exercise of options.

(In thousands, except share and per share data)

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk free rate is based on the U.S. Treasury rate for the expected life at the time of grant, volatility is based on the average long-term implied volatilities of peer companies, the expected life is based on the estimated average of the life of options using the simplified method, and forfeitures are estimated on the date of grant based on certain historical data. We utilize the simplified method to determine the expected life of our options due to insufficient exercise activity during recent years as a basis from which to estimate future exercise patterns. During fiscal 2011 and 2010, our Compensation Committee authorized the issuance of 91,000 and 172,000 stock options, respectively, from the 2010 Plan to certain of our key employees. The stock options vest ratably over a four-year period and have 10-year contractual terms. The following table sets forth the weighted average fair value of options granted during 2011 and 2010 and the weighted average assumptions used for such grants (there were no grants made in 2012):

	2011	2010
Weighted average fair value of options on grant date	$4.19	$2.55
Expected life of options in years	6.25	6.25
Risk-free interest rate	2.19% - 2.49%	2.5%
Expected volatility	60.0%	60.0%
Dividend yield	0.0% - 1.5%	0.0%

Changes in the outstanding options under our plans during the year ended November 24, 2012 were as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at November 26, 2011	1,075,464	$ 13.95
Granted	-	-
Exercised	(87,400)	6.59
Forfeited/Expired	(202,964)	14.79
Outstanding at November 24, 2012	785,100	14.55
Exercisable at November 24, 2012	630,850	$ 16.66

Changes in the non-vested options under our plans during the year ended November 24, 2012 were as follows:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Non-vested options outstanding at November 26, 2011	220,000	$ 5.90
Granted	-	-
Vested	(65,750)	5.65
Forfeited/Expired	-	-
Non-vested options outstanding at November 24, 2012	154,250	6.00

Unrecognized compensation cost related to these non-vested options at November 24, 2012 is $422, expected to be recognized over approximately a two year period.

(In thousands, except share and per share data)

Additional information regarding our outstanding stock options at November 24, 2012 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$3.23 -$6.45	102,350	7.6	$ 4.38	16,350	$ 4.38
$6.45 -$9.67	72,250	8.6	8.02	4,000	8.02
$9.68 -$12.90	138,000	4.8	10.60	138,000	10.60
$12.91 - $16.13	67,500	3.9	14.89	67,500	14.89
$16.14 - $19.35	150,000	3.6	16.96	150,000	16.96
$19.36 - $22.58	255,000	1.3	21.12	255,000	21.12
	785,100			630,850	
Aggregate intrinsic value	$ 1,025			$ 215	

Additional information regarding activity in our stock options during fiscal 2012, 2011 and 2010 is as follows:

	2012	2011	2010
Total intrinsic value of options exercised	$ 530	$ 74	$ -
Total fair value of options vested	371	110	242
Total cash received from the exercise of options	536	81	-

The following restricted stock awards were granted during fiscal 2012, 2011 and 2010:

	Grant Date	Restricted Shares Granted	Share Value at Grant Date Per Share	Restriction Period (Years)
Grants during fiscal 2010	May 3, 2010	17,528	$ 5.99	1
	July 14, 2010	43,000	$ 4.38	3
Grants during fiscal 2011	March 7, 2011	4,000	$ 8.15	3
	May 2, 2011	11,760	$ 8.93	1
	July 13, 2011	4,200	$ 8.02	1
	July 13, 2011	75,000	$ 8.02	3
Grants during fiscal 2012	May 1, 2012	11,184	$ 10.73	1
	July 13, 2012	1,398	$ 11.69	1

At November 24, 2012, non-vested restricted stock grants totaling 138,782 shares remain outstanding. Unrecognized compensation cost related to these non-vested restricted shares at November 24, 2012 is $439, expected to be recognized over approximately a two and one-half year period.

(In thousands, except share and per share data)

Employee Stock Purchase Plan

In 2000, we adopted and implemented an Employee Stock Purchase Plan ("ESPP") that allows eligible employees to purchase a limited number of shares of our stock at 85% of market value. Under the ESPP we sold 42,211, 39,618 and 43,730 shares to employees in fiscal 2012, 2012 and 2010, respectively, which resulted in an immaterial amount of compensation expense.

16. **Restructuring, asset impairment, and other charges**

The following table summarizes the restructuring, asset impairment charges and other unusual items by year:

	2012	2011	2010
Restructuring and asset impairment charges:			
Asset impairment charges related to Company-owned retail store closures	$ 123	$ 1,156	$ -
Asset impairment charges & demolition costs associated with closed plants	588	1,312	-
Other	-	32	-
Total restructuring and asset impairment charges	$ 711	$ 2,500	$ -
Lease exit costs			
Lease exit costs related to Company-owned retail store closures	$ 228	$ 1,221	$ -
Charge for modification of existing Company-owned retail store lease	-	1,500	-
Changes in estimates related to previously closed Company-owned retail stores	131	1,007	-
Total lease exit costs	$ 359	$ 3,728	$ -
Licensee debt cancellation charges	$ -	$ 6,447	$ -
Total charges related to restructuring, asset impairment, lease exit costs and debt cancellation included in loss from operations	$ 1,070	$ 12,675	$ -

Total restructuring and asset impairment charges by segment are as follows:

	2012	2011	2010
Wholesale	$ 719	$ 8,653	$ -
Retail	351	4,022	-
	$ 1,070	$ 12,675	$ -

The following table summarizes the activity related to our accrued lease exit costs:

	2012	2011
Balance, beginning of the year	$ 4,357	$ 2,847
Provisions associated with corporate store and retail office closures	228	2,721
Provisions associated with licensee store closings	-	661
Provisions made to adjust previous estimates	111	1,560
Payments on unexpired leases	(2,232)	(2,048)
Payment to terminate lease commitment	-	(1,500)
Accretion of interest on obligations	150	116
Balance, end of the year	$ 2,614	$ 4,357
Current portion included in other accrued liabilities	$ 1,609	$ 1,756
Long-term portion included in other long-term liabilities	1,005	2,601
	$ 2,614	$ 4,357

Fiscal 2012

Restructuring and Asset Impairment Charges

During fiscal 2012, we incurred costs of $203 associated with the demolition of a previously closed manufacturing facility in Bassett, Virginia; non-cash charges of $385 associated with the write-down of a previously closed manufacturing facility in Mt. Airy, North Carolina; and $123 associated with the write off of abandoned leasehold improvements following the relocation of a retail store near Richmond, Virginia.

Lease Exit Costs

During fiscal 2012, we incurred non-cash charges of $228 for lease exit costs associated with the relocation of a retail store near Richmond, Virginia, as well as $131 of non-cash charges to reflect reduced estimates of recoverable lease costs at several previously closed retail locations.

Fiscal 2011

Restructuring and Asset Impairment Charges

During fiscal 2011, we recorded asset impairment charges of $2,500. These charges included costs of $318 for the demolition of a previously closed facility in Bassett, Virginia, and $32 associated with the relocation of our retail store in Manchester, Missouri. We also incurred non-cash charges which included $966 for the write-off of leasehold improvements related to the closure of six retail locations in Albuquerque, New Mexico; Bear, Delaware; Bel Air, Maryland; Carol Stream, Illinois; Frederick, Maryland; and Spanish Fort, Alabama; $566 for the additional write-down of a previously closed manufacturing facility in Mt. Airy, North Carolina; $428 for the additional write-down of the previously closed manufacturing facility in Bassett, Virginia; and $190 for the write-off of leasehold improvements and other assets associated with the relocation of our retail store in Manchester, Missouri. Total non-cash impairment charges described above for the year ended November 26, 2011 were $2,150. The write-downs of the previously closed manufacturing facilities are based on our estimates of their fair values. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 8.

Lease Exit Costs

During fiscal 2011, we recorded charges of $3,728 for lease exit costs and lease modifications which included: non-cash charges of $1,221 for lease exit costs related to the closure of retail stores in Albuquerque, New Mexico, Bel Air and Frederick, Maryland, and a previously closed location in Lewisville, Texas; non-cash charges of $1,007 to reflect reduced estimates of recoverable lease costs at four previously closed retail locations; and a charge of $1,500 for a cash payment made for the modification of an existing lease at one of our Company-owned retail store locations.

Licensee Debt Cancellation Charges

During fiscal 2011, we gained significant liquidity as a result of the sale of our investment in IHFC (see Note 11). This liquidity event enabled us to become more opportunistic in managing our relationships with our licensees and therefore accelerate certain licensees' ability to rebuild their businesses after several years of extremely difficult industry conditions. As such, during fiscal 2011, we cancelled certain debts of what we consider to be key licensees in select markets. While the debts cancelled were considered to be collectible over time, we believe that, rather than requiring repayment of these obligations, we will realize a greater long-term benefit by the cancellation of these debts. In exchange for relieving the debts of these licensees and thus strengthening their respective financial positions, we believe these licensees will be in a much better position to reinvest in all aspects of their store operations (new product offerings, personnel, advertising, building appeal, etc.) which will ultimately lead to increased sales and profitability of the Bassett brand. As a result of this debt cancellation, we incurred a charge for fiscal 2011 of $6,447.

(In thousands, except share and per share data)

In addition to the charges discussed above affecting loss from operations during fiscal 2011, other income (loss), net for the year ended November 26, 2011 includes non-cash charges of $4,790 for asset impairments and lease termination costs associated with our retail real estate investments, including: asset impairment charges of $2,106 to write down idle retail locations in Henderson, Nevada and Chesterfield, Virginia to appraised values; $1,847 to write off certain tenant improvements deemed to be unrecoverable; $661 related to lease termination costs for a closed licensee store; and $176 related to adjustments of previous estimates. The write-downs of the retail assets are based on our estimates of their fair values. The inputs into these fair value estimates reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 8.

Fiscal 2010

There were no restructuring charges or other significant non-recurring items were included in our loss from operations.

17. **Contingencies**

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

In 2009, our former vendor, Colonial Trading, Inc. (“Colonial”), filed a lawsuit against us alleging, among other things, breach of contract by the Company after we cancelled orders for cribs following product recalls. We filed counterclaims for breach of contract and warranty. On August 1, 2012, a jury returned a verdict in favor of Colonial and in October 2012 judgment was entered in the amount of $1,437. Colonial’s motion for attorney’s fees is pending. Both Bassett and Colonial have appealed; with Bassett seeking a new trial for damages for breach of express warranty, among other things, and Colonial seeking, among other things, to treble its breach of contract damages. We currently have sufficient reserves to cover the judgment amount.

See also note 9 regarding claims which could possibly result in the return of all or a portion of our share of the CDSOA final distribution.

18. **Leases, Lease Guarantees and Loan Guarantees**

Leases

We lease land and buildings under operating leases that are used in the operation of our Company-owned retail stores as well as in the operation of independent licensee BHF stores. Our decision to exercise renewal options is primarily dependent on the level of business conducted at the location and the profitability thereof. Some store leases contain contingent rental provisions based upon sales volume. Additionally, we lease showroom space from IMC (and from its predecessor, IHFC), which is priced at what we believe to be a market rate. Lease terms range from one 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 operating leases having remaining terms in excess of one year as of November 24, 2012:

Fiscal 2013	18,358
Fiscal 2014	14,550
Fiscal 2015	11,983
Fiscal 2016	9,015
Fiscal 2017	6,393
Thereafter	12,501
	$ 72,800

Lease expense was $17,123, $16,406 and $16,575 for 2012, 2011, and 2010, respectively.

(In thousands, except share and per share data)

In addition to subleasing certain of these properties, we own retail real estate which we in turn lease to licensee operators of BHF stores. We also own real estate for closed stores which we lease to non-licensees. The following schedule shows minimum future rental income related to pass-through rental expense on subleased property as well as rental income on real estate owned by Bassett, excluding subleases based on a percentage of sales.

Fiscal 2013	3,364
Fiscal 2014	2,794
Fiscal 2015	2,141
Fiscal 2016	1,018
Fiscal 2017	636
Thereafter	347
	$ 10,300

Real estate rental income (loss), net of expense (including lease costs, depreciation, insurance, and taxes), related to licensee stores and other investment real estate, was $(468) in 2012, $285 in 2011, and $(429) in 2010 and is reflected in other expense, net in the accompanying consolidated statements of operations.

Guarantees

As part of the strategy for our store program, we have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of $2,007 and $2,515 at November 24, 2012 and November 26, 2011, respectively.

In the event of default by an independent dealer under the guaranteed lease, we believe that the risk of loss is mitigated through a combination of options that include, but are not limited to, arranging for a replacement dealer, liquidating the collateral, and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are estimated to cover the maximum amount of our future payments under the guarantee obligations, net of reserves. The fair value of guarantees at November 24, 2012 and November 26, 2011, were $347 and $508, respectively, and are recorded in accrued liabilities and other long-term liabilities in the accompanying consolidated balance sheets. The inputs into this fair value estimate reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*. See Note 8.

19. **Earnings Per Share**

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

	2012	2011	2010
Numerator:			
Net income (loss)	$ 26,713	$ 55,342	$ (2,002)
Denominator:			
Denominator for basic income (loss) per share - weighted average shares	10,992,017	11,437,291	11,459,257
Effect of dilutive securities	103,394	106,879	-
Denominator for diluted income (loss) per share — weighted average shares and assumed conversions	11,095,411	11,544,170	11,459,257
Basic income (loss) per share:			
Net income (loss) per share — basic	$ 2.43	$ 4.84	$ (0.17)
Diluted income (loss) per share:			
Net income (loss) per share — diluted	$ 2.41	$ 4.79	$ (0.17)

Options to purchase 622,500, 924,464 and 1,009,514 shares of common stock in fiscal 2012, 2011, and 2010, respectively, were not included in the computation of diluted earnings per share because the effect of including the options in the computation would have been anti-dilutive.

20. **Segment Information**

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

- **Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (licensee-owned stores and Company-owned retail stores) and independent furniture retailers. Our wholesale segment includes our wood and upholstery operations as well as all corporate selling, general and administrative expenses, including those corporate expenses related to both Company- and licensee-owned stores.

- **Retail – Company-owned Stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities (including real estate) and capital expenditures directly related to these stores.

- **Investments and Real Estate.** Our investments/real estate segment consists of our marketable securities, investments, distributions in excess of affiliate earnings (IHFC) and retail real estate related to licensee stores. Although this segment does not have operating earnings, income or loss from the segment is included in other income (loss), net, in our consolidated statements of operations. Our equity investment in IHFC is not included in the identifiable assets of this segment since it had a negative book value at November 26, 2011 and was therefore included in the long-term liabilities section of our consolidated balance sheet. Our entire investment in IHFC was sold during the second quarter of 2011. See Note 11 for further discussion of IHFC.

Inter-company net sales elimination represents the elimination of wholesale sales to our Company-owned stores. Inter-company income elimination includes the embedded wholesale profit in the Company-owned store inventory that has not been realized. These profits will be recorded when merchandise is delivered to the retail consumer. The inter-company income elimination also includes rent paid by our retail stores occupying Company-owned real estate.

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

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

	2012	2011	2010
Net Sales			
Wholesale	$ 185,187	$ 177,372	$ 176,255
Retail	171,633	147,961	122,241
Inter-company elimination	(87,148)	(72,125)	(63,242)
Consolidated	$ 269,672	$ 253,208	$ 235,254
Income (loss) from Operations			
Wholesale	$ 7,500	$ (4,394)	$ 2,431
Retail	(2,067)	(4,495)	(7,387)
Inter-company elimination	717	942	269
Restructuring and asset impairment charges			
Wholesale	(588)	(1,311)	-
Retail	(123)	(1,189)	-
Licensee debt cancellation charges	-	(6,447)	-
Lease exit costs	(359)	(3,728)	-
Consolidated income (loss) from operations	$ 5,080	$ (20,622)	$ (4,687)
Depreciation and Amortization			
Wholesale	$ 1,171	$ 1,246	$ 1,670
Retail	3,760	3,421	3,095
Investments/real estate	542	847	1,201
Consolidated	$ 5,473	$ 5,514	$ 5,966
Capital Expenditures			
Wholesale	$ 3,092	$ 690	$ 515
Retail	5,898	3,478	1,498
Investments/real estate	10	-	-
Consolidated	$ 9,000	$ 4,168	$ 2,013
Identifiable Assets			
Wholesale	$ 145,861	$ 142,361	$ 95,957
Retail	68,583	60,811	58,736
Investments/real estate	12,736	20,002	42,624
Consolidated	$ 227,180	$ 223,174	$ 197,317

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

	2012	2011	2010
Wood	43%	44%	44%
Upholstery	57%	56%	56%
	100%	100%	100%

(In thousands, except share and per share data)

21. **Quarterly Results of Operations (unaudited)**

	2012			
	First Quarter (1)	**Second Quarter (2)**	**Third Quarter (3)**	**Fourth Quarter (4)**
Net sales	$ 60,968	$ 67,454	$ 64,438	$ 76,812
Gross profit	31,671	35,661	33,818	40,172
Net income (loss)	(596)	8,042	2,371	16,896
Basic earnings (loss) per share	(0.05)	0.72	0.22	1.57
Diluted earnings (loss) per share	(0.05)	0.71	0.21	1.55

	2011			
	First Quarter (5)	**Second Quarter (6)**	**Third Quarter (7)**	**Fourth Quarter (8)**
Net sales	$ 64,264	$ 66,261	$ 59,417	$ 63,266
Gross profit	31,848	33,197	29,251	33,270
Net income (loss)	(8,255)	62,546	417	633
Basic earnings (loss) per share	(0.72)	5.43	0.04	0.06
Diluted earnings (loss) per share	(0.72)	5.39	0.04	0.06

All quarters presented above for 2012 and 2011 consist of 13 week fiscal periods.

(1) Includes restructuring and asset impairment charges of $236 and lease exit costs of $228 – see Note 16 for further details. Also includes $806 charge for other than temporary impairment to our investment in Fortress – see Note 8 for further details.
(2) Includes $9,010 of income from the final CDSOA distribution – see Note 9 for further details. Also includes restructuring and asset impairment charges of $475 and lease exit costs of $131 – see Note 16 for further details. Also includes $1,592 of tax benefit from partial release of deferred tax asset valuation reserves – see Note 12 for further information.
(3) Includes $1,205 of tax benefit from partial release of deferred tax asset valuation reserves – see Note 12 for further information.
(4) Includes $15,907 of tax benefit from release of deferred tax asset valuation reserves – see Note 12 for further information.
(5) Includes restructuring and asset impairment charges of $879 and lease exit costs of $884 – see Note 16 for further details.
(6) Includes $85,542 gain on sale of affiliate – see Note 11 for further details regarding the sale of our investment in IHFC. Also includes licensee debt cancellation charges of $6,447, restructuring and asset impairment charges of $1,080, and lease exit costs of $2,844 – see Note 16 for further details.
(7) Includes restructuring and asset impairment charges of $123 – see Note 16 for further details.
(8) Includes $765 of income associated with the Continued Dumping & Subsidy Offset Act. See Note 9 for further details. Also includes $418 of asset impairment and restructuring charges – see Note 16 for further details.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

We are responsible for establishing and maintaining adequate internal control over financial reporting in accordance with Exchange Act Rule 13a-15. With the participation of our CEO and CFO, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of November 24, 2012 based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 24, 2012, based on those criteria. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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

Changes in internal control over financial reporting.

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

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Bassett Furniture Industries, Incorporated and Subsidiaries

We have audited Bassett Furniture Industries, Incorporated and Subsidiaries' internal control over financial reporting as of November 24, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Bassett Furniture Industries, Incorporated and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Bassett Furniture Industries, Incorporated and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of November 24, 2012, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Bassett Furniture Industries, Incorporated and subsidiaries as of November 24, 2012 and November 26, 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended November 24, 2012 of Bassett Furniture Industries, Incorporated and Subsidiaries and our report dated February 4, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Raleigh, North Carolina

February 4, 2013

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information to be contained in the Proxy Statement under the captions “Election of Directors,” “Board and Board Committee Information,” and “Section 16(a) Beneficial Ownership Reporting Compliance” is incorporated herein by reference thereto. Please see section entitled “Executive Officers of the Registrant” in Item 4b of Part I of this report for information concerning executive officers.

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

ITEM 11. EXECUTIVE COMPENSATION

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1)(a) Bassett Furniture Industries, Incorporated and Subsidiaries Audited Consolidated Financial Statements for the years ended November 24, 2012, November 26, 2011 and November 27, 2010.

(b) International Home Furnishings Center, Inc. and Subsidiaries Unaudited Consolidated Financial Statements for the period from November 1, 2010 through May 2, 2011.

(c) International Home Furnishings Center, Inc. and Subsidiaries Audited Consolidated Financial Statements for the Years Ended October 31, 2010, 2009 and 2008.

(2) Financial Statement Schedule:

Schedule II- Analysis of Valuation and Qualifying Accounts for the years ended November 24, 2012, November 26, 2011 and November 27, 2010

(3) Listing of Exhibits

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

3B. Amendment to By-laws including By-laws as amended to date is incorporated herein by reference to Form 8-K filed on October 18, 2011.

4. Fourth Amended and Restated Credit Agreement with BB&T dated December 9, 2011 and First Amendment to Fourth Amended and Restated Credit Agreement with BB&T dated December 18, 2012. Registrant hereby agrees to furnish the SEC, upon request, other instruments defining the rights of holders of long-term debt of the Registrant.

*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.

*10E. Bassett 1997 Employee Stock Plan is incorporated herein by reference to the Registrant’s Registration Statement on Form S-8 (no. 333-60327) filed on July 31, 1998.

*10F. Bassett Furniture 2005 Non-Employee Directors Stock Incentive Plan is incorporated herein by reference to the Registrant’s definitive proxy statement on Schedule 14A filed on January 28, 2005.

*10G. Bassett Furniture 2005 Non-Employee Directors Stock Incentive Form Grant Letter for Restricted Stock Award is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.

*10H. Bassett Furniture Directors Compensation is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.

*10I. Bassett Furniture Industries, Inc. 1997 Employee Stock Plan Form Stock Option Award Agreement is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.

*10J. Bassett Furniture Industries, Inc. 1997 Employee Stock Plan Form Grant Letter for Restricted Stock Award is incorporated herein by reference to Form 10-K for the fiscal year ended November 26, 2005.

*10K. Bassett Furniture Industries, Inc. 2010 Stock Incentive Plan is incorporated herein by reference to Form 8-K filed on April 14, 2010.

21. List of subsidiaries of the Registrant

23A. Consent of Independent Registered Public Accounting Firm

23B.	Consent of Independent Registered Public Accounting Firm
31A.	Certification of Robert H. Spilman, Jr., President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31B.	Certification of J. Michael Daniel, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32A.	Certification of Robert H. Spilman, Jr., President and Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32B.	Certification of J. Michael Daniel, Senior Vice President and Chief Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.	The following financial statements from the Company's Annual Report on Form 10-K for the year ended November 24, 2012, formatted in Extensible Business Reporting Language ("XBRL"): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows, (iv) consolidated statements of stockholders' equity, and (v) the notes to the consolidated financial statements, tagged as blocks of text.
101.INS**	XBRL Instance
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation
101.DEF**	XBRL Taxonomy Extension Definition
101.LAB**	XBRL Taxonomy Extension Labels
101.PRE**	XBRL Taxonomy Extension Presentation

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

** XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

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

BASSETT FURNITURE INDUSTRIES, INCORPORATED (Registrant)

By: /s/ Robert H. Spilman, Jr. Date: February 4, 2013
Robert H. Spilman, Jr.
President and Chief Executive Officer
Director

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

By: /s/ Paul Fulton Date: February 4, 2013
Paul Fulton
Chairman of the Board of Directors

By: /s/ Peter W. Brown Date: February 4, 2013
Peter W. Brown
Director

By: /s/ Kristina K. Cashman Date: February 4, 2013
Kristina K. Cashman
Director

By: /s/ Howard H. Haworth Date: February 4, 2013
Howard H. Haworth
Director

By: /s/ George W. Henderson, III Date: February 4, 2013
George W. Henderson, III
Director

By: /s/ J. Walter McDowell Date: February 4, 2013
J. Walter McDowell
Director

By: /s/ Dale C. Pond Date: February 4, 2013
Dale C. Pond
Director

By: /s/ William C. Wampler, Jr. Date: February 4, 2013
William C. Wampler, Jr.
Director

By: /s/ William C. Warden, Jr. Date: February 4, 2013
William C. Warden, Jr.
Director

By: /s/ J. Michael Daniel Date: February 4, 2013
J. Michael Daniel
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

International Home Furnishings Center, Inc.
and Subsidiaries

Unaudited Consolidated Financial Statements

For the period from November 1, 2010 through May 2, 2011

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
Period from November 1, 2010 through May 2, 2011 (Unaudited)

	(Unaudited)
OPERATING REVENUES	
Rental income	$ 17,762,772
Other revenues	2,192,431
TOTAL OPERATING REVENUES	19,955,203
OPERATING EXPENSES	
Compensation and benefits	4,233,992
Market and promotional	897,614
Maintenance and building costs	634,347
Depreciation expense	1,776,570
Rent	90,934
Property taxes and insurance	1,832,036
Utilities	1,008,071
Other operating costs	996,112
TOTAL OPERATING EXPENSES	11,469,676
INCOME FROM OPERATIONS	8,485,527
NONOPERATING INCOME (EXPENSE)	
Interest income	19,295
Interest expense	(2,457,372)
TOTAL NONOPERATING EXPENSES	(2,438,077)
INCOME BEFORE INCOME TAXES	6,047,450
PROVISION FOR INCOME TAXES	2,577,291
NET INCOME	$ 3,470,159
BASIC EARNINGS PER COMMON SHARE	$ 7.21
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	481,628

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIIDIARIES
CONSOLIDATED BALANCE SHEET
May 2, 2011 (Unaudited)

ASSETS

CURRENT ASSETS		**(Unaudited)**
Cash and cash equivalents	$	4,567,952
Restricted cash		4,685,763
Receivables		
Trade (net of allowance for doubtful accounts of $701,500)		12,521,935
Deferred rent income receivable-current portion		463,000
Deferred income tax asset		1,198,000
Prepaid expenses		285,618
TOTAL CURRENT ASSETS		23,722,268
PROPERTY AND EQUIPMENT, at cost		
Land and land improvements		3,635,878
Buildings, exclusive of theater complex		100,179,676
Furniture and equipment		3,560,212
		107,375,766
Accumulated depreciation		(70,916,732)
		36,459,034
OTHER ASSETS		
Prepaid rent		459,861
Deferred rent receivable non-current net of allowance for doubtful accounts of $175,000		4,995,974
Deferred financing costs, net of accumulated amortization of $76,217		649,938
		6,105,773
TOTAL ASSETS		66,287,075
LIABILITIES LESS STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Current portion of long-term debt		1,602,212
Accounts payable, trade		732,952
Accrued property taxes		1,266,713
Other accrued expenses		546,158
Deferred rental income		16,847,436
Income taxes payable		417,195
TOTAL CURRENT LIABILITIES		21,412,666
LONG-TERM LIABILITIES		
Long-term debt		100,677,783
Deferred income tax liability		1,034,000
		101,711,783
STOCKHOLDERS' DEFICIT		
Paid in Capital		2,557,410
Accumulated deficit		(59,394,784)
		(56,837,374)
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$	66,287,075

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
Period from November 1, 2010 through May 2, 2011 (Unaudited)

		(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$	3,470,159
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		1,845,038
Provision for losses (recoveries) on accounts receivable		74,000
(Gain) Loss on disposal of assets		27,309
Supplemental retirement benefits expense		797,047
Deferred income taxes		796,000
Change in assets and liabilities		
Increase in trade and interest receivables		(10,691,773)
Increase in deferred rent income receivable		(523,255)
Decrease in prepaid expenses		262,151
Decrease in accounts payable and accrued expenses		(1,631,038)
Decrease in rents received in advance		(1,230,203)
Increase in deferred rent income		12,778,897
Decrease in income taxes payable		(1,668,805)
Decrease in supplemental retirement benefits		(3,885,064)
NET CASH PROVIDED BY OPERATING ACTIVITIES		420,463
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in restricted cash		1,032,441
Purchase and construction of property and equipment		(363,436)
NET CASH PROVIDED BY INVESTING ACTIVITIES		669,005
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt		(786,313)
Purchase of common stock for retirement		(328,291)
Dividends paid		(8,000,000)
NET CASH USED IN FINANCING ACTIVITIES		(9,114,604)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,025,136)
CASH AND CASH EQUIVALENTS AT OCTOBER 31, 2010		12,593,088
CASH AND CASH EQUIVALENTS AT MAY 2, 2011	$	4,567,952
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Income taxes	$	3,707,524
Interest, net of amount capitalized	$	1,976,912

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Period from November 1, 2010 through May 2, 2011 (Unaudited)

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
BALANCE (DEFICIT), OCTOBER 31, 2010	$ 2,408,140	$ 154,592	$ (54,541,974)	$ (242,613)	$ (52,221,855)
Comprehensive income					
Net income	-	-	3,470,159	-	3,470,159
Other comprehensive income:	-	-			
Net change in supplemental retirement	-	-	-	242,613	242,613
Total Comprehensive Income					3,712,772
Dividends paid ($8.305 per common share)	-	-	(8,000,000)	-	(8,000,000)
Purchase of common stock for retirement	-	(5,322)	(322,969)	-	(328,291)
Reclass common stock to paid in capital	(2,408,140)	2,408,140	-	-	-
BALANCE (DEFICIT), May 2, 2011	$ -	$ 2,557,410	$ (59,394,784)	$ -	$ (56,837,374)

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements for International Home Furnishings Center, Inc. are for the period from November 1, 2010 through May 2, 2011, the date at which the Company was sold to IHFC Acquisition Company, LLC. These interim statements are prepared on the basis as if the Company is a continuing going concern and do not include any adjustments as a result of the sale of the Company. These statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States ("GAAP") for complete financial statements. They should be read in conjunction with the consolidated financial statements and accompanying notes included in our audited financial statements for the year ended October 31, 2010. In our opinion, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for this interim period are not necessarily indicative of results for a full fiscal year.

2. Sale of International Home Furnishings Center, Inc.

On May 2, 2010 the shareholders of International Home Furnishings Center, Inc., sold one-hundred percent of their ownership interest under the terms of a Stock Purchase Agreement.to IHFC Acquisition, LLC, a company formed for the purpose of completing the transaction. Following the sale the principal owners of the new entity, Bain Capital and Oaktree Capital Management, merged the acquisition company with International Market Centers, LP, a firm consisting of other entities with operations similar to the Company. The total value of the transaction was $275 million in cash reduced by certain liabilities, transaction expenses, professional fees, escrow amounts and a dividend received in lieu of sale proceeds. Adjustments to the selling price resulting in distributable proceeds at the close are as follows:

		(in millions)
Selling price	$	275.0
Mortgage balance including accrued interest	$	102.2
General indemnity escrow		10.0
Tax escrow		5.0
Dividend received in lieu of sale proceeds		8.0
Other adjustments (net)		0.4
Total adjustments	$	125.6
Distributable proceeds at close	$	149.4

In accordance with the terms of the Stock Purchase Agreement the shareholders are entitled to any residual amounts after the liabilities represented by escrowed funds are settled. Tax escrow funds represent the potential liability resulting from an IRS examination in process at the time of the closing. The expected tax liability of approximately $2 million has recently settled with the remainder due to the shareholders. The General Indemnity Escrow agreement survives the closing date by three years during which time all claims must be asserted. As of January 10, 2012 no claims have been asserted.

International Home Furnishings Center, Inc. and Subsidiaries

Consolidated Financial Statements

Years Ended October 31, 2010, 2009 and 2008

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of International Home Furnishings Center, Inc. and Subsidiaries as of October 31, 2010 and 2009 and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended October 31, 2010. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Home Furnishings Center, Inc. and Subsidiaries at October 31, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2010 in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

(formerly Dixon Hughes PLLC)
High Point, North Carolina
January 18, 2011

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Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
October 31, 2010 and 2009

		2010		2009
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	12,593,088	$	11,856,903
Restricted cash		5,718,204		143,750
Trade receivables (net of allowance for doubtful accounts of $738,181 and $486,205 at October 31, 2010 and 2009, respectively)		1,793,481		1,717,526
Current portion of deferred rental income receivable		151,278		152,018
Deferred income tax benefit		1,771,000		1,579,000
Prepaid income taxes		—		5,085,000
Prepaid expenses		547,769		527,463
TOTAL CURRENT ASSETS		22,574,820		21,061,660
PROPERTY AND EQUIPMENT, at cost				
Land and land improvements		3,640,498		3,640,498
Buildings, exclusive of theater complex		101,252,580		100,500,465
Furniture and equipment		5,339,202		5,170,823
Construction-in-progress		—		1,626
		110,232,280		109,313,412
Accumulated depreciation		(72,351,886)		(68,936,742)
		37,880,394		40,376,670
OTHER ASSETS				
Prepaid rent		501,049		544,304
Deferred rental income receivable (net of allowance for doubtful accounts of $175,000 and $60,000 at October 31, 2010 and 2009, respectively)		4,784,441		2,317,793
Deferred financing costs (net of accumulated amortization of $37,690 and $659,341 at October 31, 2010 and 2009, respectively)		726,154		149,342
		6,011,644		3,011,439
TOTAL ASSETS	$	66,466,858	$	64,449,769
LIABILITIES LESS STOCKHOLDERS' DEFICIT				
CURRENT LIABILITIES				
Accounts payable, trade	$	841,716	$	1,128,074
Accrued property taxes		2,533,426		2,533,975
Income tax payable		2,086,000		—
Other accrued expenses		824,470		642,701
Current portion of long-term debt		1,578,158		—
Rents received in advance		5,298,742		5,065,871
TOTAL CURRENT LIABILITIES		13,162,512		9,370,621
LONG-TERM LIABILITIES				
Long-term debt, net of current portion		101,488,150		108,000,000
Deferred income tax liability		656,000		1,934,000
Supplemental retirement benefits		3,364,254		3,018,538
Postretirement health benefits		17,800		46,978
		105,526,204		112,999,516
COMMITMENTS (Note E)				
STOCKHOLDERS' DEFICIT				
Common stock, $5 par value, 1,000,000 shares authorized, 481,628 shares issued in 2010 and 2009		2,408,140		2,408,140
Additional paid-in capital		154,592		154,592
Accumulated deficit		(54,541,979)		(60,221,729)
Accumulated other comprehensive loss		(242,611)		(261,371)
		(52,221,858)		(57,920,368)
TOTAL LIABILITIES LESS STOCKHOLDERS' DEFICIT	$	66,466,858	$	64,449,769

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
Years Ended October 31, 2010, 2009 and 2008

	2010	2009	2008
OPERATING REVENUES			
Rental income	$ 35,248,041	$ 36,302,019	$ 39,883,874
Other revenues	4,269,754	4,315,920	5,833,716
TOTAL OPERATING REVENUES	39,517,795	40,617,939	45,717,590
OPERATING EXPENSES			
Compensation and benefits	5,285,532	5,518,351	6,110,479
Market and promotional	1,639,392	1,925,053	2,652,678
Maintenance and building costs	1,312,538	1,222,753	1,782,722
Depreciation expense	3,419,278	3,481,055	3,447,542
Rent	180,895	180,895	163,689
Property taxes and insurance	3,328,134	3,460,449	3,466,176
Utilities	1,807,226	1,773,350	1,921,799
Other postretirement employee benefit curtailment gain	—	(83,753)	(3,107,275)
Other operating costs	1,197,644	1,470,237	1,254,887
TOTAL OPERATING EXPENSES	18,170,639	18,948,390	17,692,697
INCOME FROM OPERATIONS	21,347,156	21,669,549	28,024,893
NONOPERATING INCOME (EXPENSE)			
Interest income	51,431	93,514	123,604
Interest expense	(5,251,837)	(5,348,299)	(5,487,815)
TOTAL NONOPERATING EXPENSES	(5,200,406)	(5,254,785)	(5,364,211)
INCOME BEFORE INCOME TAXES	16,146,750	16,414,764	22,660,682
PROVISION FOR INCOME TAXES	6,467,000	6,373,000	8,948,000
NET INCOME	$ 9,679,750	$ 10,041,764	$ 13,712,682
BASIC EARNINGS PER COMMON SHARE	$ 20.10	$ 20.85	$ 28.47
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	481,628	481,628	481,628

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years Ended October 31, 2010, 2009 and 2008

	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
BALANCE (DEFICIT), OCTOBER 31, 2007	$ 2,408,140	$ 154,592	$ (64,976,172)	$ (234,598)	$ (62,648,038)
Dividends paid ($26.992 per common share)	—	—	(13,000,002)	—	(13,000,002)
Comprehensive income:					
Net income	—	—	13,712,682	—	13,712,682
Other comprehensive income:					
Amount related to minimum pension liability (net of deferred tax of $112,000)	—	—	—	174,921	174,921
Total comprehensive income					13,887,603
BALANCE (DEFICIT), OCTOBER 31, 2008	2,408,140	154,592	(64,263,492)	(59,677)	(61,760,437)
Dividends paid ($12.458 per common share)	—	—	(6,000,001)	—	(6,000,001)
Comprehensive income:					
Net income	—	—	10,041,764	—	10,041,764
Other comprehensive income:					
Amount related to minimum pension liability (net of deferred tax of $129,000)	—	—	—	(201,694)	(201,694)
Total comprehensive income					9,840,070
BALANCE (DEFICIT), OCTOBER 31, 2009	2,408,140	154,592	(60,221,729)	(261,371)	(57,920,368)
Dividends paid ($8.035 per common share)	—	—	(4,000,000)	—	(4,000,000)
Comprehensive income:					
Net income	—	—	9,679,750	—	9,679,750
Other comprehensive income:					
Amount related to minimum pension liability (net of deferred tax of $12,000)	—	—	—	18,760	18,760
Total comprehensive income					9,698,510
BALANCE (DEFICIT), OCTOBER 31, 2010	$ 2,408,140	$ 154,592	$ (54,541,979)	$ (242,611)	$ (52,221,858)

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended October 31, 2010, 2009 and 2008

	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 9,679,750	$ 10,041,764	$ 13,712,682
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	3,419,278	3,481,055	3,447,542
Amortization	226,154	200,854	201,298
Provision for losses on accounts receivable	363,000	708,000	380,878
Loss on disposal of property and equipment	—	158	—
Supplemental retirement benefits expense	497,852	388,678	329,360
Postretirement health benefits expense	—	—	150,277
Postretirement employee benefit curtailment gain	—	(83,753)	(3,107,275)
Deferred income taxes	(254,000)	5,626,000	1,757,000
Change in assets and liabilities			
Increase in trade and interest receivables	(323,955)	(214,376)	(624,561)
Increase in deferred rental income receivable	(2,580,908)	(2,008,187)	(461,624)
(Increase) decrease in prepaid income taxes	5,085,000	(4,060,000)	(1,025,000)
(Increase) decrease in prepaid expenses	(20,306)	33,508	16,412
Increase (decrease) in accounts payable and accrued expenses	(123,207)	(406,011)	858,394
Increase (decrease) in rents received in advance	232,871	(2,187,477)	(2,729,061)
Increase (decrease) in income taxes payable	858,000	—	(1,275,539)
Decrease in supplemental retirement benefits	(78,876)	(78,876)	(78,876)
Decrease in postretirement health benefits	(63,903)	(90,645)	(76,213)
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,916,750	11,350,692	11,475,694
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase and construction of property and equipment	(908,575)	(802,450)	(2,471,709)
Increase in restricted cash	(5,574,454)	—	—
Purchases of short-term investments	—	—	(5,659,992)
Proceeds from sales of short-term investments	—	—	6,581,315
NET CASH USED BY INVESTING ACTIVITIES	(6,483,029)	(802,450)	(1,550,386)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal payments on long-term debt	(108,133,692)	—	(11,000,000)
Payment of deferred financing costs	(763,844)	—	—
Proceeds from long-term debt	103,200,000	—	12,000,000
Dividends paid	(4,000,000)	(6,000,001)	(13,000,002)
NET CASH USED BY FINANCING ACTIVITIES	(9,697,536)	(6,000,001)	(12,000,002)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	736,185	4,548,241	(2,074,694)
CASH AND CASH EQUIVALENTS, BEGINNING	11,856,903	7,308,662	9,383,356
	$ 12,593,088	$ 11,856,903	$ 7,308,662

See accompanying notes.

INTERNATIONAL HOME FURNISHINGS CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended October 31, 2010, 2009 and 2008

	2010	2009	2008
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Income taxes paid (net of refunds)	$ 778,000	$ 4,960,000	$ 9,327,820
Interest, net of amount capitalized	$ 5,092,845	$ 5,208,666	$ 5,056,358
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES			
Accounts payable incurred for acquisition of property and equipment	$ 10,294	$ —	$ 127,555
Increase (decrease) in accrued minimum pension liability	$ (30,760)	$ 330,694	$ (286,921)

See accompanying notes.

NOTE A - DESCRIPTION OF BUSINESS

International Home Furnishings Center, Inc. and its wholly-owned subsidiaries, IHFC Holdings, LLC and IHFC Properties, LLC, (collectively, the "Company") are the lessors 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 (the "Market") held each April and October. The details of the operating leases with the Company's tenants are described in Note G.

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 policy relative to the carrying values of property and equipment is indicated in the caption on the consolidated balance sheet. Other significant accounting policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of International Home Furnishings Center, Inc. and its wholly-owned subsidiaries, IHFC Holdings, LLC, organized on October 4, 2005, and IHFC Properties, LLC, organized on December 21, 2000. All material intercompany transactions have been eliminated.

Operating Revenues

Rental income consists entirely of rentals from exhibition space, which are predominately recognized on an accrual basis in accordance with the terms and conditions or on the straight-line basis over the lives of the leases.

Other revenues consist principally of advertising revenue generated from the Company's various Market publications and service revenue generated from various services provided to the Company's tenants. Advertising revenue is recognized in the period the related Market publications are published and service revenue is recognized when the related service has been provided.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash consists principally of escrow accounts required by the Company's loan agreement with Natixis Real Estate Capital, LLC described in Note C.

Receivables

Trade accounts receivable and deferred rental income receivable are evaluated to determine the collectability of existing accounts and the adjustment, if any, required to the allowance for doubtful accounts. Adjustment to the allowance is based on such factors as historical bad debt expense, the aging of accounts and prevailing economic conditions. Specific accounts deemed uncollectable by an evaluation of a customer's ability to pay (e.g., bankruptcy filing) and changes in the aging are charged against the allowance account as necessary.

Property, Equipment and Depreciation

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

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

Pursuant to the financial accounting standard relating to impairment and disposal of long-lived assets, the Company periodically reviews long-lived assets and when indications of impairment exist, and if the value of the assets is impaired, an impairment loss would be recognized.

Deferred Financing Costs

Costs associated with obtaining long-term financing have been deferred and are being amortized to interest expense on the interest method over the term of the related debt. Amortization of deferred financing costs during the years ended October 31, 2010, 2009 and 2008 was $187,032, $163,733 and $162,177, respectively. Amortization of deferred financing costs for each of the five years subsequent to October 31, 2010 is estimated to be approximately $153,000 per year.

Reporting Comprehensive Income

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

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related to temporary differences between the reported amounts of assets and liabilities and their tax bases. The deferred tax assets and liabilities represent the future tax consequences of those differences, which will be either 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. The Company provides valuation allowances against net deferred tax assets for amounts that are not considered more likely than not to be realized.

Earnings Per Common Share

The Company calculates earnings per common share using the weighted average number of shares outstanding during the year after determining whether or not potential dilutive items are present. Dilution would occur if securities or other contracts to issue common stock were exercised or converted to common stock. The Company has no potential common shares.

Retirement Plans

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

In 1991, the Company adopted a nonqualified supplemental retirement benefits plan for key management employees. Benefits payable under the plan are based upon 60% of the participant’s average compensation during his or her 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. During 2008, the Company adopted an additional plan, which provides for a fixed guaranteed sum upon retirement for one key employee not included in the 1991 supplemental plan. The 2008 plan grants the right to take up to one-half the fixed amount at retirement as a lump-sum payment with the remainder taken in the form of an annuity.

Postretirement Health Benefits

During 2008, the Company began the process of eliminating its medical plan for retired employees. All those retirees eligible and participating in the federal Medicare program had their benefits terminated effective July 31, 2008. Those retirees eligible but not participating in Medicare Part B on July 31, 2008 were terminated from the Company plan on July 31, 2009. In conjunction with the elimination of the Company-provided medical benefits, a Healthcare Reimbursement Arrangement (“HRA”) was established to provide financial assistance to obtain supplemental coverage for those eligible for Medicare. During 2009, those retirees in the age 62 to 65 category were provided an HRA account to provide for the purchase of individual coverage or provide financial assistance to pay for deductibles. These HRA accounts are capped at $10,000 per retiree eligible for Medicare and $6,589 for those not eligible. The liability recognized in the balance sheets under the caption “Postretirement health benefits” was $17,800 exclusive of the current portion of $20,600 at October 31, 2010, and $46,978 exclusive of the current portion of $55,525 at October 31, 2009.

Fair Value of Financial Instruments

Cash and cash equivalents, restricted cash, trade receivables, trade payables, accrued property taxes, other accrued expenses, and income taxes payable approximate fair value because of the short maturities of these instruments. Variable rate long-term debt, which existed at October 31, 2009, approximated fair value because of the floating rate terms. Fixed rate long-term debt approximates fair value because the interest rate approximates current rates in the market for similar terms and risks.

Use of Estimates

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

Recent Accounting Pronouncements

Effective November 1, 2009, the Company adopted the Financial Accounting Standards Board's ("FASB") authoritative guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for the recognition and measurement of uncertain tax positions to be recognized in the Company's consolidated financial statements. The effect of adoption of this guidance on the Company's consolidated financial statements for the fiscal year ended October 31, 2010 is detailed in Note D.

Subsequent Events

The Company evaluated the effect subsequent events would have on the consolidated financial statements through January 18, 2011, which is the date the financial statements were available to be issued.

NOTE C - LONG-TERM DEBT

Long-term debt consists of the following at October 31, 2010 and 2009:

	2010	2009
Natixis Real Estate Capital LLC:		
Revolving credit agreement with a maximum availability of $25,000,000 and interest paid monthly at the LIBOR rate plus .6%. The debt was retired on August 2, 2010.	$ —	$ 8,000,000
Term loan payable with interest-only payments due monthly at 4.99%. The debt was retired on August 2, 2010.	—	100,000,000
Term loan payable with interest and principal payments due monthly at a rate of 4.59% and amortized over a 30-year term with a maturity date of August 2, 2015. This loan refinanced the Company's revolving credit agreement and previous term loan payable.	103,066,308	—
	103,066,308	108,000,000
Less current maturities	(1,578,158)	—
	$ 101,488,150	$ 108,000,000

The following table estimates the future maturities of long-term debt for the years ending October 31:

2011	$ 1,578,158
2012	1,639,961
2013	1,731,158
2014	1,813,462
2015	96,303,569
	$ 103,066,308

The loan payable to Natixis Real Estate Capital LLC is secured by substantially all of the Company's real estate and a security interest in the Company's restricted cash account. The term loan resulting from the refinancing dated August 2, 2010 requires the Company to maintain minimum operating income levels, while the former term loan outstanding in prior years required compliance with certain financial ratios. The Company was in compliance with these covenants at October 31, 2010 and 2009.

NOTE D - INCOME TAXES

The provision for income taxes consists of the following for the years ended October 31, 2010, 2009 and 2008:

	2010	2009	2008
Federal:			
Current	$ 5,498,000	$ 616,000	$ 5,942,000
Deferred	(208,000)	4,618,000	1,557,000
	5,290,000	5,234,000	7,499,000
State:			
Current	1,223,000	131,000	1,249,000
Deferred	(46,000)	1,008,000	200,000
	1,177,000	1,139,000	1,449,000
TOTAL	$ 6,467,000	$ 6,373,000	$ 8,948,000

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:

	2010	2009	2008
Income taxes computed at the federal statutory rate	$ 5,651,000	$ 5,746,000	$ 7,931,000
State taxes, net of federal benefit	746,000	736,000	1,016,000
Interest accrued for uncertain tax position	58,000	—	—
Other, net	12,000	(109,000)	1,000
	$ 6,467,000	$ 6,373,000	$ 8,948,000

The components of deferred income taxes consist of the following:

	2010	2009
Deferred income tax assets:		
Rents received in advance	$ 2,099,000	$ 2,007,000
Allowance for doubtful accounts	362,000	216,000
Depreciation	1,228,000	—
Postretirement benefits	15,000	41,000
Supplemental retirement benefits	1,763,000	1,633,000
TOTAL DEFERRED TAX ASSETS	5,467,000	3,897,000
Deferred income tax liabilities:		
Depreciation	3,125,000	3,454,000
Deferred rent receivable	1,227,000	798,000
TOTAL DEFERRED TAX LIABILITIES	4,352,000	4,252,000
TOTAL NET DEFERRED TAX ASSETS (LIABILITIES)	$ 1,115,000	$ (355,000)

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As of October 31, 2010, based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

Effective November 1, 2009, the Company adopted the FASB's authoritative guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for the recognition and measurement of uncertain tax positions to be recognized in the Company's consolidated financial statements. As a result of adoption, the gross amount of unrecognized tax benefits at November 1, 2009 totaled approximately $1,228,000. All uncertain tax positions were timing in nature, and thus adoption had no impact on the Company's consolidated retained earnings at November 1, 2009. During the year ended October 31, 2010, there was a net increase in unrecognized tax benefits of approximately $58,000 as a result of an increase in accrued interest.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense. For the year ended October 31, 2010, the liability for unrecognized tax benefits included accrued interest of $58,000.

The Company files federal and North Carolina income tax returns. With few exceptions, the Company is no longer subject to federal, state or local tax examinations by tax authorities for years ended before October 31, 2007. During 2010, the Internal Revenue Service ("IRS") began an examination of the Company's October 31, 2009 income tax returns. The IRS has completed the examination with no adjustments with the exception of one pending issue. The Company believes any adjustments related to this issue will be agreed upon and settled within the next twelve months. The Company has classified $1,286,000 of the reserve for uncertain tax positions as a short-term liability in the accompanying Consolidated Balance Sheet. Final settlement of this issue may result in payments that are more or less than the amounts accrued, but the Company does not anticipate that the resolution of these matters will result in a material change to its consolidated financial statements.

NOTE E - COMMITMENTS AND CONTINGENCIES

Land Lease

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 $180,895 as of October 31, 2010 and is subject to adjustment at the end of each five-year period, such adjustment being computed as defined in the lease agreement. The most recent adjustment was effective November 1, 2009. As part of the lease, 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 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. The unamortized cost of the theater and office complex is reported on the consolidated balance sheet as prepaid rent. At the termination of the lease, the building becomes 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 and office complex.

Future minimum lease payments due under the terms of the lease are as follows:

Year Ending October 31,		
2011	$	141,774
2012		141,774
2013		141,774
2014		141,774
2015		141,774
Due after five years		1,075,120
	$	1,783,990

Other Commitments

The Company has entered into a noncancelable elevator maintenance contract that expires December 31, 2013. The contract requires monthly payments of $20,321, with a 5% annual escalation cap over the life of the contract.

Contingencies

Accounting for conditional asset retirement obligations requires that the Company evaluate its assets to determine the existence of future liabilities resulting from statutory or contractual responsibilities. As of October 31, 2010, the Company was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation asset retirement obligations (AROs). These conditional AROs are primarily related to fireproofing material containing asbestos installed in portions of its skeletal steel in one exhibition building totaling approximately 376,000 square feet. The asbestos is not subject to abatement unless the building is either demolished or the Company undertakes major renovations. Because these conditional obligations have indeterminate settlement dates, the Company could not develop a reasonable estimate of their fair values. The Company will continue to assess its ability to estimate fair values at each future reporting date. The liability will be recognized once sufficient information becomes available.

NOTE F - PENSION AND POSTRETIREMENT BENEFIT PLANS

Postretirement Healthcare Benefit - Curtailment

During 2008, the Company notified participants in its postretirement medical plan that benefits would terminate for most participants effective July 31, 2008. For those participants not fully enrolled in the appropriate parts of Medicare, benefits terminated July 31, 2009 and for those in the age chart of 62 to 65, benefits will terminate when they attain age 65. In connection with this curtailment, the Company recorded curtailment gains of $83,753 and $3,107,275, respectively, in its accompanying Consolidated Statements of Income for the fiscal years ended October 31, 2009 and 2008.

NOTE F - PENSION AND POSTRETIREMENT BENEFIT PLANS (Continued)

Summarized information for the Company's defined benefit plans and post retirement healthcare plan is as follows:

	Supplemental Retirement Plans		Postretirement Healthcare Benefits	
	2010	2009	2010	2009
Reconciliation of benefit obligation				
Obligation at November 1	$ 3,097,414	$ 2,456,918	$ 102,503	$ 276,901
Service cost	293,515	251,740	—	—
Interest cost	168,008	144,852	—	—
Curtailment gain	—	—	—	(83,753)
Actuarial loss	5,569	322,780	—	—
Benefit payments	(78,876)	(78,876)	(63,903)	(90,645)
Obligation at October 31	$ 3,485,630	$ 3,097,414	$ 38,600	$ 102,503
Reconciliation of fair value of plan assets				
Fair value of plan assets at November 1	$ —	$ —	$ —	$ —
Employer contributions	78,876	78,876	63,903	90,645
Benefit payments	(78,876)	(78,876)	(63,903)	(90,645)
Fair value of plan assets at October 31	$ —	$ —	$ —	$ —
Funded status				
Funded status at October 31	$ (3,485,630)	$ (3,097,414)	$ (38,600)	$ (102,503)
Net amount recognized	$ (3,485,630)	$ (3,097,414)	$ (38,600)	$ (102,503)
Amounts recognized in balance sheets				
Current liabilities	$ (121,376)	$ (78,876)	$ (20,800)	$ (55,525)
Noncurrent liabilities	(3,364,254)	(3,018,538)	(17,800)	(46,978)
Net amount recognized	$ (3,485,630)	$ (3,097,414)	$ (38,600)	$ (102,503)
Amounts recognized in accumulated other comprehensive loss, net of tax				
Transition asset	$ (35,844)	$ (38,616)	$ —	$ —
Actuarial loss	278,455	299,987	—	—
Net amount recognized	$ 242,611	$ 261,371	$ —	$ —

The net periodic benefit cost for the plans includes the following components:

	Supplemental Retirement Plans			Postretirement Healthcare Benefits		
	2010	2009	2008	2010	2009	2008
Service cost	$ 293,517	$ 251,740	$ 166,779	$ —	$ —	$ 66,775
Interest cost	168,008	144,852	147,038	—	—	83,251
Amortization of net transition obligation	(7,914)	(7,914)	(7,914)	—	—	—
Amortization of unrecognized loss	44,241	—	23,457	—	—	251
Net periodic benefit cost	$ 497,852	$ 388,678	$ 329,360	$ —	$ —	$ 150,277

NOTE F - PENSION AND POSTRETIREMENT BENEFIT PLANS (Continued)

The following amounts represent the benefit payments, which reflect expected future service expected to be paid during the ten-year period ended October 31, 2020:

Supplemental Retirement Plan			Postretirement Healthcare Benefits		
2011	$	121,376	2011	$	20,800
2012		204,275	2012		15,600
2013		274,470	2013		2,200
2014		274,470	2014		—
2015		274,470	2015		—
2016-2020		2,684,902	2016-2020		—

Because the plans are unfunded, the Company’s expected contributions are equal to the benefit payment schedules above.

The weighted average actuarial assumptions used to determine benefit obligations for the plans are as follows:

	Supplemental Retirement Plan			Postretirement Healthcare Benefits		
	2010	2009	2008	2010	2009	2008
Discount rate	5.0%	5.5%	6.0%	N/A	N/A	6.0%
Rate of salary increase	5.0	5.0	5.0	N/A	N/A	N/A
Rate of inflation	N/A	N/A	N/A	N/A	N/A	3.5
Rate of healthcare inflation	N/A	N/A	N/A	N/A	N/A	6.0 - 9.0

Amounts in accumulated other comprehensive income expected to be recognized as components of net periodic pension cost in 2011 are as follows:

Transition asset	$	(7,914)
Actuarial loss		33,557
	$	25,643

Amounts expensed under the Company’s 401(k) qualified retirement plan amounted to $204,344, $173,586 and $189,232 for the years ended October 31, 2010, 2009 and 2008, respectively.

NOTE G - RENTALS UNDER OPERATING LEASES

The Company’s operations consist principally of leasing exhibition space. Properties on operating leases compose substantially all of the asset “buildings exclusive of theater complex” on the consolidated balance sheets. Leases are typically for five-year periods and contain provisions to escalate rentals based upon changes in the consumer price index, fixed step percentage increases, or increases in certain operating expenses. The operating expenses covered by these escalation terms include 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 similar charges and rates required by operating the Company. Tenants normally renew their leases.

NOTE G - RENTALS UNDER OPERATING LEASES (Continued)

The following is a schedule of minimum future rentals under noncancelable operating leases as of October 31, 2010, exclusive of amounts due under escalation provisions of lease agreements:

Year Ending October 31,		
2011	$	30,521,165
2012		26,267,002
2013		18,798,715
2014		11,937,002
2015		3,950,459
Due after five years		2,021,901
Total minimum future rentals	$	93,496,244

Rental income includes contingent rentals under escalation provisions of leases of $414,397, $1,301,376 and $1,958,574 for the years ended October 31, 2010, 2009 and 2008, respectively.

The Company leases exhibition space to one of the Company's stockholders. Rental income from this related party amounted to $237,358, $245,428 and $246,922 for the years ended October 31, 2010, 2009 and 2008, respectively.

NOTE H - 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, 2010, the Company's bank balances exceeded federally insured limits by approximately $17,000,000. The Company's trade accounts receivable are generally collateralized by merchandise in leased exhibition spaces which is in the Company's possession.

NOTE I - STOCKHOLDERS' DEFICIT

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

Bassett Furniture Industries, Incorporated

Schedule II

Analysis of Valuation and Qualifying Accounts
For the Years Ended November 24, 2012, November 26, 2011 and November 27, 2010
(amounts in thousands)

	Balance Beginning of Period	Additions Charged to Cost and Expenses	Deductions (1)	Other		Balance End of Period
For the Year Ended November 27, 2010						
Reserve deducted from assets to which it applies						
Allowance for doubtful accounts	$ 10,757	$ 4,671	$ (8,062)	$ -		$ 7,366
Notes receivable valuation reserves	$ 8,950	$ 1,825	$ (4,027)	$ -		$ 6,748
Lease/Loan guarantee reserves	$ 3,366	$ 1,407	$ (2,469)	$ -		$ 2,304
Restructuring reserve	$ 535	$ -	$ (535)	$ -		$ -
Lease exit costs	$ 3,499	$ 836	$ (1,488)	$ -		$ 2,847
Income tax valuation allowance	$ 33,003	$ 2,962	$ -	$ 841	(2)	$ 36,806
For the Year Ended November 26, 2011:						
Reserve deducted from assets to which it applies						
Allowance for doubtful accounts	$ 7,366	$ 8,778	$ (14,052)	$ -		$ 2,092
Notes receivable valuation reserves	$ 6,748	$ 4,684	$ (7,292)	$ -		$ 4,140
Lease/Loan guarantee reserves	$ 2,304	$ 1,282	$ (3,078)	$ -		$ 508
Lease exit costs	$ 2,847	$ 5,058	$ (3,548)	$ -		$ 4,357
Income tax valuation allowance	$ 36,806	$ -	$ (17,464)	$ 270	(2)	$ 19,612
For the Year Ended November 24, 2012:						
Reserve deducted from assets to which it applies						
Allowance for doubtful accounts	$ 2,092	$ 377	$ (680)	$ -		$ 1,789
Notes receivable valuation reserves	$ 4,140	$ (1)	$ -	$ -		$ 4,139
Lease/Loan guarantee reserves	$ 508	$ (41)	$ (120)	$ -		$ 347
Lease exit costs	$ 4,357	$ 489	$ (2,232)	$ -		$ 2,614
Income tax valuation allowance	$ 19,612	$ -	$ (18,704)	$ -	(3)	$ 908

(1) Deductions are for the purpose for which the reserve was created. Deductions from the income tax valuation allowance for the year ended November 26, 2011 represent the reduction in income tax expense resulting from the utilization of net operating loss carryforwards realized against the taxable gain on the sale of IHFC.
(2) Represents the change in reserve recorded as part of accumulated other comprehensive income (loss).
(3) Deduction for 2012 due to the reduction of the majority of our valuation allowance, resulting in a net tax benefit for the year.

Exhibit 4

$3,000,000.00

FOURTH AMENDED AND RESTATED
CREDIT AGREEMENT

dated as of

December 9, 2011

among

BASSETT FURNITURE INDUSTRIES, INCORPORATED,

The Initial Guarantors Listed Herein,

and

BRANCH BANKING AND TRUST COMPANY

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FOURTH AMENDED AND RESTATED CREDIT AGREEMENT

FOURTH AMENDED AND RESTATED CREDIT AGREEMENT dated as of December ___, 2011 among BASSETT FURNITURE INDUSTRIES, INCORPORATED, BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, LLC, BASSETT DIRECT STORES, LLC. BASSETT DIRECT NC, LLC, BASSETT DIRECT SC, LLC and BRANCH BANKING AND TRUST COMPANY.

The Borrower, the Guarantors, the Bank and the Bank, as Agent, are parties to the Original Credit Agreement (as defined herein) which provides for the making of loans by the Bank to the Borrower in an aggregate principal amount at any one time outstanding not exceeding $40,000,000.

The parties hereto wish to amend the Original Credit Agreement in certain respects and to restate the Original Credit Agreement to read in its entirety as set forth below. Accordingly, the parties hereto agree that effective on the Restatement Effective Date (as defined herein), the Original Credit Agreement is amended and restated to read in its entirety 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:

"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.

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

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

"Assigned BFD Leases" means any and all leases of "BFD Stores" with respect to which the Borrower or any of its Consolidated Subsidiaries have assigned or sublet its interest as lessee thereunder.

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

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

"Bank" means Branch Banking and Trust Company, and its successors and assigns.

"BFD Stores" means existing and future retail furniture stores operating under the "Bassett Furniture Direct" or "Bassett Home Furnishings" program of the Borrower or the "Bassett Design Center" or "Bassett Gallery" 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 Bank pursuant to Article II.

"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.

"Cash Equivalents" means (i) securities issued or directly and fully guaranteed or insured by the United States Government or any agency or instrumentality thereof having maturities of not more than 90 days from the date of acquisition; (ii) time deposits, certificates of deposit and banker's acceptances of any domestic commercial bank having capital and surplus in excess of $200,000,000 having maturities of not more than 90 days from the date of acquisition; (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) and entered into with any bank meeting the qualifications thereof, the highest credit rating obtainable from Standard & Poor's Ratings Services or Moody's Investors Service, Inc. and maturing within ninety days after the date of acquisition; and (v) money market funds which invest at least 90% of their assets in the types of securities or instruments described in clauses (i), (ii), (iii) and (iv) above.

"CERCLA" means the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. §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.

"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: (i) Guaranty any indebtedness, liabilities or obligations of any Person as lessee under a lease of a "BFD Store"; or (ii) assign or sublet its interest 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 a Default or Event of Default under this Agreement.

"Commitment" means $3,000,000.00.

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

"Consolidated Cash Flow Coverage Ratio" means, for any four-quarter period ending on the date of measurement, the ratio of (i) the Consolidated Net Income after taxes plus Depreciation and Amortization and interest expense for such four-quarter period of the Borrower and its Consolidated Subsidiaries on a consolidated basis to (ii) the Borrower's and its Consolidated Subsidiaries' Current Maturities of Long Term Debt plus interest expense for such four-quarter period on a consolidated basis, all as prepared in accordance with GAAP.

"Consolidated Debt to Consolidated Tangible Net Worth Ratio" means, for the four-quarter period ending on the date of measurement, the ratio of the Consolidated Total Debt for such four-quarter period to the Consolidated Tangible Net Worth as of the end of such four-quarter period, prepared in accordance with GAAP.

"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 gains; (ii) extraordinary non-cash losses and (iii) 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 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 Tangible Net Worth" means, at any time, Stockholders' Equity, less the sum of the value, as set forth or reflected on the most recent consolidated balance sheet of the Borrower and its Consolidated Subsidiaries, prepared in accordance with GAAP,

(A) [Intentionally Omitted];

(B) All assets which would be treated as intangibles under generally accepted accounting principles, including without limitation goodwill (whether representing the excess of cost over book value of assets acquired, or otherwise), trademarks, tradenames, copyrights, patents and technologies, and unamortized debt discount and expense;

(C) To the extent not included in (B) of this definition, any amount at which shares of capital stock of the Borrower appear as an asset on the balance sheet of the Borrower and its Consolidated Subsidiaries; and

(D) Loans or advances to stockholders, directors, officers or employees.

“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 Debt” means at any date, without duplication, 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 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 a loan 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), including, without limitation, Licensee Loans; (iii) the Applicable Percentage of all payments that the Borrower or any Consolidated Subsidiary is obligated to make under an Assigned BFD Lease (without giving effect to any assignment or sublease); and (iv) the Applicable Percentage of all payments that any Person (including without limitation a Consolidated Subsidiary of the Borrower), as lessee under a Guaranteed BFD Lease is obligated to make under such Guaranteed BFD Lease; provided, however: (A) if a 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 (iv) 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; and (B) if the Borrower or Consolidated Subsidiary is primarily liable under a Guaranteed BFD Lease as a tenant or lessee, the amount included in subitem (iv) of the definition of Contingent BFD Liabilities shall include the Applicable Percentage of all payments scheduled to be made by any Person as lessee under such Guaranteed BFD Lease during its term. As used herein, “Applicable Percentage” shall mean 55%.

“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 Bank, 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 Bank, 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.

"Current Debt" means the aggregate principal amount of Debt which would in accordance with GAAP, be classified as current debt.

"Current Maturities of Long Term Debt" means all payments in respect of Long Term Debt (excluding any such amounts included within Current Debt) that are required to be made within one year from the date of determination, whether or not the Obligation to make such payments would constitute a current liability of the obligor under GAAP.

"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, on any day, the sum of 2% plus the then highest interest rate (including the Applicable Margin) which may be applicable to the Loan (irrespective of whether any 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: (a) 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 (b) an Assigned BFD Lease; or (2) the Borrower or any Consolidated Subsidiary has made a payment or performed an obligation under: (a) the guaranty provided by such Person in connection with any such Contingent BFD Liability; or (b) an Assigned BFD Lease (unless such payment was made in the ordinary course of business and was immediately reimbursed by the assignee or subtenant of the Assigned BFD Lease).

"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.

"Eligible Guarantor" means Bassett Furniture Industries of North Carolina, LLC.

"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.

"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: (i) have Guaranteed the indebtedness, liabilities or obligations of any Person (including, without limitation, a Consolidated Subsidiary of the Borrower) as tenant or lessee thereunder; and/or (ii) are primarily liable under such lease as a tenant or lessee.

"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 Bank, arising under or evidenced by this Agreement, the Note, the Letter of Credit Agreements, the Licensee Loan Guaranties or any other Loan Document.

"Guarantors" shall mean the Initial Guarantors.

"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. §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.

"Initial Guarantors" shall mean collectively (i) Bassett Furniture Industries of North Carolina, LLC, a North Carolina limited liability company, (ii) Bassett Direct Stores, LLC, a Virginia limited liability company, (iii) Bassett Direct NC, LLC, a Virginia limited liability company, and (iv) 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 the last Interest Period under this Agreement shall end on the Termination Date.

"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.

"Letter of Credit" means the letters of credit issued by the 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 Bank pursuant to Section 2.03(c).

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

"Licensee Borrower" means a person that operates an existing or future retail furniture store under the "Bassett Furniture Direct" or "Bassett Home Furnishings" program of the Borrower or the "Bassett Design Center" or "Bassett Gallery" program of the Borrower, as such programs are in effect on the Closing Date.

"Licensee Loan" shall mean a loan made by the Bank pursuant to Section 2.16 hereof.

"Licensee Loan Guaranty" means the Guaranty Agreement executed by the Borrower substantially in the form of Exhibit O hereto, evidencing the obligation of the Borrower to guarantee the Licensee Loan referenced therein, together with all amendments, consolidations, modifications, renewals and supplements thereto. "Licensee Loan Guarantees" means collectively each Licensee Loan Guaranty executed by the Borrower and delivered to the Bank.

"Licensee Loan Documents" shall mean a loan agreement, if any, pursuant to which a Licensee Loan is made by the Bank, a promissory note and any and all other documents evidencing, relating to or securing a Licensee Loan and any other document or instrument delivered from time to time in connection with the Licensee Loan, as such documents and instruments may be amended or supplemented from time to time.

"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.

"Loan" means the aggregate outstanding Advances made by the Bank to the Borrower under this Agreement. The Loan 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 Note, the Licensee Loan Documents, the Licensee Loan Guaranty, the Letter of Credit Agreements, the Letters of Credit, any other document evidencing, relating to or securing the Loan or the Letters of Credit, and any other document or instrument delivered from time to time in connection with this Agreement, the Note, the Letter of Credit Agreements, the Licensee Loan Documents, the Licensee Loan Guaranty, the Letters of Credit, or the Loan, as such documents and instruments may be amended or supplemented from to time; provided, however, in connection with Articles IV and V of this Agreement, the term "Loan Documents" shall not include the Licensee Loan Documents executed by the Licensee Borrower or any Person other than the Borrower or any Guarantor.

"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).

"Long Term Debt" means the aggregate principal amount of Debt for Money Borrowed which would in accordance with GAAP, be classified as long term debt.

"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 Bank 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.

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

"Net Proceeds of Capital Stock/Conversion of Debt" means any and all proceeds (whether cash or non-cash) or other consideration received by the Borrower or a Consolidated Subsidiary in respect of the issuance of Capital Stock (including, without limitation, the aggregate amount of any and all Debt converted into Capital Stock), after deducting therefrom all reasonable and customary costs and expenses incurred by the Borrower or such Consolidated Subsidiary directly in connection with the issuance of such Capital Stock.

"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.

"Note" means the promissory note 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.

"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 Bank 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, the Licensee Loan Guarantees or any other Loan Document.

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

"Original Credit Agreement" means that certain Third Amended and Restated Credit Agreement, dated as of October 25, 2000, between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as modified by that certain First Amendment to Credit Agreement, dated October 5, 2001, as amended and restated by that certain Amended and Restated Credit Agreement between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as amended and restated by that certain Second Amended and Restated Credit Agreement between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as amended by that certain First Amendment to Second Amended and Restated Credit Agreement dated November 21, 2005, as amended and restated by that certain Third Amended and Restated Credit Agreement among the Borrower, the Guarantors, Branch Banking and Trust Company, as a Bank, and Branch Banking and Trust Company, as Agent, as amended by that certain First Amendment to Third Amended and Restated Credit Agreement, as amended by that certain Second Amendment and Waiver to Third Amended and Restated Credit Agreement and Omnibus Amendment to Guaranty and Note Purchase Agreements dated as of October 6, 2009 , as amended by that certain Third Amendment to Third Amended and Restated Credit Agreement dated as of November 30, 2010, as amended by that certain Fourth Amendment to Third Amended and Restated Credit Agreement dated as of March 4, 2011. This Agreement amends, restates and replaces the Original Credit Agreement.

"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.

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

"Prime Rate Loan" means the Loan during Interest Periods when the Loan bears or is to bear interest at a rate based upon the Prime Rate.

"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.

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

"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.

"Restatement Effective Date" shall have the meaning provided in Section 3.01.

"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.

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

"Termination Date" means December 1, 2014.

"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.

"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.

"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 Bank, 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 Bank 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. Commitment to Make Advances. The Bank 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 all Advances by the Bank together with the aggregate outstanding principal amount of all Letter of Credit Advances, Licensee Loans and Undrawn Amounts shall not exceed the amount of the Commitment. 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) The Borrower shall give the Bank 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) [Intentionally Omitted].

(c) Unless the Bank determines that any applicable condition specified in Article III has not been satisfied, not later than 1:00 P.M. (Winston-Salem, North Carolina time) on the date of each Borrowing, the Bank shall (except as provided in subsection (d) of this Section) make available such Borrowing, in Federal or other funds immediately available in Winston-Salem, North Carolina, to the Borrower at the Bank’s aforesaid address.

SECTION 2.03. Letters of Credit.

(a) The 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 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.

(d) [Intentionally Omitted].

(e) [Intentionally Omitted].

(f) [Intentionally Omitted].

(g) The Borrower shall pay to the Bank on the earlier of demand and the Termination Date the outstanding principal amount of such Letter of Credit Advance.

(h) The Bank will notify the Borrower 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.

SECTION 2.04. Note. (a) The Advances of the Bank shall be evidenced by a single Note payable to the order of the Bank in an amount equal to the original principal amount of the Commitment.

(b) [Intentionally Omitted].

(c) The 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 the Note; provided that the failure of the 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 the Bank to assign the Note. The Bank is hereby irrevocably authorized by the Borrower so to endorse the Note and to attach to and make a part of the 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 mean 2.75%.

(b) During each Interest Period in which the Loan 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. 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 the 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 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 applicable to Euro-Dollar Loans.

(f) The Bank shall determine each interest rate applicable to the Loan hereunder. The Bank shall give prompt notice to the Borrower 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 Bank, bear interest at the Default Rate; provided, however, that automatically 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) [Intentionally Omitted].

SECTION 2.07. Fees. (a) The Borrower shall pay to the Bank an underwriting fee equal to $7,500, which shall be due and payable on the Restatement Effective Date.

(b) The Borrower shall pay to the 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 1.0% (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 Date (whether at its stated expiry date or earlier).

(c) [Intentionally Omitted].

(d) [Intentionally Omitted].

SECTION 2.08. [Intentionally Omitted].

SECTION 2.09. Termination of Commitment. The Commitment shall terminate on the Termination Date and any 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. The Borrower may prepay the Loan in whole at any time, or from time to time in part in amounts aggregating at least $10,000.00, or any larger multiple of $1,000.00, 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 to prepay the Advances.

SECTION 2.11. Mandatory Prepayments. (a) On the date on which the Commitment is terminated pursuant to Section 2.09, the Borrower shall repay or prepay such principal amount of the outstanding Advances (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 Letter of Credit Advances, Licensee Loans and Undrawn Amounts does not exceed the aggregate amount of the Commitment as then reduced. Each such payment or prepayment shall be applied to repay or prepay the Advances.

(b) In the event that the aggregate principal amount of all Advances, together with the aggregate principal amount of the Licensee Loans, Letter of Credit Advances and Undrawn Amounts at any one time outstanding shall at any time exceed the aggregate amount of the Commitment at such time, the Borrower shall immediately repay so much of the Advances as is necessary in order that the aggregate principal amount of the Advances thereafter outstanding, together with the aggregate principal amount of the Licensee Loans, Letter of Credit Advances and Undrawn Amounts shall not exceed the aggregate amount of the Commitment 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 Bank at its address referred to in Section 9.01.

(b) Whenever any payment of principal of, or interest on, the 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 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 (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 or fee or other amount, the Borrower shall pay such deduction or withholding to the applicable taxing authority, shall promptly furnish to the Bank in respect of which such deduction or withholding is made all receipts and other documents evidencing such payment and shall pay to the Bank additional amounts as may be necessary in order that the amount received by the Bank after the required withholding or other payment shall equal the amount the 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 or fee relating thereto, the Borrower shall furnish the Bank, at the Bank’s request, a certificate from each applicable taxing authority or an opinion of counsel acceptable to the 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 the 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 the 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.

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. [Intentionally Omitted].

SECTION 2.15. [Intentionally Omitted].

SECTION 2.16. Licensee Loans.

(a) Each Licensee Loan shall be subject to the provisions of this Agreement and to the provisions set forth in the Licensee Loan Documents and the Licensee Loan Guaranty executed in connection with such Licensee Loan. The Borrower and Guarantors agree to promptly perform and comply with the terms and conditions of each Licensee Loan Guaranty Agreement, this Agreement and the other Loan Documents.

(b) The Bank may, from time to time upon request of the Borrower, in its sole discretion disburse a Licensee Loan, subject to satisfaction of the following conditions:

(i) the fact that, immediately before and after the disbursement of such Licensee Loan, no Default shall have occurred and be continuing hereunder;

(ii) 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 following disbursement of such Licensee Loan, except to the extent explicitly relating to a specified date;

(iii) the fact that, immediately after the disbursement of such Licensee Loan: (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 Undrawn Amounts, and (D) the aggregate outstanding principal amount of the Licensee Loans, will not exceed the Commitment; and

(iv) except as may otherwise be agreed upon by Borrower and the Bank, each Licensee Loan shall be on the following terms and conditions: (1) the maturity date of the Licensee Loan shall be on or before the date thirty-six months after the date of disbursement of such Licensee Loan; (2) the Licensee Loan shall bear interest at an annual rate equal to the Prime Rate; (3) the principal amount of the Licensee Loan shall not exceed: (i) $400,000 in the case of a Licensee Loan for a BFD Store; or (ii) $150,000 in the case of a Licensee Loan for an "@ Home Store"; (4) the Licensee Loan shall amortize as follows: (i) in the case of a Licensee Loan for a BFD Store, the Licensee Loan shall provide for [six months] interest only followed by a thirty month amortization of principal and interest subject to the limitations set forth in (1) above; and (ii) in the case of a Licensee Loan for an "@ Home Store", the Licensee Loan shall provide for a twenty-four month amortization of principal and interest subject to the limitations set forth in (1) above.

Each request by the Borrower to disburse a Licensee Loan hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Licensee Loan as to the truth and accuracy of the facts specified in the clauses (b)(i), (b)(ii) and (b)(iii) of this Section.

(c) [Intentionally Omitted].

(d) [Intentionally Omitted].

(e) As of the Restatement Effective Date, the existing Letters of Credit are set forth on Schedule 2.03 attached hereto and the existing Licensee Loans are set forth on Schedule 2.16 attached hereto.

(f) [Intentionally Omitted].

(g) The Borrower shall pay to the Bank the outstanding principal and accrued unpaid interest of such Licensee Loan in accordance with the terms of the applicable Licensee Loan Guaranty.

(h) [Intentionally Omitted].

(i) [Intentionally Omitted].

(j) The Bank may receive from the Licensee Borrower commitment fees, facility fees and such other fees and charges as may be provided for in any Licensee Loan Document or otherwise charged by the Bank.

(k) [Intentionally Omitted].

SECTION 2.17. Amendment to Licensee Loan Guarantees. The definition of the term, “Guaranty Trigger Event,” was amended in each Licensee Loan Guarantee pursuant to the Second Amendment and Waiver to Third Amended and Restated Credit Agreement and Omnibus Amendment to Guaranty and Note Purchase Agreements made as of October 6, 2009. For the avoidance of doubt, the Loan Parties and the Bank hereby acknowledge, agree, confirm and reaffirm that such amendments remain in full force and effect and such amendments are set forth in their entirety as follow:

> Each Licensee Loan Guarantee is hereby amended by amending and restating clauses (a) and (b) of the definition of “Guaranty Trigger Event” therein to read in their entirety as follows:
>
> (a) any required payment of the Borrower with respect to the Guaranteed Obligations is twenty or more days past due during any calendar month, and, if such required payment were to remain unpaid as of the last day of that calendar month, such payment would on the last day of such calendar month be 30 or more days past due;
>
> (b) the third occurrence of any required payment of the Borrower with respect to the Guaranteed Obligations being more than (i) prior to October 6, 2009, 60 days past due and (ii) thereafter, 30 days past due;

ARTICLE III

CONDITIONS TO BORROWINGS

SECTION 3.01. Effectiveness of Agreement. This Agreement shall become effective on the date (the “Restatement Effective Date”) on which the Bank receives the following documents and evidence of satisfaction of the following conditions:

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

(b) receipt by the Bank of a duly executed Note complying with the provisions of Section 2.04;

(c) receipt by the Bank of an opinion of Jay R. Hervey, Esq., Vice President, Secretary and General Counsel of the Borrower and the Guarantors, dated as of the Restatement Effective Date, substantially in the form of Exhibit C hereto and covering such additional matters relating to the transactions contemplated hereby as the Bank may reasonably request;

(d) [Intentionally Omitted];

(e) receipt by the Bank of a certificate (the "Closing Certificate"), dated the date of the Restatement Effective Date, 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 such the Restatement Effective Date and (ii) the representations and warranties of the Loan Parties contained in Article IV are true on and as of the date of the Restatement Effective Date;

(f) receipt by the Bank of all documents which the Bank may reasonably request relating to the existence of each Loan Party, the authority for and the validity of this Agreement, the Note and the other Loan Documents, and any other matters relevant hereto, all in form and substance satisfactory to the Bank, 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 Note and the other Loan Documents to which the Loan Party is a party;

(g) [Intentionally Omitted];

(h) receipt and approval by the Bank of the insurance required under this Agreement; and

(i) such other documents or items as the Bank or its counsel may reasonably request.

SECTION 3.02. Conditions to All Borrowings. The obligation of the Bank to make an Advance on the occasion of each Borrowing is subject to the satisfaction of the following conditions:

(a) receipt by the Bank of Notice of Borrowing as required by Section 2.02;

(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 the aggregate outstanding principal amount of the Advances of the Bank together with the aggregate outstanding principal amount of all Licensee Loans, Letter of Credit Advances and Undrawn Amounts, will not exceed the amount of the Commitment.

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 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 the Licensee Loans, and (D) the aggregate Undrawn Amounts, will not exceed the aggregate amount of the Commitment; and

(d) 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 Note 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 Note 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, 2010 and the related consolidated statements of income, shareholders' equity and cash flows for the Fiscal Year then ended, reported on by Ernst & Young, LLP., copies of which have been delivered to the Bank, and the unaudited but reviewed consolidated financial statements of the Borrower for the interim period ended August 27, 2011, copies of which have been delivered to the Bank, 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 November 27, 2010 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 Note 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.

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. [Intentionally Omitted].

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 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 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 Bank 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. § 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, finishing materials, glues 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 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 under this Agreement, no Loan Party will be "insolvent," within the meaning of such term as defined in § 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. [Intentionally Omitted].

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 Bank a schedule setting forth all registered patents, trademarks and copyrights owned by, or licensed to, the Loan Parties.

ARTICLE V

COVENANTS

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

SECTION 5.01. Information. The Borrower will deliver to the Bank:

(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 Ernst & Young, LLP. or other independent public accountants of nationally recognized standing, with such certification to be free of exceptions and qualifications not acceptable to the Bank;

(b) as soon as available and in any event within 45 days after the end of each of the first three 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 Chief Financial or Accounting Officer of the Borrower;

(c) [Intentionally Omitted];

(d) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate, substantially in the form of Exhibit I (a "Compliance Certificate"), of the Chief Financial or Accounting Officer 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 5.07, 5.35, 5.38 and 5.39 on the date of such financial statements, and (ii) 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) [Intentionally Omitted];

(f) within 5 Domestic Business Days after the Borrower becomes aware of the occurrence of any Default, a certificate of the Chief Financial or Accounting Officer 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) [Intentionally Omitted];

(l) [Intentionally Omitted];

(m) [Intentionally Omitted];

(n) [Intentionally Omitted];

(o) [Intentionally Omitted]; and

(p) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the 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 Bank, or its designee, at the expense of the Borrower and Guarantors, to perform periodic field audits and investigations of the Borrower and the Guarantors; 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 the Bank at the 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. [Intentionally Omitted].

SECTION 5.04. [Intentionally Omitted].

SECTION 5.05. [Intentionally Omitted].

SECTION 5.06. [Intentionally Omitted].

SECTION 5.07. Contingent BFD Liabilities. 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 $85,000,000 in the aggregate.

SECTION 5.08. [Intentionally Omitted].

SECTION 5.09. [Intentionally Omitted].

SECTION 5.10. [Intentionally Omitted].

SECTION 5.11. [Intentionally Omitted].

SECTION 5.12. [Intentionally Omitted];

SECTION 5.13. [Intentionally Omitted].

SECTION 5.14. Negative Pledge. No Loan Party nor any Subsidiary of a Loan Party will voluntarily create or assume any Lien on any of its accounts (as such term is defined in the Uniform Commercial Code as adopted in Virginia), inventory (as such term is defined in the Uniform Commercial Code as adopted in Virginia) or the proceeds thereof.

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 Bank'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, except through corporate reorganization to the extent permitted by Section 5.17.

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, and (e) 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 all other assets utilized in all other business lines or segments discontinued, during such Fiscal Quarter and the immediately preceding three Fiscal Quarters have a fair market value or book value whichever is greater (determined with respect to each such asset transferred or discontinued) of more than $20,000,000.

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 Bank, 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 Bank.

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 Bank 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, finishing materials, glues 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. 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 Bank 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 Bank, 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 Bank, or by the insurer of the Borrower and Guarantors, unless with at least 30 days advance written notice to the Bank thereof. The Borrower and Guarantors shall deliver to the Bank on the Closing Date and at such other times as the Bank 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 Bank, obtain such additional insurance as the Bank 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. If the Borrower or any Guarantor shall default in its obligation hereunder to insure their properties and assets in a manner satisfactory to the Bank, then the Bank 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, shall bear interest at the Default Rate applicable to Euro-Dollar Loans or the highest contract rate permitted by applicable law whichever is less; such interest shall be payable on demand by the Bank.

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 the 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 Bank. Thereupon, if the Bank shall request by written notice to the Loan Parties, the Loan Parties and the Bank 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 Bank, such amendment to remain in effect, unless otherwise specified in writing by the Bank, 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 Bank 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. [Intentionally Omitted].

SECTION 5.29. [Intentionally Omitted].

SECTION 5.30. [Intentionally Omitted].

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. [Intentionally Omitted].

SECTION 5.33. [Intentionally Omitted].

SECTION 5.34. [Intentionally Omitted].

SECTION 5.35. <u>Minimum Consolidated Tangible Net Worth</u>. Consolidated Tangible Net Worth will at no time be less than $140,000,000.

SECTION 5.36. [Intentionally Omitted].

SECTION 5.37. [Intentionally Omitted].

SECTION 5.38. <u>Consolidated Cash Flow Coverage Ratio</u>. The Borrower and its Consolidated Subsidiaries shall maintain a Consolidated Cash Flow Coverage Ratio of not less than 1.0 to 1 as of the end of each fiscal year of the Borrower and its Consolidated Subsidiaries.

SECTION 5.39. <u>Consolidated Debt to Consolidated Tangible Net Worth Ratio</u>. The Borrower and its Consolidated Subsidiaries shall not permit the Consolidated Debt to Consolidated Tangible Net Worth Ratio to exceed 1.0 to 1 at any time.

SECTION 5.40. <u>Deposit Accounts</u>. The Borrower shall maintain all of its primary deposit accounts, including without limitation its primary operating deposit accounts, with the Bank.

ARTICLE VI

DEFAULTS

SECTION 6.01. <u>Events of Default</u>. 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 shall fail to pay any interest on the Loan (including, without limitation, any 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), 5.07, 5.14 to 5.18, inclusive, or Sections 5.21, 5.35, 5.38, 5.39 or 5.40; 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 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 Note) 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) [Intentionally Omitted]; or

(n) a default or event of default shall occur and be continuing under any of the Licensee Loan Guarantees or Letter of Credit Agreements or any Borrower or Guarantor shall fail to observe or perform any obligation to be observed or performed by it under any Licensee Loan Guaranty 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 Licensee Loan Guaranty or Letter of Credit Agreement; or

(o) [Intentionally Omitted]; or

(p) the occurrence of any event, act or condition which the Bank determines either does or has a reasonable probability of causing a Material Adverse Effect;

then, and in every such event, the Bank shall (i) by notice to the Borrower, terminate the Commitment and it shall thereupon terminate, (ii) declare an Event of Default under the Letter of Credit Agreements, and (iii) by notice to the Borrower, declare the Note (together with accrued interest thereon) and all other amounts payable hereunder and under the other Loan Documents to be, and the Note (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 Bank, the Commitment shall thereupon automatically terminate and the Note (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 Bank shall have available to it all other remedies at law or equity, and shall exercise any one or all of them in its sole and absolute discretion. Notwithstanding the foregoing, the Bank shall have available to it all rights and remedies provided under the Loan Documents and in addition thereto, all other rights and remedies at law or equity, and the Bank shall exercise any one or all of them in its sole and absolute discretion.

SECTION 6.02. Notice of Default. The Bank shall give notice to the Borrower of any Default under Section 6.01(c).

SECTION 6.03. Cash Cover. If any Event of Default shall have occurred and be continuing, the Borrower shall, if requested by the Bank, pay to the Bank an amount in immediately available funds (which funds shall be held as collateral pursuant to arrangements satisfactory to the Bank) 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 Bank forthwith without any notice to the Borrower or any other act by the Bank.

SECTION 6.04. [Intentionally Omitted].

SECTION 6.05. Allocation of Proceeds. If an Event of Default has occurred and not been waived, and the maturity of the Note has been accelerated pursuant to Article VI hereof, all payments received by the Bank 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 Bank to the Obligations in such order as the Bank shall determine in its sole and absolute discretion.

ARTICLE VII

DAMAGES

SECTION 7.01. CONSEQUENTIAL DAMAGES. THE BANK SHALL NOT BE RESPONSIBLE OR LIABLE TO 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.

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 Bank determines that deposits in Dollars (in the applicable amounts) are not being offered in the relevant market for such Interest Period or (b) the London Interbank Offered Rate as determined by the Bank will not adequately and fairly reflect the cost to the Bank of funding the Advances for such Interest Period, then the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Bank to make Euro-Dollar Loans shall be suspended. Unless the Borrower notifies the Bank 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 the Bank with any request or directive (whether or not having the force of law) of any Authority shall make it unlawful or impossible for the Bank to make, maintain or fund its Euro-Dollar Loan, the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of the Bank to make the Euro-Dollar Loan shall be suspended. If the Bank shall determine that it may not lawfully continue to maintain and fund any 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 the Bank, together with accrued interest thereon and any amount due the 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 the Bank, and the 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 the Bank with any request or directive (whether or not having the force of law) of any Authority:

(i) shall subject the Bank to any tax, duty or other charge with respect to any Euro-Dollar Loan, the Note or its obligation to make a Euro-Dollar Loan, or shall change the basis of taxation of payments to the Bank of the principal of or interest on any Euro-Dollar Loan or any other amounts due under this Agreement in respect of any 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 the Bank imposed by the jurisdiction in which the Bank's principal executive 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, the Bank; or

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

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

(b) If the 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 the Bank 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 the Bank's capital as a consequence of its obligations hereunder to a level below that which the Bank could have achieved but for such adoption, change or compliance (taking into consideration the Bank's policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then from time to time, within 15 days after demand by the Bank, the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank for such reduction.

(c) The Bank will promptly notify the Borrower of any event of which it has knowledge, occurring after the date hereof, which will entitle the Bank to compensation pursuant to this Section. A certificate of the 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, the Bank may use any reasonable averaging and attribution methods.

(d) [Intentionally Omitted].

SECTION 8.04. Prime Rate Loans Substituted for Affected Euro-Dollar Loans. If (i) the obligation of the Bank to make or maintain a Euro-Dollar Loan has been suspended pursuant to Section 8.02 or (ii) the Bank has demanded compensation under Section 8.03, and the Borrower shall, by at least 5 Euro-Dollar Business Days' prior notice to the Bank, have elected that the provisions of this Section shall apply to the Bank, then, unless and until the 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 the Bank as part of a Euro-Dollar Loan shall be made instead as a Prime Rate Loan, and

(b) after any 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 the Bank, the Borrower shall remain liable for, and shall pay to the Bank as provided herein, all amounts due the Bank under Section 8.03 in respect of the period preceding the date of conversion of the Bank's portion of the Loan resulting from the Borrower's election.

SECTION 8.05. Compensation. Upon the request of the Bank, delivered to the Borrower, the Borrower shall pay to the Bank such amount or amounts as shall compensate the Bank for any loss, cost or expense incurred by the Bank as a result of any of the following: (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, which compensation shall 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 the Bank) the 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 telecopy number set forth on the signature pages hereof or such other address or telecopy 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 telecopier, when such telecopy is transmitted to the telecopy number specified in this Section and the telecopy machine used by the sender provides a written confirmation that such telecopy has been so transmitted or receipt of such telecopy 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 Bank under Article II or Article VIII shall not be effective until received.

SECTION 9.02. No Waivers. No failure or delay by the 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 Bank, including fees and disbursements of the Bank in connection with any field audits and investigations and fees and disbursements of special counsel for the Bank, 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 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 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 Bank and its Affiliates 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 the 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 Bank 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 Bank, and each of its Affiliates 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. Each Loan Party hereby grants to the 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 the 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, the 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.

SECTION 9.05. Amendments and Waivers. Any provision of this Agreement, the Note 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 Bank.

SECTION 9.06. [Intentionally Omitted].

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) Anything in this Section 9.07 to the contrary notwithstanding, the 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. The 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 the Bank who are or are expected to become engaged in evaluating, approving, structuring or administering the Loan; provided, however, that nothing herein shall prevent the Bank from disclosing such information (i) upon the order of any court or administrative agency, (ii) upon the request or demand of any regulatory agency or authority having jurisdiction over the Bank, (iii) which has been publicly disclosed, (iv) to the extent reasonably required in connection with any litigation to which the Bank or its Affiliates may be a party, (v) to the extent reasonably required in connection with the exercise of any remedy hereunder, and (vi) to the Bank's legal counsel and independent auditors.

SECTION 9.09. [Intentionally Omitted].

SECTION 9.10. [Intentionally Omitted].

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 and the Commitment and the payment in full of the principal of and interest on all Advances.

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

SECTION 9.13. Severability. In case any one or more of the provisions contained in this Agreement 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 Note exceed the maximum rate of interest allowed by applicable law, and in the event any such payment is inadvertently made to the Bank by the Borrower or inadvertently received by the Bank, then such excess sum shall be credited as a payment of principal, unless the Borrower shall notify the 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 Bank 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 Commonwealth of Virginia, the courts thereof and the United States District Courts sitting therein, for the enforcement of this Agreement, the Note 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 Note 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 Bank 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.

SECTION 9.18. [Intentionally Omitted].

ARTICLE X

GUARANTY

SECTION 10.01. Licensee Loan Guaranty. The Borrower hereby acknowledges and agrees that a termination of the Commitment under this Agreement (whether on the Termination Date or at any time prior to the Termination Date for any reason) shall constitute termination of the Credit Agreement for purposes of subsection (f) of the definition of “Guaranty Trigger Event” set forth in the Licensee Loan Guarantees.

SECTION 10.02. 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 Bank 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 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 the Bank. The Guarantors further agree, promptly after demand, to pay to the Bank the costs and expenses incurred by the Bank in connection with enforcing the rights of the Bank 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 Guarantied Obligations or the obligations of the Guarantors hereunder, including, without limitation, the fees and expenses of counsel to the Bank.

SECTION 10.03. 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 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 Bank to enforce, assert or exercise any right, power or remedy conferred on or available to the 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 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

(l) 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 Bank to take any action pursuant to a notice given under, Sections 49-25 or 49-26 of the Code of Virginia (1950), as amended, 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 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 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 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 10.04. 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 10.05. Additional Security, Etc. The Guarantors authorize the Bank 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 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 Bank.

SECTION 10.06. 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 the Bank shall not have any duty to advise the Guarantors of information known to the Bank regarding or in any manner relevant to any of such circumstances or risks.

SECTION 10.07. 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 Bank, *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 10.08. 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 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 Bank to secure payment or performance of the Guaranteed Obligations or any other liability of the Borrower to the 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 10.09. Enforcement. In the event that the Guarantors shall fail forthwith to pay upon demand of the 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 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 10.10. 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 Bank. 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.

SECTION 10.11. Amended, Restated and Replacement Agreement. This Agreement amends, restates and replaces in its entirety the Original Credit Agreement, all effective as of the Restatement Effective Date. Any reference to the "Bassett Credit Agreement" contained in a Licensee Loan Guaranty shall refer to this Agreement.

[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

[Corporate Seal]

By: /s/ J. Michael Daniel (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Jay R. Hervey
Telecopy number: (276) 629-6311
Telephone number: (276) 629-6000

BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, LLC

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

[Corporate Seal]

By: /s/ J. Michael Daniel (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Jay R. Hervey
Telecopy number: (276) 629-6311
Telephone number: (276) 629-6000

BASSETT DIRECT STORES, LLC

[Corporate Seal]

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

By: /s/ J. Michael Daniel (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Jay R. Hervey
Telecopy number: (276) 629-6311
Telephone number: (276) 629-6000

BASSETT DIRECT NC, LLC

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

[Corporate Seal]

By: /s/ J. Michael Daniel (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Jay R. Hervey
Telecopy number: (276) 629-6311
Telephone number: (276) 629-6000

BASSETT DIRECT SC, LLC

[Corporate Seal]

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

By: /s/ J. Michael Daniel________________________(SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey___________________________(SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

c/o Bassett Furniture Industries, Incorporated
3525 Fairystone Park Highway
P.O. Box 626
Bassett, Virginia 24055
Attention: Jay R. Hervey
Telecopy number: (276) 629-6311
Telephone number: (276) 629-6000

BRANCH BANKING AND TRUST COMPANY

By: /s/ J. H. Sorrells, III ____________________________(SEAL)
J.H. Sorrells, III, Senior Vice President

Branch Banking and Trust Company
2120 Langhorne Road
Lynchburg, Virginia 24501
Attention: J.H. Sorrells, III
Telecopy number: (434) 847-3839
Telephone number: (434) 847-3868

FIRST AMENDMENT TO FOURTH AMENDED AND RESTATED CREDIT AGREEMENT

THIS FIRST AMENDMENT TO FOURTH AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is dated as of this 18th day of December, 2012, by and among **BASSETT FURNITURE INDUSTRIES, INCORPORATED** ("Borrower"), **BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, LLC, BASSETT DIRECT STORES, LLC, BASSETT DIRECT NC, LLC, BASSETT DIRECT SC, LLC** (collectively, the "Guarantors") and **BRANCH BANKING AND TRUST COMPANY** (the "Bank").

The Borrower, the Guarantors and the Bank are parties to that certain Fourth Amended and Restated Credit Agreement dated as of December 9, 2011 (as it may hereafter be amended, restated, supplemented or otherwise modified, the "Agreement"). Subject to the terms and conditions contained in the Agreement, the Bank agreed to make Advances (as defined in the Agreement) to the Borrower before the Termination Date (as defined in the Agreement) in an aggregate principal amount at any one time outstanding not to exceed $3,000,000.00. The Borrower and the Guarantors have requested that the Bank increase the aggregate principal amount of the Advances at any one time outstanding to $15,000,000.00 and to make certain other modifications to the Agreement, and the Bank is willing to do so upon the terms and conditions contained herein.

Accordingly, the Borrower, the Guarantors and the Bank hereby agree as follows:

1. Capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings assigned thereto in the Agreement.

2. The defined terms, "Commitment," "Loan Documents," "Loan Parties," "Original Credit Agreement" and "Termination Date," contained in Section 1.01 of the Agreement are hereby deleted in their entirety and the following new definitions are inserted in their respective places:

> "Commitment" means $15,000,000.00.
>
> "Loan Documents" means this Agreement, the Note, the Licensee Loan Documents, the Licensee Loan Guaranty, the Collateral Documents, the Letter of Credit Agreements, the Letters of Credit, any other document evidencing, relating to or securing the Loan or the Letters of Credit, and any other document or instrument delivered from time to time in connection with this Agreement, the Note, the Letter of Credit Agreements, the Licensee Loan Documents, the Licensee Loan Guaranty, the Letters of Credit, the Collateral Documents, or the Loan, as such documents and instruments may be amended or supplemented from to time; provided, however, in connection with Articles IV and V of this Agreement, the term "Loan Documents" shall not include the Licensee Loan Documents executed by the Licensee Borrower or any Person other than the Borrower or any Guarantor.
>
> "Loan Parties" means collectively the Borrower, each Guarantor that is now or hereafter a party to any of the Loan Documents, BDU NY, LLC, LRG Furniture LLC and BD Boston, LLC.
>
> "Original Credit Agreement" means that certain Credit Agreement, dated as of October 25, 2000, between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as modified by that certain First Amendment to Credit Agreement, dated October 5, 2001, as amended and restated by that certain Amended and Restated Credit Agreement between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as amended and restated by that certain Second Amended and Restated Credit Agreement between the Borrower, the Guarantors, Branch Banking and Trust Company of Virginia, as a Bank, and Branch Banking and Trust Company, as Agent, as amended by that certain First Amendment to Second Amended and Restated Credit Agreement dated November 21, 2005, as amended and restated by that certain Third Amended and Restated Credit Agreement among the Borrower, the Guarantors, Branch Banking and Trust Company, as a Bank, and Branch Banking and Trust Company, as Agent, as amended by that certain First Amendment to Third Amended and Restated Credit Agreement, as amended by that certain Second Amendment and Waiver to Third Amended and Restated Credit Agreement and Omnibus Amendment to Guaranty and Note Purchase Agreements dated as of October 6, 2009, as amended by that certain Third Amendment to Third Amended and Restated Credit Agreement dated as of November 30, 2010, as amended by that certain Fourth Amendment to Third Amended and Restated Credit Agreement dated as of March 4, 2011. This Agreement amends, restates and replaces the Original Credit Agreement.

"Termination Date" means December 5, 2015.

3. Section 1.01 of the Agreement is hereby amended by inserting the following new terms in the correct alphabetical order:

"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.

"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 Bank in its sole discretion.

"Bailee Letter" shall have the meaning set forth in Section 5.25.5 hereof.

"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 Bank, an amount equal to the sum of (i) an amount equal to 80% (or such lesser percentage as shall be mutually agreed upon by the Bank and the Borrower from time to time) of the face dollar amount of Eligible Accounts as at the date of determination and (ii) the lesser of (A) 50% (or such lesser percentage as shall be mutually agreed upon by the Bank 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 Bank in its sole discretion) and (B) the Inventory Sublimit, as at the date of determination. The Bank shall also be entitled to hold and subtract any reserve against the Borrowing Base it deems necessary as security for payment of the Note, the obligations of the Guarantors under Article X of this Agreement, and the obligations of the Borrower under the Letter of Credit Agreements and the Licensee Loan Guarantees.

"Borrowing Base Certification Report" means a report in the form attached hereto as Exhibit 1, and otherwise satisfactory to the Bank, certified by the chief accounting 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 Guarantors.

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

"Collateral Documents" means the Security Agreement.

"Collateral Locations" shall mean the Executive Offices and those additional locations set forth and described on Schedule 5.25 - Collateral Locations, under the heading "Collateral Locations."

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

"Eligible Accounts" means those Receivables of the Borrower and the Eligible Guarantor 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 Bank 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 Guarantor to their respective customers on the Closing Date; (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 the Eligible Guarantor or with any shareholder, director, officer, manager or member of a Borrower or Eligible Guarantor, as determined by the Bank in its sole discretion; (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 Dollars and is supported by an irrevocable letter of credit in form and substance acceptable to the Bank, in its sole discretion, and issued by a bank satisfactory to the Bank, in its sole discretion (and, if requested by the Bank, such letter of credit or the proceeds thereof, as the Bank in its sole discretion shall require, have been assigned to the Bank); (xi) such Receivable is not payable by the United States of America or any political subdivision or agency thereof, unless the Bank, the Borrower and the Eligible Guarantor 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 Guarantor, as the case may be, has 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 Guarantor ineligible hereunder; (xiv) such Receivable is not payable by any Account Debtor whose total accounts, in face amount, with the Borrower and the Eligible Guarantor exceed 20% or more of the total aggregate amount of the Eligible Receivables, but only to the extent of such excess; (xv) such Receivable did not arise out of a transaction primarily for personal, family or household purposes; and (xvi) the Receivable has not otherwise been excluded by the Bank, which it reserves the right to do in its sole discretion; . No presumption shall exist that a Receivable once classified by the Bank as an "Eligible Receivable" shall continue to be so classified. In no event shall a Receivable be included within the Eligible Accounts if such Receivable is not in accordance with the policy of the

Borrower and the Eligible Guarantor in existence on December 18, 2012 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 Bank.

"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 the 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 the Borrower or the Eligible Guarantor, as the case may be, and satisfactory to the Bank 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 Bank'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 the Eligible Guarantor, unless such trademark, patent or copyright is licensed to the Borrower or the Eligible Guarantor on terms and conditions satisfactory to the Bank; (vi) no warehouse receipt has been issued with respect to such Inventory Collateral unless the warehouseman issuing such warehouse receipt is satisfactory to the Bank in its sole discretion, the Bank has received and reviewed such warehouse receipt, such warehouse receipt has been issued to the Bank or transferred or assigned to the Bank, in each case in a manner satisfactory to the Bank, and the Bank shall have received a Bailee Letter from such warehouseman satisfactory to the Bank in its sole discretion; and (vii) if such Inventory Collateral is located on premises leased by the Borrower or the Eligible Guarantor or on premises owned by the Borrower or the Eligible Guarantor subject to a mortgage or other lien, the Bank shall have received a Lien Waiver satisfactory to the Bank in its sole discretion. No presumption shall exist that Inventory Collateral once classified by the Bank as "Eligible Inventory" shall continue to be so classified.

"Executive Offices" shall mean with respect to the Borrower, a Guarantor or any other Loan Party identified therein the address and location corresponding to such Borrower's, Guarantor's or other Loan Party's name set forth on Schedule 5.25 - Collateral Locations under the heading "Executive Offices."

"Inventory Collateral" shall mean all inventory of the Borrower and the Guarantors, or in which the Borrower or a Guarantor has rights, whether now owned or hereafter acquired, wherever located, including, without limitation, all goods of the Borrower and the 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 a 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.

"Inventory Sublimit" shall mean $7,500,000.00.

"Lien Waiver" shall have the meaning set forth in Section 5.25.5 hereof.

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

"Security Agreement" means that certain Fourth Amended and Restated General Security Agreement dated December 18, 2012, by and among the Borrower, the Guarantors and the other Loan Parties for the benefit of the Bank.

"Unused Commitment" means at any date, with respect to the Bank, an amount equal to the Commitment less the Used Commitment.

"UCC Recording Offices" means those certain locations and recording offices set forth on Schedule 5.25 - 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.

"Used Commitment" means at any date, with respect to the Bank, the sum of (A) the aggregate 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 the Licensee Loans, and (D) the aggregate Undrawn Amounts.

4. Section 2.01 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

SECTION 2.01. Commitments to Make Advances. The Bank 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 Used Commitment shall not exceed the lesser of: (a) the aggregate amount of the Commitment and (b) the Borrowing Base. 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 Commitment). 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.

5. Section 2.07(c) of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

(c) The Borrower shall pay to the Bank an unused commitment fee equal to the product of: (i) the aggregate of the daily average amounts of the Unused Commitment times (ii) a per annum percentage equal to 0.25%.. Such unused commitment fee shall accrue from and including December 18, 2012 to and including the Termination Date. Unused commitment fees shall be payable quarterly in arrears on each Quarterly Payment Date and on the Termination Date; provided, that should the Commitment be terminated at any time prior to the Termination Date for any reason, the entire accrued and unpaid fee shall be paid on the date of such termination.

6. Section 2.11(b) of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

(b) In the event that the Used Commitment shall at any time exceed the lesser of the Borrowing Base and the Commitment, then the Borrower shall immediately repay so much of the Advances as is necessary in order that the aggregate principal amount of the Advances thereafter outstanding, together with the aggregate principal amount of the Licensee Loans, Letter of Credit Advances and Undrawn Amounts, shall not exceed the lesser of the Borrowing Base and the Commitment at such time.

7. Section 2.14 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

SECTION 2.14. Collateral Reserve Account. In accordance with and as more fully set forth in the Security Agreement, the Borrower, each Guarantor and the other Loan Parties shall: (1) establish and maintain a lockbox; and (2) upon the request of the Bank, establish and maintain with the Bank a Collateral Reserve Account.

8. Section 2.16(b)(iii) of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

(iii) the fact that, immediately after the disbursement of such Licensee Loan, the Used Commitment will not exceed the lesser of the Commitment and the Borrowing Base; and

9. Section 3.02(d) of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

(d) the fact that, immediately after such Borrowing, the Used Commitment will not exceed the lesser of the Commitment and the Borrowing Base.

10. Section 3.03(c) of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

(c) the fact that, immediately after the issuance of such Letter of Credit, the Used Commitment will not exceed the lesser of the Commitment and the Borrowing Base;

11. Sections 4.02, 4.03 and 4.05 of the Agreement are hereby deleted in their entirety, and the following new sections are inserted in their respective places:

SECTION 4.02. Organizational and Governmental Authorization; No Contravention. The execution, delivery and performance by each Loan Party of this Agreement, the Note, 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 Note, 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 4.05. 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 Note, the Collateral Documents or any of the other Loan Documents.

12. Section 4.19 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

SECTION 4.19. Security Documents. The Security Agreement is effective to create in favor of the Bank 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, the Guarantors and the other Loan Parties in such Collateral and the proceeds thereof, in each case prior and superior in right to any other Person.

13. Sections 5.01(k), 5.01(l) and 5.01(m) of the Agreement are hereby deleted in their entirety, and the following new sections are inserted in their respective places:

(k) (1) in the event that, at all times during a Fiscal Quarter of a Fiscal Year, the Used Commitment is less than $3,000,000.00, no aging of payables shall be required to be delivered to the Bank for such Fiscal Quarter; and (2) in the event that, at all times during a Fiscal Quarter of a Fiscal Year, the Used Commitment is equal to or greater than $3,000,000.00, as soon as available and in any event within 45 days after the end of each Fiscal Quarter, 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 Bank in its sole discretion may from time to time prescribe, dated as of the last day of such Fiscal Quarter, which statements shall, in each instance, be certified as to truth and accuracy by the Vice President – Chief Accounting Officer or other authorized officer of the Borrower and each Guarantor;

(l) (1) in the event that, at all times during a Fiscal Quarter of a Fiscal Year, the Used Commitment is less than $3,000,000.00, no aging of Receivables shall be required to be delivered to the Bank for such Fiscal Quarter; and (2) in the event that, at all times during a Fiscal Quarter of a Fiscal Year, the Used Commitment is equal to or greater than $3,000,000.00, as soon as available and in any event within 45 days after the end of each Fiscal Quarter, 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 Bank, in its sole discretion, may from time to time reasonably prescribe, dated as of the last day of such Fiscal Quarter, which statements shall, in each instance, be certified as to truth and accuracy by the Vice President – Chief Accounting Officer or other authorized officer of the Borrower and each Guarantor;

(m) (1) in the event that, at all times during a Fiscal Quarter of a Fiscal Year, the Used Commitment is less than $3,000,000.00, no Borrowing Base Certification Report shall be required to be delivered to the Bank for such Fiscal Quarter; (2) in the event that, at all times during a Fiscal Quarter of a Fiscal Year, the Used Commitment is equal to or greater than $3,000,000.00 but less than seventy-five percent (75%) of the lesser of the Commitment and the Borrowing Base, as soon as available and in any event within 10 days after the end of each such Fiscal Quarter, a Borrowing Base Certification Report, in form and content reasonably satisfactory to the Bank, dated as of the last day of such Fiscal Quarter, which statement shall, in each instance, be certified as to truth and accuracy by the Vice President - Chief Accounting Officer or other authorized officer of the Borrower and each Guarantor and (3) in the event that, at any time during a calendar month, the Used Commitment is equal to or greater than seventy-five percent (75%) of the lesser of the Commitment and the Borrowing Base, as soon as available and in any event within 10 days after the end of each such calendar month, a Borrowing Base Certification Report, in form and content reasonably satisfactory to the Bank, dated as of the last day of such calendar month, which statements shall, in each instance, be certified as to truth and accuracy by the Vice President - Chief Accounting Officer or other authorized officer of the Borrower and each Guarantor;

14. Section 5.02 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

SECTION 5.02 Inspection of Property, Books and Records. The Borrower will (i) keep, and will cause each Guarantor and each Subsidiary of the Borrower or any Guarantor 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 Guarantor and each Subsidiary of the Borrower or any Guarantor to permit, the Bank, or its designee, at the expense of the Borrower, to perform periodic field audits and investigations of the Borrower, the Guarantors and each Subsidiary of the Borrower or any Guarantor; and (iii) permit, and will cause each Guarantor and each Subsidiary of the Borrower or any Guarantor to permit, with reasonable prior notice which notice shall not be required in the case of an emergency, representatives of the Bank at the 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, and to cause the Guarantors and each Subsidiary of the Borrower or any Guarantor to cooperate and assist, in such visits and inspections, in each case at such reasonable times and as often as may reasonably be desired by the Bank. The Borrower shall pay to the Bank on demand an $800 per day examination fee in connection with each collateral audit conducted by the Bank or its designee in accordance with this Section 5.02, together with all other expenses associated with each such collateral audit, including but not limited to travel expenses, specialized equipment needed to count and/or value goods on which the Bank has been granted a Lien, and the use of outside firms to perform any audit as deemed necessary or desirable by the Bank in its sole discretion to monitor the collateral on which the Bank has been granted a Lien.

15. Section 5.14 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

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 of the Collateral.

16. Section 5.25 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

SECTION 5.25 Collateral. With respect to the Collateral, each of the Borrower and each Guarantor hereby represents, warrants and covenants to the Bank as set forth in Section 5.25.1 through 5.25.15, inclusive.

5.25.1 Sale of Collateral. No Borrower, Guarantor or other Loan Party will sell, lease, exchange, or otherwise dispose of any of the Collateral without the prior written consent of the Bank; 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). None of the Borrower, any Guarantor or any other Loan Party will, without the Bank'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 and consistent with the Borrower's, the Guarantor's or such other Loan Party's past practice.

5.25.3 Good Title; No Existing Encumbrances. The Borrower, the Guarantors and the other Loan Parties 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, the Guarantors and the other Loan Parties have the right to grant a security interest in the Collateral. The Borrower, the Guarantors and the other Loan Parties will pay all taxes and other charges against the Collateral (including, without limitation, property, use and sales taxes), and none of the Borrower, any Guarantor or any other Loan Party will use the Collateral illegally or allow the Collateral to be encumbered except for the security interest in favor of the Bank granted under the Security Agreement.

5.25.5 Location of Collateral. The Borrower and the Guarantors hereby represent and warrant to the Bank that the Collateral located in the United States is situated only at one or more of the Collateral Locations. The Borrower and the Guarantors covenant with the Bank not to locate any Collateral located in the United States at any location other than a Collateral Location without at least 30 days prior written notice to the Bank. The Executive Office of each Loan Party is such Loan Party's chief executive office (if such Loan Party has more than one place of business) or place of business (if such Loan Party has one place of business). In addition, to the extent the Borrower, any Guarantor or any other Loan Party should warehouse any of the Inventory Collateral at any time hereafter at a location in the United States, the Borrower, the Guarantors and the other Loan Parties acknowledge and agree that such warehousing may be conducted only by warehousemen who have been pre-approved by the Bank and who, in any event, have executed and delivered to the Bank a bailee letter in form and substance satisfactory to the Bank (each such letter, a "Bailee Letter"). If the Borrower, any Guarantor or any other Loan Party consigns any of the Inventory Collateral, it will comply with the Uniform Commercial Code of any state where such Inventory Collateral is located with respect thereto, and shall file, cause the filing and does hereby authorize the Bank to file in the appropriate public office or offices UCC-1 financing statements showing such Borrower, Guarantor or other Loan Party, as the case may be, as consignor and the Bank as assignee of consignor, and will furnish copies thereof to the Bank. 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, a Guarantor or any other Loan Party or on premises owned by the Borrower, a Guarantor or any other Loan Party subject to a mortgage or other lien, such Borrower or Guarantor shall so notify the Bank and shall if requested by the Bank obtain and deliver or cause to be delivered to the Bank, prior to delivery of any Inventory Collateral or records concerning the Collateral to said premises, an agreement, in form and substance satisfactory to the Bank, waiving the landlord's or mortgagee's or lienholder's right to enforce any claim against the Borrower, such Guarantor or such other Loan Party, 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 Bank'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 (each such agreement, a "Lien Waiver").

5.25.6 Collateral Status. The Borrower, the Guarantors and the other Loan Parties will promptly notify the Bank 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 Borrower, the Guarantors and the other Loan Parties have delivered all agreements, letters of credit, promissory notes, instruments, certificates of deposit, chattel paper or anything else, the physical possession of which is necessary in order for the Bank to perfect or preserve the priority of its security interest therein.

5.25.8 Purchase of Collateral. None of the Borrower, any Guarantor or any other Loan Party 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, such Guarantor or such other Loan Party.

5.25.9 Possession of Franchises, Licenses, Etc. The Borrower, the Guarantors and the other Loan Parties and the Subsidiaries of the Borrower, the Guarantors and the other Loan Parties 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 none of the Borrower, any Guarantor, any other Loan Party or any of their respective Subsidiaries is in violation of any term or condition thereof which would or might have a Material Adverse Effect. The Borrower, the Guarantors and the other Loan Parties have furnished the Bank an accurate and complete description of all copyrights, patents, trademarks and other intellectual property of the Borrower, the Guarantors and the other Loan Parties.

5.25.10 Records Respecting Collateral. The Borrower, the Guarantors and the other Loan Parties 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, the Guarantors and the other Loan Parties with respect to the Collateral will be kept at the Executive Offices (as they may be changed pursuant to Section 5.25.13) and will not be removed from such address without the prior written consent of the Bank.

5.25.11 Further Assurances. The Borrower, each Guarantor and each other Loan Party shall duly execute and/or deliver (or cause to be duly executed and/or delivered) to the Bank 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 Bank 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 Bank. The Borrower, each Guarantor and each other Loan Party shall perform or cause to be performed such acts as the Bank may request to establish and maintain for the Bank a valid and perfected security interest in and security title to the Collateral, free and clear of any Liens other than Liens in favor of the Bank.

5.25.12 Maintenance of Insurance. In addition to and cumulative with any other requirements herein or in the Security Agreement imposed on the Borrower, the Guarantors and the other Loan Parties with respect to insurance, the Borrower, the Guarantors, the other Loan Parties and the Subsidiaries of the Borrower, the Guarantors and the other Loan Parties shall maintain insurance with insurance companies satisfactory to the Bank 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 Bank, which insurance shall not be cancellable or altered (or the coverage thereunder reduced or restricted) by the Borrower, any Guarantor, any other Loan Party or any Subsidiary of the Borrower, any Guarantors or any other Loan Party, unless with the prior written consent of the Bank, or by the insurer of the Borrower, the Guarantors and the other Loan Parties, unless with at least 30 days advance written notice to the Bank thereof. The Borrower, the Guarantors and the other Loan Parties shall deliver to the Bank on December 18, 2012 and at such other times as the Bank 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 Bank, obtain such additional insurance as the Bank may reasonably request. The Borrower, the Guarantors and the other Loan Parties 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 Bank may act as the agent of the Borrower, the Guarantors and the other Loan Parties in adjusting or compromising any loss under any such insurance policy and in collecting and receiving the proceeds from any such policy. Such power is coupled with an interest and is irrevocable. In the event of any loss under any such policy of insurance, the insurer named therein is hereby authorized and directed by the Borrower, the Guarantors and the other Loan Parties to make payment for such loss to the Bank, rather than to the Borrower, the Guarantors, the other Loan Parties and the Bank jointly. If the Borrower, any Guarantor or any other Loan Party shall default in its obligation hereunder to insure the Collateral in a manner satisfactory to the Bank, then the Bank shall have the right (but not the obligation) to procure such insurance and to charge the costs of same to the Borrower, the Guarantors and the other Loan Parties, which costs shall be added to and become a part of the unpaid principal amount of the Obligations (as defined in the Security Agreement) and shall bear interest at the Default Rate or the highest contract rate permitted by applicable law, whichever is less, which interest shall be payable on demand by the Bank and shall be secured by the Collateral.

The proceeds of all such insurance, if any loss should occur, may be applied by the Bank to the payment of the Obligations (as defined in the Security Agreement) or to the replacement of any of the Collateral damaged or destroyed, as the Bank may elect or direct in its sole discretion. The Borrower, each Guarantor and each other Loan Party hereby appoints (which appointment constitutes a power coupled with an interest and is irrevocable as long as any of the Obligations (as defined in the Security Agreement) remain outstanding) Bank as its lawful attorney-in-fact with full power of substitution and with full authority to make, adjust, settle claims under and/or cancel such insurance and to endorse the name of the Borrower, any Guarantor or any other Loan Party on any instruments or drafts issued by or upon any insurance companies.

5.25.13 Change of Principal Place of Business. The Borrower, the Guarantors and the other Loan Parties hereby understand and agree that if, at any time after December 1, 2012, the Borrower, any Guarantor or any other Loan Party elects to move its Executive Office, or if the Borrower, any Guarantor or any other Loan Party 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 as existing on December 1, 2012, the Borrower, the Guarantors and the other Loan Parties will notify the Bank in writing at least 30 days prior thereto.

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

5.25.15 Name and Jurisdiction of Organization. The exact legal name of the Borrower, each Guarantor and each other Loan Party and the state of incorporation or organization for the Borrower, each Guarantor and each other Loan Party is as set forth below:

Bassett Furniture Industries, Incorporated - Virginia
Bassett Furniture Industries of North Carolina, LLC - North Carolina
Bassett Direct Stores, LLC - Virginia
Bassett Direct NC, LLC - Virginia
Bassett Direct SC, LLC - Virginia
BDU NY, LLC - Virginia
LRG Furniture LLC – Virginia
BD Boston, LLC – Virginia

17. Section 5.35 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

> SECTION 5.35. Minimum Consolidated Tangible Net Worth. Consolidated Tangible Net Worth will at no time be less than $125,000,000.00.

18. Section 5.38 of the Agreement is hereby deleted in its entirety, and the following new section is inserted in its place:

> SECTION 5.38. Consolidated Cash Flow Coverage Ratio. The Borrower and its Consolidated Subsidiaries shall maintain a Consolidated Cash Flow Coverage Ratio of not less than 1.15 to 1 as of the end of each fiscal year of the Borrower and its Consolidated Subsidiaries.

19. The Borrower and the Guarantors hereby represent and warrant to the Bank (which representations and warranties shall survive the execution and delivery of this Amendment) that:

(a) Each is in compliance with all of the terms, covenants and conditions of the Agreement, as amended by this Amendment, and each of the other Loan Documents.

(b) There exists no Default or Event of Default under the Agreement, as amended by this Amendment, and no event has occurred or condition exists which, with the giving of notice or lapse of time, or both, would constitute a Default or an Event of Default or a default an event of default under any of the Loan Documents.

(c) The representations and warranties contained in Article IV of the Agreement are, except to the extent that they relate solely to an earlier date, true with the same effect as though such representations and warranties had been made on the date of this Amendment.

(d) The execution, delivery and performance by each Loan Party of this Amendment, the new promissory note (in the form attached hereto and made a part hereof as Exhibit A, the "Replacement Note") and the security agreement (in the form attached hereto and made a part hereof as Exhibit B, the "Security Agreement") (A) (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, (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 and (B) are the legal, binding, valid and enforceable obligations of each Loan Party to the extent each is a party thereto 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.

(e) 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 Amendment, the Replacement Note, the Security Agreement, the Collateral Documents or any of the other Loan Documents.

20. The Bank's agreement to enter into this Amendment is subject to the following conditions precedent:

(a) Each of the Borrower and the Guarantors shall have executed and delivered to the Bank this Amendment.

(b) The Borrower shall have executed and delivered to the Bank the Replacement Note in the form of Exhibit A attached hereto with the blanks therein appropriately completed.

(c) The Borrower, each Guarantor and each other Loan Party shall have executed and delivered to the Bank the Security Agreement in the form of Exhibit B attached hereto with the blanks therein appropriately completed, and each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Bank to be filed, registered or recorded in order to create in favor of the Bank 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 Bank.

(d) The Bank shall have received the results of a search of the Uniform Commercial Code filings (or equivalent filings) made with respect to the Borrower, Guarantors and the other Loan Parties 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 the Accounts Receivable Collateral and the other jurisdictions in which Uniform Commercial Code filings (or equivalent filings) are to be made pursuant to Section 21(d) hereof, together with copies of the financing statements (or similar documents) disclosed by such search, and accompanied by evidence satisfactory to the Bank that the Liens indicated in any such financing statement (or similar document) have been released.

(e) The Bank shall have received and approved the insurance required under the Agreement.

(f) The Bank shall have received borrowing resolutions in form and substance acceptable to the Bank for each of BDU NY, LLC, LRG Furniture LLC and BD Boston, LLC authorizing the execution, delivery and performance of the Security Agreement.

(g) The Bank shall have received a favorable opinion of counsel to the Loan Parties addressed to Bank, dated as of the date hereof and satisfactory in form and substance to the Bank as to such matters as Bank shall request.

(h) The Borrower shall have paid to the Bank an underwriting fee in an amount equal to $20,000, which fee shall be fully earned and non-refundable once paid, and the legal fees and expenses described in Section 26 hereof.

(i) The Loan Parties shall have executed and delivered, or caused to be executed and delivered, to the Bank such other and further documents, certificates, opinions and other papers as the Bank shall request.

21. Except as expressly amended hereby, the terms of the Agreement shall remain in full force and effect in all respects, and each of the Borrower, the Guarantors hereby reaffirms its obligations under the Agreement, as amended by this Amendment, and the other Loan Documents to the extent it is a party thereto. Each of the Borrower and the Guarantors hereby waives any claim, cause of action, defense, counterclaim, setoff or recoupment of any kind or nature that it may assert against the Bank arising from or in connection with the Agreement, as amended by this Amendment, the Replacement Note, the Security Agreement or any of the Loan Documents or the transactions contemplated thereby or hereby that exists on the date hereof or arises from facts or actions occurring prior hereto or on the date hereof. Nothing contained in this Amendment, the Replacement Note, the Security Agreement or any of the other Loan Documents shall be construed to constitute a novation with respect to any of the obligations described in the Agreement or any of the other Loan Documents.

22. All references to the Agreement in any of the Loan Documents, or any other documents or instruments that refer to the Agreement, shall be deemed to be references to the Agreement as amended by this Amendment. All references to the Note in any of the Loan Documents, or any other documents or instruments that refer to the Note, shall be deemed to be references to the Replacement Note.

23. This Amendment, the Replacement Note and the Security Agreement shall be construed in accordance with and governed by the laws of the Commonwealth of Virginia.

24. This Amendment may be executed in any number of counterparts, each of which shall be an original, but all of which taken together shall constitute one and the same instrument.

25. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. None of the Loan Parties shall have the right to assign any of its rights or obligations under or delegate any of its duties under the Agreement, as amended by this Amendment, or any of the other Loan Documents.

26. The Borrower hereby agrees that it will pay on demand all out-of-pocket expenses incurred by the Bank in connection with the preparation of this Amendment, the Replacement Note, the Security Agreement and any other related documents, including but not limited to the fees and disbursements of counsel for the Bank.

27. This Amendment represents the final agreement between the Loan Parties and the Bank with respect to the subject matter hereof, and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

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

BASSETT FURNITURE INDUSTRIES, INCORPORATED

[Corporate Seal]

By: /s/ J. Michael Daniel ______________________ (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey __________________________ (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel andSecretary

BASSETT FURNITURE INDUSTRIES OF NORTH CAROLINA, LLC

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

[Corporate Seal]

By: /s/ J. Michael Daniel ______________________ (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey __________________________ (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel andSecretary

[Executions Continue on Following Pages]

BASSETT DIRECT STORES, LLC

[Corporate Seal]

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

By: /s/ J. Michael Daniel (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel and Secretary

BASSETT DIRECT NC, LLC

By: Bassett Direct Stores, LLC
Its sole Member and Manager

[Corporate Seal]

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

By: /s/ J. Michael Daniel (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel andSecretary

[Executions Continue on Following Pages]

[Corporate Seal]

BASSETT DIRECT SC, LLC

By: Bassett Direct Stores, LLC
Its sole Member and Manager

By: Bassett Furniture Industries, Incorporated
Its sole Member and Manager

By: /s/ J. Michael Daniel ____________________ (SEAL)
Name: J. Michael Daniel
Title: Vice President, Chief Accounting Officer

By: /s/ Jay R. Hervey ____________________ (SEAL)
Name: Jay R. Hervey
Title: Vice President, General Counsel andSecretary

[Executions Continue on Following Pages]

BRANCH BANKING AND TRUST COMPANY

By: /s/ J. H. Sorrells III ____________________ (SEAL)
Name: J.H. Sorrells, III
Title: Senior Vice President

Exhibit A – Replacement Note
Exhibit B – Security Agreement
Exhibit 1 – Borrowing Base Certificate
Schedule 5.25 – Collateral Locations
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<u>EXHIBIT 21 - LIST OF SUBSIDIARIES*</u>

(a) Bassett Furniture Industries of North Carolina, LLC (North Carolina limited liability Corporation)

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

(c) Bassett Direct Stores, LLC (Virginia limited liability Corporation)

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

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

(f) LRG Furniture, LLC (Virginia limited liability company)

(g) BDP, LC (Texas limited liability company)

(h) BFD-Atlanta, LLC (Virginia limited liability company)

(i) BD Boston, LLC (Virginia limited liability corporation)

(j) BDU NY, LLC (Virginia limited liability company)

*All subsidiaries are wholly-owned unless otherwise noted.

Consent of Independent Registered Public Accounting Firm

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

(1) Registration Statement (Form S-8 No. 33-52407) pertaining to the Bassett Furniture Industries, Incorporated 1993 Stock Plan for Non-Employee Directors,

(2) Registration Statement (Form S-8 No. 333-60327) pertaining to the Bassett Furniture Industries, Incorporated 1997 Employee Stock Plan,

(3) Registration Statement (Form S-8 No. 333-43188) pertaining to the Bassett Furniture Industries, Incorporated 2000 Qualified Employee Stock Purchase Plan, the Bassett Furniture Industries, Incorporated 1997 Employee Stock Plan, and the Bassett Furniture Industries, Incorporated 1993 Stock Plan for Non-Employee Directors, and

(4) Registration Statement (Form S-8 No. 333-175531) pertaining to the Bassett Furniture Industries, Incorporated 2010 Stock Incentive Plan

of our reports dated February 4, 2013 with respect to the consolidated financial statements and schedule of Bassett Furniture Industries, Incorporated and Subsidiaries and the effectiveness of internal control over financial reporting of Bassett Furniture Industries, Incorporated and Subsidiaries included in this Annual Report (Form 10-K) for the year ended November 24, 2012.

/s/ Ernst & Young LLP

Raleigh, North Carolina
February 4, 2013

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Bassett Furniture Industries, Incorporated
Bassett, Virginia

We consent to the incorporation by reference in the Registration Statements (Nos. 33-52407, 333-60327 and 333-43188) on Form S-8 of Bassett Furniture Industries, Incorporated and subsidiaries of our report dated January 18, 2011, relating to the consolidated balance sheets of International Home Furnishings Center, Inc. and its subsidiaries as of October 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended October 31, 2010, which report is included in the annual report on Form 10-K of Bassett Furniture Industries, Incorporated and its subsidiaries.

Dixon Hughes Goodman LLP

(formerly Dixon Hughes PLLC)
High Point, North Carolina
February 1, 2013

Exhibit 31A

CERTIFICATIONS

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

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 4, 2013

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

CERTIFICATIONS

I, J. Michael Daniel, certify that:

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

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

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

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 4, 2013

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

Exhibit 32A

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

In connection with the Annual Report of Bassett Furniture Industries, Incorporated (the “Company”) on Form 10-K for the period ending November 24, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I Robert H. Spilman, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 4, 2013

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

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

Exhibit 32B

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

In connection with the Annual Report of Bassett Furniture Industries, Incorporated (the "Company") on Form 10-K for the period ending November 24, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I J. Michael Daniel, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 4, 2013

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

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