Bassett Furniture Industries (Q2 2024 Earnings)

July 11, 2024

Corporate Speakers:

- Mike Daniel; Bassett Furniture Industries; Chief Financial Officer
- Rob Spilman; Bassett Furniture Industries; Chairman and Chief Executive Office

Participants:

- Anthony Lebiedzinski; Sidoti; Analyst
- Budd Bugatch; Water Tower Research; Analyst

PRESENTATION

Operator: Hello and thank you for standing by. Welcome to Bassett Furniture Industries Q2 2024 Earnings Call. (Operator Instructions) I would now like to turn the call over to Mike Daniel, CFO of Bassett Furniture. Sir, you may begin.

Mike Daniel: Thank you, Towanda. And welcome to Bassett Furniture's earnings call for the second quarter ended June 1, 2024. Joining me today is our Chairman and Chief Executive Officer, Rob Spilman, Jr. We issued our news release yesterday after the market closed, and it's available on our website.

We have updated our reporting format with a fresh look that we believe provides an efficient and easy comparison of important metrics compared to the prior year's second quarter.

We're offering today's conference call to provide additional information about our business including the restructuring plan we announced in the release. We will open the call for a Q&A session after our remarks.

In addition, we will post the transcript of the call on our Investor site within 48 hours of this call. We believe this process will help enhance how we share our quarterly results with you, and we welcome your feedback.

During today's call certain statements we make may be considered forward-looking and inherently involve risk and uncertainties that could cause actual results to differ materially from management's present view.

These statements are made pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995.

The company cannot guarantee the accuracy of any forecast or estimate, nor does it undertake any obligation to update such forward-looking statements. For more information including important cautionary notes, please see the Company's annual report on Form 10-K, for the fiscal year ended November 25, 2023.

Other filings with the SEC describing risks related to our business are available on our corporate website. Now I'll turn it over to Rob for comments about our second quarter. Rob?

Rob Spilman: Thank you, Mike. Good morning, everyone. And thank you for joining us today. The macroeconomic pressure currently exerted on the furniture industry continued in the second quarter. Elevated home prices, relatively high mortgage rates, and general inflationary tension remain persistent.

We also know from our own customer data that many are spending more on experiences than they are in their homes, a reversal from what we saw during COVID.

Revenue in both our Wholesale and Retail segments was down, with greater pressure on our retail business due to the higher level of associated fixed costs. Geographically, sales were stronger in areas where housing is hotter, specifically the southeast and across to Texas. Excluding the $2.7 million in additional inventory valuation charges that we levied, we were pleased with the strong consolidated gross margin that we recorded in the second quarter coming in at 55.7% compared to last year's 53.6%.

Although inventories have dropped by $28.6 million or 33% since the end of fiscal 2022, we believe that we can run an even leaner business in the future because certain elements of our assortment are not productively generating our expected sales velocity. Accordingly, this quarter we elected to record higher reserves on items in anticipation of the sell-off of more discontinued product over the course of the next couple of quarters.

Our average retail ticket was $3,960, up 9% from last year. Design makeover projects comprise 43% of total retail sales, down slightly from last year.

In the current economic environment that I discussed earlier, the big holiday sales events carry even more weight. We are pleased that our three-week Memorial Day promotion slightly exceeded last year's written business total.

Additions to our online product catalog, ongoing website optimizations, and stronger promotional messaging proved to successfully drive consumer engagement during the key holiday period.

Particularly notable over the Memorial Day selling event was the success of the addition of leather to our True Custom Upholstery program.

Also, the recently introduced Origins Dining program drove new sales as we re-entered the everyday dining category with product designed for kitchen or breakfast areas of the home.

On the Wholesale side, we were excited about our showing at the High Point Furniture show in April for two reasons.

First, the showroom debut of our Bassett Design Studio concept spotlighting our True Custom Upholstery program. And second, the strategic outreach to the interior design community through our selling space located in the Interhall area of the International Market Center.

We were pleased that we made contact with over 400 interior designers and design firms, and we expect this will yield results well into next year. In our news release yesterday, we reported that we are executing a restructuring strategy effective immediately.

While we are going through a down period for the industry, we are setting the table for the inevitable rebound in consumer purchases for the home. This plan is designed to grow our business and to get the most out of our revenue and our working capital to drive profitability. There are five key points to the plan.

Number one: Drive organic growth through Bassett branded retail locations, omnichannel capabilities, and enhanced customization positioning to expand our dedicated distribution footprint.

Number two: Rationalize U.S. wood manufacturing from two locations into one primary location supported by a small satellite operation.

Number three: Optimize inventory and drop unproductive lines.

Number four: Improve our overall cost structure and invest capital in refurbishment of current corporate retail locations.

And number five: Close the Noa Home e-commerce business.

We believe that the depths of our custom furniture manufacturing capabilities and our quick response made in America model makes us unique in the industry. With our network of company owned and licensed stores and our organization of highly trained design consultants, we are leveraging people and technology for customer acquisition. Although we are exploring three new markets for store locations, we do not plan any further openings this year. Capital investments are targeted for refurbishment of existing corporate locations.

Our approach is well suited to offer personalized solutions to the interior design community to better serve their clients, and we are excited about showcasing our long proven True Custom Upholstery offering and the new Bassett Design Studio format introduced earlier this year. Many in the industry now refer to offering more than one fabric on a frame as custom upholstery.

Our True Custom program truly represents what custom upholstery really is, a choice of frame length, arm, back and base styles, cushion options, multiple fabric and leather options, et cetera. Designed for better independent furniture retailers, the 1,000 square foot concept is off to a great start. Recall in April, in our first quarter report, we had signed 17 new locations.

And through May, we are up to 30. For a modest investment in fixtures and displays, our customers receive a quick response setup that Bassett is recognized for, and they are giving us very positive feedback. They're happy with the margins and the fact that they can carry lower inventory. We are targeting to have 50 dealers in the fold by year end toward our ultimate goal of at least 100 locations.

Because we believe we can manufacture the same amount of U.S.-made wood furniture that we are currently providing more efficiently and cost-effectively, we are reconfiguring our domestic wood manufacturing footprint.

This action is underway and resulted in a charge of $1.4 million for the second quarter. Our goal is to lower our cost structure. We have completed the initial phase of our retail warehouse consolidation that resulted in the closing of three warehouses during the quarter.

We also plan to move out of a major wholesale distribution center at the end of the third quarter that will result in significant savings and could result in an additional charge of up to $1 million to be taken in the third quarter.

We made the decision to close Noa Home, the mid-price e-commerce furniture retailer headquartered in Canada with operations in Canada, Singapore, the U.S. and the U.K. Despite providing Noa consistently with the working capital that was needed starting in 2022, they were not able to generate sales growth.

As a result, we did not feel that additional funding of the operation was in Bassett's best interest and have made the decision to wind down their operation by the end of the fiscal year.

Our capital allocation strategy remains to focus on investments in our business, like those I've outlined, and deliver returns to shareholders through dividends and share repurchases. We also announced on Tuesday that the Bassett Board of Directors approved an 11% increase in our quarterly dividend.

We're proud to increase our dividend, and this is a sign of confidence in our growth potential and cash flow. Our company has a long history, 122 years and counting, of weathering economic cycles from housing to inflation.

We believe that our restructuring plan backed by our strong financial position and consistent cash dividend will grow revenue, reduce costs, and strengthen operating margins. As we implement this plan, we expect the back half of 2024 will be a reset for our business.

We are optimistic that consumer demand will improve and that our unique competitive advantages will allow us to increase market share and deliver long-term shareholder returns. Now I'll turn things over to Mike for more details on our financials.

Mike Daniel: Thanks, Rob. In my commentary, the comparisons I will discuss will be the second quarter of fiscal 2024 compared to the second quarter of fiscal 2023 unless otherwise noted. Total revenues decreased $17.1 million or 17%. Consolidated gross margins were comparable to the prior year at 52.5% versus 52.6%. Adjusted for the additional and unusual inventory reserves that I'll discuss shortly, consolidated gross margins were 55.7% versus 53.6%.

We had a consolidated operating loss of $8.5 million as compared to operating profit of $2.5 million for the second quarter of 2023.

Included in the current quarter were several significant and unusual expenses due to the restructuring plan Rob previously enumerated including $2.9 million of asset impairment charges associated with retail store tenant improvements and the lease right of use assets for underperforming stores and warehouse consolidation.

$1.8 million of asset impairment charges and $500,000 of inventory valuation charges associated with the wind down of Noa Home Inc.

$700,000 of asset impairment charges and $700,000 of inventory valuation charges associated with the consolidation of our domestic wood manufacturing operations.

And finally, $1.5 million of additional inventory valuation charges in both our Wholesale and Retail operations in anticipation of the sell-off of more discontinued product over the course of the next couple of quarters.

As a result of the restructuring plan and the charges taken, we expect to realize annual cost savings of between $5.5 million and $6.5 million starting with fiscal 2025.

Now I will provide information regarding our Wholesale operations. Net sales decreased $9.2 million, or 15%, from the prior year period, due primarily to a 19% decrease in shipments to the open market, a 16% decrease in shipments to our retail store network, partially offset by a 2% increase in Lane Venture shipments. Gross margins increased 110 basis points over the prior year, primarily due to the expected improvement in the Club Level leather business.

As this product line is internationally sourced with extended lead times, we received significant amounts of inventory during the second and third quarters of 2022, just as product demand was weakening due to the market downturn in home furnishings.

Also, the ocean freight costs associated with the majority of the product received were at significantly higher costs than are being realized on current product receipts.

In addition, we realized a favorable adjustment in our warranty and returns reserve due to improved diligence and efficiency in handling claims. These increases were partially offset by $1.7 million of additional inventory valuation charges previously discussed and decreases in the gross margins for domestic upholstery and wood operations due to deleverage of fixed costs and labor inefficiencies due to the lower sales volumes.

SG&A as a percentage of sales increased 170 basis points, primarily due to reduced leverage of fixed costs from decreased sales.

Now moving on to our Retail store operations. Net sales decreased $10.3 million or 17% from the prior year period.

Written sales, the value of sales orders taken but not delivered, declined 2.5% from the second quarter of 2023. Gross margin was flat with the prior period because higher margins on in line goods were offset by lower margins on clearance goods.

In addition, we had $500,000 of increased inventory valuation charges previously discussed due to the strategy to be more aggressive in selling clearance goods to better control inventory levels.

SG&A expenses as a percentage of sales increased 570 basis points, again, primarily due to decreased leverage of fixed costs from lower sales volumes.

As Rob discussed, we have announced that we will be winding down the operations of Noa Home Inc.

As part of that, we recorded a $1.8 million charge to write off the previously recorded intangible asset for the trade name and $500,000 of inventory valuation reserves to prepare for an orderly sell-through of the inventory.

Finally, let's turn to the balance sheet and capital allocation. We ended the quarter with $60.5 million in cash and short-term investments.

We generated $5.8 million of operating cash, funding all of our capital expenditures, dividends, and share repurchases for the quarter.

Given the current state of business, we have cut back our prior plans for capital expenditures. Now we plan to spend an additional $4 million to $5 million over the back half of the year, with the majority of that spending on limited retail store remodels. We will also continue to buy back shares opportunistically as the share price warrants.

Our financial condition remains solid and provides us with the platform to weather the current economic storm while executing our plans for generating sales growth. Now we will open up the line for questions. Towanda, please provide instructions to do so.

QUESTIONS AND ANSWERS

Operator: (Operator Instructions) Our first question comes from a line of Anthony Lebiedzinski with Sidoti.

Anthony Lebiedzinski: First, just a quick comment. Nice job maintaining a strong balance sheet, certainly given the state of business nowadays.

So I guess first, when we look at the components of the restructuring plan, how should we think about the timing and the impact? If we could just kind of parse out the different components of the restructuring plan, what's kind of the low-hanging fruit first? And then kind of, like, maybe walk us through the timeline as to the expected benefits?

Rob Spilman: Why don't I take a crack at it, Mike, and you fill in the blanks.

Mike Daniel: Yes. Got it.

Rob Spilman: Well as we said, Anthony, and let's -- we'll start from the bottom and go up. So number five was the Noa Home business. And as Mike just mentioned, we had the intangible asset on the balance sheet. And so we've taken that hit. And also, some reserve for the remaining inventory that will be winding down over the course of the year.

So we think that all of that's baked into the reported numbers. There will be some severance that takes place over primarily the third quarter, but we don't really think that's a material number. We have a small number of employees there in Canada.

So we've had to, of course, adhere to the set of laws that govern Canada in regard to closing the operation.

So anyway, for the most part, most of that's done at this point. Moving up to number four, the overall cost structure and investing capital in store refurbishments, of course, that again as Mike mentioned -- some of this refurbishment is underway.

Our Greensboro, North Carolina store is undergoing a refurbishment as we speak. And we plan to take our Concord, North Carolina and Wilmington, Delaware store into that as soon as we get the architectural drawings worked out.

In terms of our overall cost structure, it's just kind of a macro look at what we're doing.

There could potentially be some severance costs involved with that, but I don't think it would be, again, a material number.

So that's kind of been ongoing. The inventory, again, will be hopefully disposed of over the back half of the year, but we've basically taken that up front as well.

So there you have it as far as that's concerned. Again, the consolidation of the wood operation is also baked into the program as already announced.

I will say, and this could be in number four, or I'm not sure if it's number four or number one, but we do have this warehousing operation out in California that we mentioned that we are attempting to sublease and we think, if we are unsuccessful in that, we could have a charge of up to $1 million in the third quarter.

We plan to be out of there by the end of the third quarter in any event. So that's probably the most significant thing that remains on the restructuring for the rest of the year.

So we plan to consummate all this all these items by year end, and Mike you can correct me, but there's a the severance that I mentioned which is not really material in this looming warehouse charge. Now am I leaving anything out on that?

Mike Daniel: No. And Anthony, I think that the goal here is for 2025 to have all the savings baked in. And certainly we'll have some, like on the consolidation of the wood furniture plants, we'll still have some cost involved and some inefficiencies in getting that together during the third quarter.

But theoretically and hopefully the fourth quarter will be clean with that. But again, we do expect to realize $5.5 million to $6.5 million in 2025.

Anthony Lebiedzinski: And then if we could just go back to the second quarter or so, I guess if we were to exclude the inventory write down charge, gross margin came in at a very strong, I believe 55.7%. So what do you attribute that to and how sustainable do you think that that type of gross margin is?

Rob Spilman: On the retail side, we're doing a very good job. I think part of it -- in that regard, part of that is pricing that we have worked on for some time. So I would say a more disciplined approach there. Also Mike mentioned in his remarks about the warranty reserve.

Our domestic furniture, a lot of which is solid wood, and I would say we had somewhat of a perception issue sometimes with consumers because they would see a beautiful table inside a store and then the table that came out didn't exactly match it, and we would say, well we can't control how God made the tree, and there's nothing wrong with the table. A lot of that was perception, and we've really worked hard on that.

It sounds trivial, but it's been kind of a big thing for us, and so our returns and claims have really gone down in the last six months. And this is a company-wide effort, not only from retail, but also from the manufacturing guys who've done a great job on that.

So retail is a big piece of it. Also we had the Club Level inventory issues that we mentioned last year in the back half of 2022, and that has righted itself as we move through that inventory.

And that has been a driver on the gross margin. And yes, we think that's sustainable. We don't know how much higher we can go than where we are because we want to be competitive in the marketplace as well. But we do think it's sustainable.

Anthony Lebiedzinski: And then -- so obviously the vast majority of your products are made domestically, but you do import some products like the Club Level. You also import some components. Now we have heard from some companies talking about higher ocean freight costs. Some have put in freight surcharges. Can you comment on that? How should we think about that?

Rob Spilman: So we have contracted container rates, of course, like most folks do. And so far with us, it's been a week-to-week kind of thing that some weeks we will get the containers we need at the contracted rate so there's no adverse effect.

Some weeks we're not. And the spot rates have definitely gone up. And excuse me, the shipping companies are playing games on all this again.

Of course, there are some macro big factors with the Suez Canal et cetera. We're looking very hard at a surcharge. We have not enacted one yet. And we're discussing that as we speak.

But yes, if you can't get at the contracted rate, which you can't always get, we've seen these rates triple at certain times. So it's kind of day in, day out. There are a lot of factors behind all that, and I think most of the people on the call probably know about all that. But it is an issue.

Mike Daniel: Hi, Anthony, let me jump in real quick on what Rob was talking about on the reserves, because I know you're asking about modeling questions.

I would say for the back half of the year, we might have slightly lower margins because of the mix of what we're trying to sell through. The things we took the reserves on, remember that only brings it up to a 0 gross margin, if you will.

So there could be in the back half of the year, a little bit less or lower margins. And then on a go-forward basis in 2025, again, we should be back to the margins that Rob's referring to.

Anthony Lebiedzinski: And my last question before I pass it on to others. So given your focus on True Custom Upholstery, do you plan to change your advertising messaging to better highlight this?

Rob Spilman: We feature this on the website. We feel like we talk about it a lot, but actually the term True Custom is new for us. And we did this because, frankly, we got tired of seeing all these people talk about custom upholstery when they really, in our mind, don't make custom upholstery. They'll put a blue fabric on a sofa and a red fabric on a sofa, and they'll call that custom upholstery.

Well in our mind, that's not. When you're doing things by the inch and different cushions and bases and backs and people really respond to this. The sales of this have been good.

I think, yes, we will leverage that thinking into more overt messaging on what really comprises true custom upholstery versus the overworked term custom upholstery that we see in the industry today.

Operator: Our next question comes from the line of Budd Bugatch with Water Tower Research.

Budd Bugatch: And I want to also just comment. I've been doing this for a long time, and I don't remember seeing a time, and it's not a pleasant time in the industry where you've seen a company address forthrightly its charges that it needed to take and its business and come up with a stronger balance sheet and at the same time raise a dividend.

That's really remarkable and shows a tremendous confidence and commitment to your shareholders. And let me go into some of my questions. And I'm going to also ask you about True Custom because I think you're right.

You have some different features in your custom upholstery program that make it unique and really significantly different than others. And you've got -- you said -- I think you said you have 30 new dealers since market, 17 at market and 13 additional. And you want to get the 50. How's the pipeline look?

Rob Spilman: Well we got one last week out in California. And our guys are energized about this. When I say our guys, I mean our sales management and our field representatives. And that number that we included in the release, it said 50 by year end.

We feel good about that, but we don't want to get too far ahead of ourselves, but this really is an inexpensive way for the retailer to take advantage of the breadth of our options, the technology that we provide, the best-in-class speed of delivery, all of these things that characterize the program.

And we've gotten to where now we're getting this thing down to a science, which this sounds like a little thing, but it's kind of a big thing because in the past when we've done these programs, the point of purchase material and some of the fixturing and all that trickle in and then the furniture trickles in and all of this, and we actually make the furniture faster than the fixture guys can make the fixtures. And so now we're inventorying all this stuff.

We're palletizing all the support material and the furniture and all of that arrives on the same truck. And then our representative goes in there, sets it up, trains the sales force. And so you really have a great kickoff with this thing.

And it's -- in a tough time, it's been exciting internally for our whole team to use this as a rallying cry to take our best program and spread the word.

Budd Bugatch: And of the 30, are all of them, are some of them installed already? And if not, when will they be done?

Rob Spilman: Yes. Yes, yes.

I would say, and I should know this, but I would say the majority of those guys are up and running, yes.

Budd Bugatch: Any early results in terms of delta in sales?

Rob Spilman: Well we get a report on that every Monday, and we are having good results. This thing works. That's the good thing about it because really in our design centers and our stores for years, this has been going on. And then also in our bigger gallery program, it's kind of the epicenter of that as well. So this is, yes, we're getting good results.

Budd Bugatch: I mean when I was in the retail business, this would have been a program that would have been a no brainer for a retailer. So whenever I could use your capital to do my sales, it was always a good idea.

For the last several quarters, I've noticed that the change in orders at retail are significantly less bad than the change in deliveries and the backlog now is up sequentially in the last quarter. Are we starting to see a point where we start to see positive orders at retail and maybe how did it progress during the second quarter?

I know you said the Memorial Day was an important period, so that would have some impact, but what were you seeing month on month?

Rob Spilman: Let two of us try to take a stab at this. I would say one thing that -- and Mike can kind of walk you through it. I think the backlog took a while. I mean the backlog got up to $100 million. I mean it was huge, and now it's $20 million.

So the one thing that I don't think J.D. Bassett in 1902 was contemplating this, but the way he set up the fiscal year, it just happens, the quarters end on the big holiday weekends. And so the first quarter ends at President's Day, the second quarter ends at Memorial Day, and the third quarter ends at Labor Day. And so we get kind of a boost because those are the big selling periods. And Mike can walk you through that.

I think, one thing I do want to say is, though, kind of in the big picture, our retail sales were down 2%, 2.5%, I think, for the quarter. So our top-line was down 17%. So we're starting to finally hit bottom here. Now we want to obviously spring off this number.

But Memorial Day, as I mentioned in my remarks, we were up versus last year for the 3-week period. And I will say the July 4th event versus last was good.

So these kind of tentpole events have out sized significance in this environment than they've had in the past, at least for us.

Mike Daniel: Yes. Yes, and to tag along here, since you're comparing that 17% down compared to Q2 of last year, we were still selling through backlog. And you can see that if you go back to Q1 of 2023, our retail backlog was $42 million. At Q2 of '23, the next quarter, it was down to $33 million. And it's been pretty consistent since then.

So I think that's a way of saying it feels like we've hit the bottom. As we said, we were down 2.5% written for the quarter, but down 17% because we were selling through the backlog last year.

Budd Bugatch: That's the way the math works from the stuff you disclosed in the 10-Q. So that's what I think.

I mean it looks like you're bouncing along the bottom here at this point in time because you've shrunk that delta now for the last couple of quarters. My next question is the math on the income statement. In terms of the tax, the tax yield is 11%. And I know you report GAAP and respect that. You don't adjust.

But we've got two significant items in this particular period that I think may have different tax treatments. The inventory valuation, additional inventory valuation charge, and the asset write-downs. Can you kind of parse out what the tax consequences of those items are?

Mike Daniel: Yes, and I'll take this one, Rob.

Rob Spilman: Good.

Mike Daniel: So two things. Let me first say the two charges associated with Noa, the $1.8 million and the $500,000, I take no tax benefit on that. So that's the first thing to consider. Then in terms of the other, there's really no difference in the tax treatment on the other restructuring charges and the inventory charges. It's just baked into the year-end rate.

Now given where we are with our permanent differences and being in a loss, your normal what you would expect, 25%, 26% blended rate. It just doesn't all work out in that fashion. So I don't know if that answers your question.

Budd Bugatch: Well it certainly brings the math into better alignment. And the 25%, 26% is assuming a 21% federal and then the balance between state and other kinds of discrete items.

Mike Daniel: Correct.

Budd Bugatch: And so what would be -- what with the losses, is it still in that low 20s or mid 20s kind of range? Is that about where it works out?

Mike Daniel: You have to back out the losses associated with Noa, which we don't give you the actual loss generated by Noa. It's buried in the corporate and other section. So you really can't do the math because we don't give you the numbers of the actual loss that's generated by Noa.

Budd Bugatch: But if we take the $2.3 million and take that out of the tax equation, it gets kind of the percentages to come somewhat more into alignment. Okay?

Mike Daniel: Right. But then you'd also have to back out the losses from Noa outside of the charges taken.

Budd Bugatch: Well we'll take a stab at it and we'll see what commentary we can get on that at that point in time. On the benefit that you see next year in fiscal '25 of $5.5 million to $6.5 million, does that come in ratably over the year? Does that come in quarter by quarter at the same level, or do you see it build during the year?

Mike Daniel: Well the idea is that it would be starting the 1st of December, which is our first day of the 2025 calendar or fiscal year. So really, starting with the first quarter.

Budd Bugatch: And a couple of other just quickies. I know that Noa didn't live up to expectations, but hopefully there were some learnings in there that, Rob, you might want to chat about. And is there any residual that you can glean from Noa in terms of sales domestically or even in Canada somehow with e-comm?

Rob Spilman: Good question. One thing we learned is that pure play e-commerce and furniture is a tough business, that's for damn sure.

We put in a new website at Bassett last year. We talked about that quite a bit. We are seeing some green shoots on that effort. We think we have a much better platform and navigation and all of that. And we're starting to see some nice results.

We're not anywhere near where we want to be on the e-commerce side, but that's good. And a couple of the Noa folks have helped us with that. And one is likely for a period of time, for sure, to remain in the mix. And he has quite a bit of experience and e-commerce dating back before Noa.

So yes, from that perspective, we see some ongoing benefit. And also, potentially, and I don't know we've explored and we haven't decided, but they did have a brand up there and sold furniture in Canada more than we sell.

So could we go forward with a Noa site with Bassett product as an entry level offering up there? Maybe, but we're really more focused on the balance sheet now and they were requiring cash contributions from the mothership, and we did not see the value in continuing at that level. So we're still talking about what could happen in the future in that regard.

Budd Bugatch: As I said, just a few more. These are more detailed. There's a difference between the $2.7 million valuation charge to inventory that you showed, I think, that affected the income statement in the gross margin and the $3.8 million showing on the cash flow as additional inventory valuation. What accounts for that difference?

Mike Daniel: Well so we take a charge every month, a regular charge to put stuff into our reserve. And that delta that you're referring to, $2.7 million versus $3.8 million, that's kind of a $500,000 a quarter run rate. And you can kind of compare that to last year where we showed $2.5 million or $2,475,000.

But within that $2,475,000 was another $1 million extra charge we didn't talk about it, at least, we did talk about it, but we didn't give you the number last year. And we didn't provide an adjusted gross margin last year.

But in the press release, you saw that back table that shows how we reconcile in the $1 million charge. So normally it's $500 000 roughly a quarter and that's what for both years has been the normal charge.

Budd Bugatch: Yes. I don't think we normally see that reserve additional charge. At least I have to go back and look.

Rob Spilman: On an ongoing basis, you wouldn't have seen it because the magnitude of what we just did in the inventory, we called it out. And in addition to that was our normal quarterly charge that we do to, I guess, inventory.

Mike Daniel: Yes. I think we broke it out in 10-K last year at the end of the year. But, you're right, we don't normally break that out.

Budd Bugatch: We're in the quarters, yes. That's the way I would call it. And last for me is, Rob, you talked about you're looking at some other sites, and that would be exciting to see other markets for the retail. When do you think you'll make a decision? I know nothing for this year, but are they -- can you talk a little bit about what the process is and when the decision might be made on that?

Rob Spilman: I mean we've got some travel set in July to look at these sites. It takes a long time, once you make the decision, to make these things happen in some cases, depending on what the actual situation is.

But I think that these would be decisions that we would be making in the next 90 days I would surmise and something that would happen in 2025 as far as the timetable goes.

Operator: Ladies and gentlemen, I'm showing no further questions in the queue. I would now like to turn the call back to Mr. Spilman for closing remarks.

Rob Spilman: All righty. Well I'd just like to wrap it up by saying we appreciate the interest in Bassett and your questions. Third quarter is underway, and the environment for home furnishings remains challenging.

But as we said earlier, we've got a long history of weathering economic cycles and making the right decisions to remain an industry leader. We're confident that through our restructuring plan we can continue to provide exceptional customer service with a leaner, more efficient operation.

And that was the basis for the restructuring charges. And the 11% increase in our quarterly dividend that our Board of Directors approved on Tuesday is a further indication of our focus on delivering additional shareholder value. Thank you for your time. And thank you, Operator.

Operator: You're welcome. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.