

Bassett®

Annual Report
2020

A dedication to our craft.

Bassett®

BENCH·MADE

MADE IN THE USA

In 2020, we expanded Made in America Bench Made dining with new styles, finishes and fabrics. The launch led to a rebranding of Bench Made with a new modern look to appeal to a broader audience.



Cover: Rosa sews covers for motion upholstery in Newton, N.C. Bassett is grateful to all the dedicated employees who have worked through a difficult year while maintaining our Company's high standards of quality and service.

Financial Summary

Fiscal years ended November

	2020	2019	2018	2017	2016
INCOME STATEMENT DATA					
Net Sales	\$385,863	\$452,087	\$456,855	\$452,503	\$432,038
Income (loss) From Operations	(16,223)	(595)	14,084	27,018	28,193
Adjusted Income (loss) From Operations	(1,018)	7,446	14,854	26,297	28,193
Net Income (loss)	(10,421)	(1,928)	8,218	18,256	15,829
Adjusted Net Income	1,235	4,560	10,119	15,826	15,680
PER SHARE DATA					
Diluted Income (loss)	\$ (1.05)	\$ (0.19)	\$ 0.77	\$ 1.70	\$ 1.46
Adjusted Diluted Income	0.12	0.44	0.95	1.47	1.44
Cash Dividends	0.455	0.50	0.47	0.77	0.68
Book Value	15.89	17.66	18.08	17.83	16.85
BALANCE SHEET DATA					
Cash & Cash Equivalents	\$ 45,799	\$ 19,687	\$ 33,468	\$ 53,949	\$ 35,144
Investments	17,715	17,436	22,643	23,125	23,125
Total Assets	402,548	275,766	291,641	293,748	278,267
Long-Term Debt	—	—	—	329	3,821
Stockholders' Equity	158,030	178,670	190,309	191,460	180,705

Dollars in thousands except per share amounts

TO OUR SHAREHOLDERS

As I sit down to write this annual letter to Shareholders in late January, I reflect upon a year that no one could have imagined. For the most part, the furniture industry dealt with the gyrations of the 2020 Covid-19 crisis admirably, and Bassett was no exception. Although many smaller companies in our industry were able to access forgivable government sponsored loans through the CARES Act, Bassett did not qualify. With the survival of the Company on the line, our associates responded by making the necessary sacrifices that pulled Bassett through the dark days of spring. Hundreds of employees were furloughed as we were forced to suspend store and factory operations from four to ten weeks depending on the circumstance. Mandatory salary cuts of at least 20% were implemented, while others were cut by as much as 50%; several of those through employees volunteering to take more than required. Ultimately, we came back to work, but with an employee headcount that today is approximately 75% of what it was a year ago. I am very proud to be part of an organization made up of individuals that are willing to “do what it takes” for the collective good when the chips are down.

Completely unforeseen after the outbreak of the virus was the rapid shift of millions of dollars away from discretionary travel and dining to the more sedentary pleasures of the home. Starting around Memorial Day weekend, the pace of incoming wholesale orders has boomed. We finished 2020 with an order backlog that was almost three times as large as the year-end backlog of 2019. This dynamic has brought its own set of challenges as global manufacturing and logistics capacities have been overwhelmed since mid-summer. Nevertheless, Bassett ended the year on a financial high note as the combination of a slimmed down organization, reduced discretionary spending, and strong orders combined to produce markedly improved results for our fourth quarter. Given the shutdown of the business in the second quarter, yearly consolidated sales declined by 14.6% to \$385.9 million, resulting in a net loss of \$16.2 million. Operating cash flow improved by 375% to \$36.7 million. The year-end cash balance of \$63.5 million represented an increase of over \$26 million from the end of 2019. After suspending our pre-pandemic dividend in March, our Board reinstated it in July and ultimately restored the regular quarterly payout. And, in recognition of the strengthened balance sheet, we paid a special dividend of \$0.25 in December to end a very stressful year.

The overriding question on the table for us at the moment is “how long will this heightened level of business last?” At the time of this letter, nine weeks into fiscal 2021, the business continues to proliferate. The pandemic changed the way the world operates, perhaps forever. The lessons learned from such a radical

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disruption to the norm can provide a blueprint for the future. We have made the conscious decision to further “re-shore” our business model by converting more of our product assortment to domestically produced goods. Notably, we are expanding the dining furniture portion of our successful “Bench Made” program. Over the summer, our designers, engineers, and merchants worked in concert to develop an extensive range of new table and chair designs that will reinforce our “Made in America” positioning. The new product began to hit retail floors and the internet in mid-January, featuring sustainably harvested solid maple and solid white oak dining products at lower price points than previously available from Bassett. There is no engineered particleboard here – this is the real thing. To complement the new dining tables, we have collaborated with the parent company of the famous Sunbrella brand to create exclusive performance fabrics for application on a new selection of upholstered dining chairs. Since its inception in 2016, our Bench Made sub brand has grown to epitomize the heritage and local artisanship that has defined the Bassett brand for almost 120 years. This spring we will launch a new marketing campaign that will focus on our soon to be expanded premium range of product including the re-branding of our custom upholstery program to the Bench Made name. We will highlight the quality and sustainability of the material that we employ, the skill of our local suppliers and Bassett craftsman, and the long standing traditions of the Company. Although we have seen increased consumer preference for Made in America products, for several years, we believe that the psychological effects of the pandemic have intensified this sentiment and we look forward to being a bigger part of it.

As we look back at the rich heritage of Bassett, we eye the future through the lens of our burgeoning digital ecosystem. Much has been written about the role of the pandemic in the acceleration of digital commerce and, from our point of view, it is undeniable. Our E-commerce sales nearly doubled in 2020 and our website traffic increased by 40%; evidence that our consumer engagement strategies are working. These gains have occurred despite operating a web navigation platform that is admittedly cumbersome and a product assortment that is largely predicated on offering myriad custom options that are best presented through brick and mortar sessions with our designers. While still believing in customization, we have started the process of streamlining the options that are available on many of our products. The thinking is that while we remain committed to offering fabric, frame, and finish options, we need to do so in a fashion that can be more easily accomplished on our website. We began to think differently about our custom options in mid-2020 and the “new custom” simplification project is now underway. Fully leveraging this work, of course, will require an intuitive web experience that allows consumers to easily research our custom furniture programs and purchase them whenever and

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wherever they want. With that in mind, we are in the process of transforming our internal data to make it suitable for a new fully transactional website platform by early 2022. In the meantime, we will concentrate the majority of our marketing dollars in pursuit of digital engagement through e-mail, search, and social media.

Fusing our brick and mortar experience with our digital ecosystem is an effort that is gaining traction and will become more pronounced in 2021. Most of our digital marketing is geo-targeted around our retail network and is designed to create a desire for the consumer to visit our store. Even though our physical store traffic declined again in 2020, consumers that came to the store had done their research on Bassett and had a higher propensity to transact. Therefore, we consider the tactile presentation of our products that the physical store provides after initial research is conducted on the web to be a fundamental element of our strategy. Meanwhile, the concept of the “virtual appointment” sprang from the mandatory closures that were promulgated by local authorities in March, April, May, and June. A virtual appointment means that our designers engage and provide interior design solutions on an electronic device. Although many of these transactions may finally involve a physical store visit, the original connection is made digitally and more often than not involves a joint session on the Bassett website. Our ability to capture email addresses and provide consumers with a personalized experience through the transactional funnel is becoming more sophisticated and localized around individual store locations. Once the consumer does enter the physical location, we need to make “every store great”. With that goal in mind, we closed or did not renew the lease on seven store locations in 2020. We are evaluating the quality of the real estate in each store market and will begin to invest in our better stores appearance or make plans to move stores to the next generation of real estate when warranted. The reduction in expense structure that was instituted in 2020 and our return to retail profitability in the fourth quarter positions us well to capitalize on our retail sales backlog, the largest in our possession since our first store opened in 1997.

The surge in wholesale sales to retailers outside of our store network was another interesting development in the back half of 2020. As fast as sales to our own stores grew, the 63% increase to our “open market” channels was even bigger. This did not happen by accident – when the incoming business mushroomed at mid-year, we were ready. There were four critical factors in this development. First, our 100 Bassett Design Center “store within a store” accounts have been consistently posting growth for the past several years. Their ownerships’ willingness to execute our marketing and merchandising programs has hit its stride. Second, the pandemic caused disruption to business models through-

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out the industry and every company dealt with it differently. One of the results was a reshuffling of the deck in terms of traditional dealer loyalties and in the composition of independent sales rep organizations. We were able to bring on several new sales reps from various competitors and this in turn opened new doors for Bassett in the dealer community. In short, we picked up market share with new Bassett reps selling new accounts. Next, our Club Level by Bassett imported motion program was the primary vehicle by which we generated the new account business. The imported leather upholstered motion furniture category has been gaining retail sales share for several years. Most of this product was produced in China and the service and quality of the goods has been satisfactory. In our case, we had dealt with the same Hong Kong based supplier for twenty years. Enter the Trump Administration's 25% tariff on Chinese made furniture to convulse the norm and send manufacturers and importers into a mad scramble to reestablish long standing business models. Our strong relationship with our supplier and his nimble move to tariff free Thailand has and will continue to pay dividends. We are receiving top quality goods from a dedicated Bassett facility in Thailand which has enabled us to swiftly capture new business. Finally, the acquisitions of outdoor furniture companies that we made in 2017 and 2019 contributed to our strong finish to 2020. Lane Venture has been remade into a leaner company that is turning its inventory faster, servicing its dealers better, and growing its top line. We also have high hopes for the nascent Bassett Outdoor, launched in March 2020 in conjunction with the nationwide shutdown. We are committed to establishing a strong presence for this line, which is sold exclusively in Bassett stores and on the web.

Bassett management is fortunate to collaborate with a highly qualified and engaged Board of Directors. Several new members have joined the ranks to provide board service over the past few years. With that comes the departure of tenured members. At the end of 2019, George "Bunky" Henderson retired from the Board due to a health condition. Bunky served Bassett very capably for 15 years and was a stalwart – one of our leaders and we thank him for the affable manner in which he made us think about the tough questions. Joining in 2020 was Emma Battle, who provided tremendous help to us in her formative work with our digital marketing staff as a consultant. After the engagement ended, we were so impressed that we prevailed upon her to join our board, which she agreed to do this past summer.

We look forward to the new opportunities that we have before us in 2021. Thank you to our employees, customers, Shareholders, and Board of Directors for supporting Bassett in the unforgettable year of 2020.

A handwritten signature in black ink that reads "Rob Spilman". The signature is written in a cursive, flowing style.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(Amounts in thousands except share and per share data)

Our fiscal year, which ends on the last Saturday of November, periodically results in a 53-week year instead of the normal 52 weeks. The prior fiscal year ending November 30, 2019 was a 53-week year, with the additional week being included in the first fiscal quarter. Accordingly, the information presented below includes 53 weeks of operations for the year ended November 30, 2019 as compared to 52 weeks included in the years ended November 28, 2020 and November 24, 2018.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to this declaration and the rapid spread of COVID-19 within the United States, federal, state and local governments throughout the country imposed varying degrees of restrictions on social and commercial activity to promote social distancing in an effort to slow the spread of the illness. These measures have had a significant adverse impact upon many sectors of the economy, including non-essential retail commerce.

In response to the above and for the protection of our employees and customers, we temporarily closed our dedicated BHF stores, our manufacturing locations and many of our warehouses for several weeks primarily during the second fiscal quarter of 2020. We also implemented several operating changes which allowed us to maintain sufficient liquidity until we and other furniture retailers were able to reopen for business. These included, among other things, an approximate 23% permanent workforce reduction, temporary salary and wage reductions for all remaining employees, including a 50% pay reduction for our chief executive officer and certain other executives, negotiations with our landlords to receive abatements of rent, and in some cases, temporary rent deferrals, on many of our store leases and the amendment of our bank credit agreement to provide an additional \$25,000 of availability under our credit line through December 31, 2020. The disruption to our operations caused by the COVID-19 pandemic resulted in a significant loss for the second quarter of fiscal 2020 which drove the loss for the full year despite our return to profitability during the third and fourth fiscal quarters.

However, since restarting our manufacturing operations and reopening stores beginning in late May of 2020, the pace of incoming wholesale orders from both the retail stores and our independent dealers outside the BHF store network have far exceeded our post reopening forecasts. Wholesale orders for the second half of 2020 increased 26% as compared to 2019. While our manufacturing operations, primarily our upholstery division, and shipping operations have not been able to keep pace with the incoming order level, we were able to generate net income of \$8,782 and operating cash flow of \$42,422 during the second half of fiscal 2020. As a result, we have restored all temporarily reduced salaries and wages and resumed the payment of quarterly dividends, including the payment of the dividend declared and subsequently suspended during the second quarter, as well as the declaration and payment of a special dividend subsequent to November 28, 2020.

We continue to closely monitor the COVID-19 pandemic and the potential effects on the economy, the consumer and our business. While the rate of incoming orders at both our wholesale and retail segments is currently strong, there are continuing logistical challenges faced by us and the entire home furnishings industry resulting from COVID-related labor shortages and supply chain disruptions creating significant delays in order fulfillment and increasing backlogs. Although unable to predict with certainty, we expect gradual decreases in wholesale and retail backlogs over the course of 2021 driven by an anticipated lower rate of future incoming orders coupled with increased manufacturing and shipping activity. While the home furnishings industry has fared much better during the pandemic than other sectors of the economy, continued economic weakness and the recent surge in COVID-19 cases coupled with the slow rollout of vaccinations may eventually have an additional adverse impact upon our business. The timing of any future actions by us in response to COVID-19 is largely dependent on the mitigation of the spread of the virus, the speed with which vaccinations are disseminated, status of government orders, directives and guidelines, recovery of the business environment, economic conditions, and consumer demand for our products.

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings ("BHF") name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 118-year history has instilled the principles of quality, value, and integrity in everything we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and meet the demands of a global economy.

With 97 BHF stores at November 28, 2020, we have leveraged our strong brand name in furniture into a network of Company-owned and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. Our store program is designed to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers. We use a network of over 30 independent sales representatives who have

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

stated geographical territories. These sales representatives are compensated based on a standard commission rate. We believe this blended strategy provides us the greatest ability to effectively distribute our products throughout the United States and ultimately gain market share.

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

We have factories in Newton, North Carolina that manufacture custom upholstered furniture. We also have factories in Martinsville and Bassett, Virginia that assemble and finish our custom dining offerings, including our solid hardwood furniture "Bench Made" line. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its manufacturing process. Our logistics team then promptly ships the product to one of our home delivery hubs or to a location specified by our licensees. In addition to the furniture that we manufacture domestically, we source most of our formal bedroom and dining room furniture (casegoods) and certain leather upholstery offerings from several foreign plants, primarily in Vietnam, Thailand and China. Over 75% of the products we currently sell are manufactured in the United States.

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

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

With the knowledge we have gained through operating Lane Venture, we have developed the Bassett Outdoor brand that is only marketed through the BHF store network. This allows Bassett branded product to move from inside the home to outside the home to capitalize on the growing trend of outdoor living.

At November 28, 2020, our BHF store network included 63 Company-owned stores and 34 licensee-owned stores. During fiscal 2020, we closed seven underperforming Company-owned stores in Burlington and Stoughton, Massachusetts, Newport News, Virginia, Coral Gables and Ft. Lauderdale, Florida, and Torrance and Culver City, California. One new licensee store was opened in Thornton, Colorado.

We consider our website to be the front door to our brand experience where customers can research our furniture and accessory offerings and subsequently buy online or engage with an in-store design consultant. Customer acquisition resulting from our digital outreach strategies increased our traffic to the website by 82% and web orders by 92% for the fourth quarter of 2020 as compared to 2019. Digital advertising dominated our marketing expenditures for the majority of the year as we chose to spend less in traditional television and direct mail advertising. We plan to continue with increased levels of spending on digital advertising and outreach during 2021. We also expect to continue investing in our website to improve the navigation and the ordering capabilities to increase web sales. Much of our current product offerings highlight the breadth and depth of our custom furniture capabilities which are difficult to show and sell online. We plan to expand our merchandising strategies to include more product that can be more easily purchased online with or without a store visit. While we work to increase web sales, we will not compromise on our in-store experience or the quality of our in-home makeover capabilities.

The migration to digital brand research and compressed transaction cycles have caused us to comprehensively evaluate all of our American made custom products. While our Custom Upholstery, Custom Dining, and Bench Made product lines continue to be our most successful offerings, they are not conducive to web transactions; most of these items must be purchased in a store. Furthermore, we offer many upholstery trim options, fabrics and finishes that have low rates of sale and that make web navigation more difficult for the consumer. Consequently, we will continue to methodically re-design each one of these important lines. Our intent is to continue to offer the consumer custom options that will help them personalize their home but to do so in an edited fashion that will provide a better web experience in the research phase and will also allow the final purchase to be made either on the web or in the store. We also plan to heavily emphasize our "Made in America" story and utilize locally harvested and organic materials when possible. While this will all take time to complete, new products began appearing on the retail floors and website in early 2021.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

Analysis of Operations

The following discussion provides an analysis of our results of operations and reasons for material changes therein for fiscal year 2020 as compared to fiscal year 2019. See "Analysis of Operations" in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2019 Annual Report on Form 10-K, filed with the SEC on January 23, 2020 for an analysis of the fiscal year 2019 results as compared to fiscal year 2018.

Net sales revenue, cost of furniture and accessories sold, selling, general and administrative ("SG&A") expense, new store pre-opening costs, other charges, and income from operations were as follows for the years ended November 28, 2020 and November 30, 2019:

	2020		2019*		Change from Prior Year	
					Dollars	Percent
Sales Revenue:						
Furniture and accessories	\$ 337,672	87.5%	\$ 403,865	89.3%	\$ (66,193)	-16.4%
Logistics	48,191	12.5%	48,222	10.7%	(31)	-0.1%
Total net sales revenue	<u>385,863</u>	<u>100.0%</u>	<u>452,087</u>	<u>100.0%</u>	<u>(66,224)</u>	<u>-14.6%</u>
Cost of furniture and accessories sold	163,567	42.4%	179,244	39.6%	(15,677)	-8.7%
SG&A	223,314	57.9%	264,280	58.5%	(40,966)	-15.5%
New store pre-opening costs	-	0.0%	1,117	0.2%	(1,117)	-100.0%
Other charges	15,205	3.9%	8,041	1.8%	7,164	89.1%
Income (loss) from operations	<u>\$ (16,223)</u>	<u>-4.2%</u>	<u>\$ (595)</u>	<u>-0.1%</u>	<u>\$ (15,628)</u>	<u>2626.6%</u>

Our consolidated net sales by segment were as follows:

Net Sales	2020	2019*	Change from Prior Year	
			Dollars	Percent
Wholesale	\$ 221,075	\$ 261,105	\$ (40,030)	-15.3%
Retail	211,944	268,693	(56,749)	-21.1%
Logistical services	75,158	80,074	(4,916)	-6.1%
Inter-company eliminations:				
Furniture and accessories	(95,347)	(125,933)	30,586	-24.3%
Logistical services	(26,967)	(31,852)	4,885	-15.3%
Consolidated	<u>\$ 385,863</u>	<u>\$ 452,087</u>	<u>\$ (66,224)</u>	<u>-14.6%</u>

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2020.

Refer to the segment information which follows for a discussion of the significant factors and trends affecting our results of operations for fiscal 2020 as compared with fiscal 2019.

Certain other items affecting comparability between periods are discussed below in "Other Items Affecting Net Income".

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

Segment Information

As more fully discussed under the heading "Impact of the COVID-19 Pandemic Upon Our Business" in Part I, Item 1 of this report, the COVID-19 pandemic had a severely disruptive and adverse impact upon our business during the second fiscal quarter of 2020 followed by a return to full operations early in the third fiscal quarter. As a result, we do not believe that a comparative analysis of our segment operating results for the full year of fiscal 2020 as compared to fiscal 2019 is, by itself, meaningful with respect to understanding the significant factors and trends affecting our ongoing operations. Therefore, in addition to the full year-over-year comparative data shown below, we have provided additional information comparing our results of operations for each segment for the six months ended November 28, 2020 as compared with the six months ended November 30, 2019, and our analysis is focused primarily on that six month comparative period. For additional discussion and analysis of our operating results during the first half of fiscal 2020, refer to Part I, Item 2 of our Quarterly Report on Form 10-Q for the quarterly period ended May 30, 2020, filed with the SEC on July 9, 2020, as well as Part I, Item 2 of our Quarterly Report on Form 10-Q for the quarterly period ended February 29, 2020, filed with the SEC on April 2, 2020. Note that the six months ended November 28, 2020 and the six months ended November 30, 2019 both contained 26 weeks.

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 (licensee-owned stores and Company-owned 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. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our consolidated statements of operations.

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

Logistical services. With our acquisition of Zenith on February 2, 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping and warehousing services for the Company, the revenue from which is eliminated upon consolidation, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our consolidated statement of operations. Zenith's operating costs are included in selling, general and administrative expenses.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

The following tables illustrate the effects of various intercompany eliminations on income (loss) from operations in the consolidation of our segment results for the full fiscal years ended November 28, 2020 and November 30, 2019:

	Year Ended November 28, 2020				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 221,075	\$ 211,944	\$ -	\$ (95,347) (1)	\$ 337,672
Logistics	-	-	75,158	(26,967) (2)	48,191
Total sales revenue	221,075	211,944	75,158	(122,314)	385,863
Cost of furniture and accessories sold	152,982	107,233	-	(96,648) (3)	163,567
SG&A expense	63,506	114,208	73,913	(28,313) (4)	223,314
New store pre-opening costs	-	-	-	-	-
Income (loss) from operations (5)	\$ 4,587	\$ (9,497)	\$ 1,245	\$ 2,647	\$ (1,018)

	Year Ended November 30, 2019				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 261,105	\$ 268,693	\$ -	\$ (125,933) (1)	\$ 403,865
Logistics	-	-	80,074	(31,852) (2)	48,222
Total sales revenue	261,105	268,693	80,074	(157,785)	452,087
Cost of furniture and accessories sold	173,350	131,528	-	(125,634) (3)	179,244
SG&A expense	76,299	143,057	78,219	(33,295) (4)	264,280
New store pre-opening costs	-	1,117	-	-	1,117
Income (loss) from operations (5)	\$ 11,456	\$ (7,009)	\$ 1,855	\$ 1,144	\$ 7,446

(1) Represents the elimination of sales from our wholesale segment to our Company-owned BHF stores.

(2) Represents the elimination of logistical services billed to our wholesale segment.

(3) Represents the elimination of purchases by our Company-owned BHF stores from our wholesale segment, as well as the change for the period in the elimination of intercompany profit in ending retail inventory.

(4) Represents the elimination of rent paid by our retail stores occupying Company-owned real estate and logistical services expense incurred from Zenith by our wholesale segment.

	Year Ended	
	November 28, 2020	November 30, 2019
Intercompany logistical services	\$ (26,967)	\$ (31,852)
Intercompany rents	(1,346)	(1,443)
Total SG&A expense elimination	\$ (28,313)	\$ (33,295)

(5) Excludes the effects of goodwill and asset impairment charges, cost of early retirement program, litigation costs and lease exit costs which are not allocated to our segments.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

The following tables illustrate the effects of various intercompany eliminations on income (loss) from operations in the consolidation of our segment results for the six months ended November 28, 2020 and November 30, 2019:

	Six Months Ended November 28, 2020				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 122,930	\$ 112,927	\$ -	\$ (50,127) (1)	\$ 185,730
Logistics	-	-	38,584	(14,372) (2)	24,212
Total sales revenue	122,930	112,927	38,584	(64,499)	209,942
Cost of furniture and accessories sold	81,805	56,839	-	(49,799) (3)	88,845
SG&A expense	31,870	55,166	36,332	(15,067) (4)	108,301
New store pre-opening costs	-	-	-	-	-
Income from operations	\$ 9,255	\$ 922	\$ 2,252	\$ 367	\$ 12,796

	Six Months Ended November 30, 2019				
	Wholesale	Retail	Logistics	Eliminations	Consolidated
Sales revenue:					
Furniture & accessories	\$ 125,193	\$ 136,496	\$ -	\$ (61,005) (1)	\$ 200,684
Logistics	-	-	38,230	(15,858) (2)	22,372
Total sales revenue	125,193	136,496	38,230	(76,863)	223,056
Cost of furniture and accessories sold	83,009	65,799	-	(61,271) (3)	87,537
SG&A expense	38,083	71,453	37,339	(16,571) (4)	130,304
New store pre-opening costs	-	254	-	-	254
Income (loss) from operations (5)	\$ 4,101	\$ (1,010)	\$ 891	\$ 979	\$ 4,961

(1) Represents the elimination of sales from our wholesale segment to our Company-owned BHF stores.

(2) Represents the elimination of logistical services billed to our wholesale segment.

(3) Represents the elimination of purchases by our Company-owned BHF stores from our wholesale segment, as well as the change for the period in the elimination of intercompany profit in ending retail inventory.

(4) Represents the elimination of rent paid by our retail stores occupying Company-owned real estate and logistical services expense incurred from Zenith by our wholesale segment.

	Six Months Ended	
	November 28, 2020	November 30, 2019
Intercompany logistical services	\$ (14,372)	\$ (15,858)
Intercompany rents	(695)	(713)
Total SG&A expense elimination	\$ (15,067)	\$ (16,571)

(5) Excludes the effects of goodwill and asset impairment charges, litigation costs and lease exit costs which are not allocated to our segments.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

The following table reconciles income from operations as shown above for our consolidated segment results with income (loss) from operations as reported in accordance with GAAP for the full fiscal years and six months ended November 28, 2020 and November 30, 2019:

	<u>Full Fiscal Year</u>		<u>Last Six Months</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Consolidated segment income (loss) from operations excluding special charges	\$ (1,018)	\$ 7,446	\$ 12,796	\$ 4,961
Less:				
Asset impairment charges	12,184	4,431	-	4,431
Goodwill impairment charge	1,971	1,926	-	1,926
Early retirement program	-	835	-	-
Litigation expense	1,050	700	-	700
Lease exit costs	-	149	-	149
Income (loss) from operations as reported	<u>\$ (16,223)</u>	<u>\$ (595)</u>	<u>\$ 12,796</u>	<u>\$ (2,245)</u>

Asset Impairment Charges

During fiscal 2020 the loss from operations included \$11,114 of non-cash asset impairment charges on five underperforming retail stores, including \$6,239 for the impairment of operating lease right-of-use assets, and \$1,070 of non-cash impairment charges in our wholesale segment, primarily due to the closure of our custom upholstery manufacturing facility in Grand Prairie, Texas.

During fiscal 2019 the loss from operations included \$4,431 of non-cash impairment charges recognized on the assets of six underperforming retail stores.

Goodwill Impairment Charges

Due to the impact of the COVID-19 pandemic, we performed an interim impairment assessment of our goodwill as of May 30, 2020. As a result, we recognized a non-cash charge of \$1,971 during fiscal 2020 for the impairment of goodwill associated with our wood reporting unit within our wholesale segment (see Note 6 to our Consolidated Financial Statements).

During fiscal 2019 our annual evaluation of the carrying value of our recorded goodwill resulted in the recognition of a \$1,926 non-cash charge for the impairment of goodwill associated with our retail reporting unit (see Note 6 to our Consolidated Financial Statements).

Early Retirement Program

During the first quarter of fiscal 2019, we offered a voluntary early retirement package to certain eligible employees of the Company. These employees received pay equal to one-half their current salary plus benefits over a period of one year from the final day of each individual's active employment. Accordingly, we recognized a charge of \$835 during the year ended November 30, 2019.

Litigation Expense

During fiscal 2020 and 2019 we accrued \$1,050 and \$700, respectively for the estimated costs to resolve certain wage and hour violation claims that had been asserted against the Company.

Lease Exit Costs

During fiscal 2019 we recognized a \$149 charge for lease exit costs incurred in connection with the repositioning of a Company-owned retail store in Palm Beach, Florida to a new location within the same market.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

Wholesale Segment

Net sales, gross profit, SG&A expense and operating income for our Wholesale Segment were as follows for the full fiscal years and last six months ended November 28, 2020 and November 30, 2019:

	Full Fiscal Year						Last Six Months					
	2020		2019*		Change from Prior Year		2020		2019		Change from Prior Year	
					Dollars	Percent					Dollars	Percent
Net sales	\$ 221,075	100.0 %	\$ 261,105	100.0 %	\$ (40,030)	-15.3 %	\$ 122,930	100.0 %	\$ 125,193	100.0 %	\$ (2,263)	-1.8 %
Gross profit	68,093	30.8 %	87,755	33.6 %	(19,662)	-22.4 %	41,125	33.5 %	42,184	33.7 %	(1,059)	-2.5 %
SG&A	63,506	28.7 %	76,299	29.2 %	(12,793)	-16.8 %	31,870	25.9 %	38,083	30.4 %	(6,213)	-16.3 %
Income from operations	\$ 4,587	2.1 %	\$ 11,456	4.4 %	\$ (6,869)	-60.0 %	\$ 9,255	7.5 %	\$ 4,101	3.3 %	\$ 5,154	125.7 %

Wholesale shipments by category for the full fiscal years and last six months ended November 28, 2020 and November 30, 2019 are summarized below:

	Full Fiscal Year						Last Six Months					
	2020		2019*		Change from Prior Year		2020		2019		Change from Prior Year	
					Dollars	Percent					Dollars	Percent
Bassett Custom Upholstery	\$ 128,200	58.0 %	\$ 152,415	58.4 %	\$ (24,215)	-15.9 %	\$ 68,933	56.1 %	\$ 74,024	59.1 %	\$ (5,091)	-6.9 %
Bassett Leather	21,436	9.7 %	19,220	7.4 %	2,216	11.5 %	13,681	11.1 %	8,986	7.2 %	4,695	52.2 %
Bassett Custom Wood	39,311	17.8 %	46,082	17.6 %	(6,771)	-14.7 %	22,389	18.2 %	23,881	19.1 %	(1,492)	-6.2 %
Bassett Casegoods	32,128	14.5 %	40,920	15.7 %	(8,792)	-21.5 %	17,927	14.6 %	18,301	14.6 %	(374)	-2.0 %
Accessories ⁽¹⁾	-	0.0 %	2,468	0.9 %	(2,468)	-100.0 %	-	0.0 %	1	0.0 %	(1)	-100.0 %
Total	\$ 221,075	100.0 %	\$ 261,105	100.0 %	\$ (40,030)	-15.3 %	\$ 122,930	100.0 %	\$ 125,193	100.0 %	\$ (2,263)	-1.8 %

(1) Beginning with the third quarter of fiscal 2019, our wholesale segment no longer purchases accessory items for resale to our retail segment or to third party customers such as licensees or independent furniture retailers. Our retail segment and third party customers now source their accessory items directly from the accessory vendors.

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2020.

Fiscal 2020 as Compared to Fiscal 2019

Net sales for the year ended November 28, 2020 declined \$40,030 or 15.3% as compared to the year ended November 30, 2019 due primarily to COVID-related operational disruptions which occurred during the second quarter of fiscal 2020, during which we recorded a 48% decrease in net sales as compared to the second quarter of fiscal 2019 and an operating loss of \$7,381 for the period. Gross margins during the second quarter of fiscal 2020 were impacted by reduced leverage of fixed costs due to the temporary shutdown of operations coupled with increased inventory valuation reserves. Although SG&A expenses were reduced during the second quarter, the results were also impacted by reduced leverage from significantly lower sales.

Six Months Ended November 28, 2020 as Compared to the Six Months Ended November 30, 2019

Net sales for the six months ended November 28, 2020 as compared to the six months ended November 30, 2019 decreased \$2,263 or 1.8%. Wholesale orders for the six-month period of 2020 increased 26% as compared to the comparable period in 2019 resulting in a wholesale backlog of \$54,874 at November 28, 2020 as compared to \$19,953 at November 30, 2019. Wholesale orders from independent dealers increased 62% for the last six months of 2020 as compared to the prior year period driven by increases from existing dealers along with an expansion of the dealer base. In addition, orders from the BHF store network increased 7.3% while Lane Venture orders increased by 38%. Gross margins for the six months of 2020 as compared to the comparable period in 2019 decreased by 20 basis points as decreases in the imported wood line due to the continued process of lowering inventory levels and reducing overall import wood offerings were almost offset by improved gross margins in both the wood and upholstery

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

manufacturing operations. SG&A costs for the six months of 2020 as compared to 2019 decreased 450 basis points due to lower marketing and promotional spending and bad debt expense, partially offset by increased incentive compensation.

Retail Segment – Company Owned Stores

Net sales, gross profit, SG&A expense, new store pre-opening costs and operating income for our retail segment were as follows for the full fiscal years and last six months ended November 30, 2019 and November 24, 2018:

	Full Fiscal Year						Last Six Months					
	2020		2019*		Change from Prior Year		2020		2019		Change from Prior Year	
					Dollars	Percent					Dollars	Percent
Net sales	\$ 211,944	100.0%	\$ 268,693	100.0%	\$ (56,749)	-21.1%	\$ 112,927	100.0%	\$ 136,496	100.0%	\$ (23,569)	-17.3%
Gross profit	104,711	49.4%	137,165	51.0%	(32,454)	-23.7%	56,088	49.7%	70,697	51.8%	(14,609)	-20.7%
SG&A	114,208	53.9%	143,057	53.2%	(28,849)	-20.2%	55,166	48.9%	71,453	52.3%	(16,287)	-22.8%
New store pre-opening costs	-	0.0%	1,117	0.4%	(1,117)	-100.0%	-	0.0%	254	0.2%	(254)	-100.0%
Income (loss) from operations	\$ (9,497)	-4.5%	\$ (7,009)	-2.6%	\$ (2,488)	35.5%	\$ 922	0.8%	\$ (1,010)	-0.7%	\$ 1,932	N/M

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2020.

Fiscal 2020 as Compared to Fiscal 2019

Net sales for the year ended November 28, 2020 declined \$56,749 or 21.1% as compared to the year ended November 30, 2019 due primarily to COVID-related operational disruptions during the second quarter of 2020, during which where we recorded a 47% decrease in net sales as compared to the second quarter of 2019 and an operating loss of \$9,170 for the period. Gross margins during the second quarter were impacted by increased inventory valuation reserves as we began a process to simplify our product offerings to make them more web friendly which resulted in increased clearance sales over the last six months of 2020. Although SG&A expenses were reduced during the second quarter, results were also impacted by reduced leverage from significantly lower sales.

Six Months Ended November 28, 2020 as Compared to the Six Months Ended November 30, 2019

Net sales for the six months ended November 28, 2020 as compared to the six months ended November 30, 2019 decreased \$23,569 or 17%. Written sales, the value of sales orders taken, but not delivered, increased 3.6% for the six-month period in 2020 as compared to the comparable period in 2019 resulting in a retail backlog of \$57,041 at November 28, 2020 as compared to \$31,146 at November 30, 2019 in spite of there being seven fewer stores by the end of fiscal 2020. As previously discussed, Bassett and most of the home furnishings industry has been faced with continuing logistical challenges from COVID-related labor shortages and supply chain disruptions creating significant delays in order fulfillment and increasing backlogs. Gross margins for the six months of 2020 as compared to the comparable period in 2019 decreased by 210 basis points due to the increased clearance sales as discussed above. SG&A costs for the last six months of fiscal 2020 as compared to 2019 decreased 340 basis points due to lower marketing and promotional spending, decreased compensation costs due to permanent workforce reductions and lower travel costs partially offset by decreased leverage of fixed costs from lower sales volumes. SG&A expenses were also reduced by a non-cash gain of \$1,160 resulting from the termination of a lease for a store closed during the six months ended November 28, 2020.

Logistical Services Segment

Revenues, operating expenses and income from operations for our logistical services segment were as follows for the full fiscal years and last six months ended November 28, 2020 and November 30, 2019:

	Full Fiscal Year						Last Six Months					
	2020		2019*		Change from Prior Year		2020		2019		Change from Prior Year	
					Dollars	Percent					Dollars	Percent
Logistics revenue	\$ 75,158	100.0%	\$ 80,074	100.0%	\$ (4,916)	-6.1%	\$ 38,584	100.0%	\$ 38,230	100.0%	\$ 354	0.9%
Operating expenses	73,913	98.3%	78,219	97.7%	(4,306)	-5.5%	36,332	94.2%	37,339	97.7%	(1,007)	-2.7%
Income from operations	\$ 1,245	1.7%	\$ 1,855	2.3%	\$ (610)	-32.9%	\$ 2,252	5.8%	\$ 891	2.3%	\$ 1,361	152.7%

*53 weeks for fiscal 2019 as compared with 52 weeks for fiscal 2020.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

Fiscal 2020 as Compared to Fiscal 2019

Net revenues for the year ended November 28, 2020 declined \$4,916 or 6.1% as compared to the year ended November 30, 2019 due primarily to COVID-related operational disruptions during the second quarter of fiscal 2020, during which we experienced a 24% decrease in net revenues as compared to the second quarter of 2019 and incurred an operating loss of \$1,842 for the period.

Six Months Ended November 28, 2020 as Compared to the Six Months Ended November 30, 2019

Net revenues for the six months ended November 28, 2020 as compared to the six months ended November 30, 2019 increased \$354 or 0.9%. Operating income increased \$1,361 for the last six months of fiscal 2020 as compared to the comparable period in 2019 primarily due to improved fleet costs driven by lower fuel prices and increased demand for over the road trucking partially offset by higher warehousing labor costs as Zenith has been challenged to find and maintain freight-handling personnel in its warehousing operation due to the previously discussed COVID-related labor shortages.

Other Items Affecting Net Income (Loss)

Other items affecting net loss for fiscal 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Interest income (1)	\$ 236	\$ 568
Interest expense (2)	(49)	(6)
Net periodic pension costs (3)	(499)	(883)
Net gains (cost) of company-owned life insurance (4)	647	(39)
Other investment income (5)	5	57
Other	<u>(903)</u>	<u>(842)</u>
Total other loss, net	<u>\$ (563)</u>	<u>\$ (1,145)</u>

- (1) Consists of interest income arising from our short-term investments. The decline in interest income for fiscal 2020 as compared with fiscal 2019 was due primarily to lower interest rates as well as lower average invested balances. See Note 4 to the Consolidated Financial Statements for additional information regarding our investments in certificates of deposit.
- (2) The increase in interest expense in fiscal 2020 over fiscal 2019 is due to the addition of several finance leases for tractor and trailer equipment. See Note 15 to the Consolidated Financial Statements for additional information regarding our leases.
- (3) Represents the portion of net periodic pension costs not included in income from operations. See Note 10 to the Consolidated Financial Statements for additional information related to our defined benefit pension plans.
- (4) Includes gains arising from death benefits from Company-owned life insurance of \$914 and \$629 in fiscal 2020 and 2019, respectively.
- (5) Primarily reflects gains arising from the liquidation of our previously impaired investment in the Fortress Value Recovery Fund I, LLC, which was fully impaired during fiscal 2012. The liquidation is complete as of November 28, 2020.

Provision for Income taxes

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. A major provision of the CARES Act allows net operating losses from the 2018, 2019 and 2020 tax years to be carried back up to five years. As a result, for the year ended November 28, 2020, we were able to recognize tax benefits substantially in excess of the current federal statutory rate of 21% due to the effects of carrying back our current net operating loss to tax years in which the federal statutory rate was 35%.

We recorded an income tax provision (benefit) of \$(6,365), \$188 and \$3,988 in fiscal 2020, 2019 and 2018, respectively. Our effective tax rate of 37.9% differs from the federal statutory rate of 21.0% primarily due to the benefit of the CARES Act and to the effects of state income taxes and various permanent differences, including those related to the non-deductible goodwill impairment charge. Our effective tax rate of (10.8%) for 2019 differs from the federal statutory rate of 21.0% primarily due to the non-deductible goodwill impairment charge. Other items affecting the rate include the effects of state income taxes and certain other non-deductible expense. See Note 13 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.

We have net deferred tax assets of \$4,468 as of November 28, 2020, which, upon utilization, are expected to reduce our cash outlays for income taxes in future years. It will require approximately \$17,000 of future taxable income to utilize our net deferred tax assets.

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

Liquidity and Capital Resources

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

Cash Flows

Cash provided by operations for fiscal 2020 was \$36,675 compared to \$9,809 for fiscal 2019, representing an increase in cash provided by operations of \$26,866. This increase in operating cash flow is primarily due to a substantial increase in customer deposits taken against unfilled orders, decreased investment in inventory as there were no store openings in fiscal 2020, other changes in working capital due in part to the timing impact of the additional week in the prior year period, improved operations in our retail segment, and cash conservation measures implemented in the second and third quarters of fiscal 2020 in response to the impact of COVID-19.

Our overall cash position increased by \$26,112 during fiscal 2020, compared to an overall decrease of \$13,781 during fiscal 2019, an improvement of \$39,893 over the prior year. In addition to the improvement in cash flows from operations, cash used in investing activities was \$3,747 for fiscal 2020 as compared to \$11,173 used in the prior year, a net decrease of \$7,426. This decrease was primarily due to lower capital expenditures in the current year and proceeds from the sale of our closed Gulfport store location in fiscal 2020, partially offset by lower proceeds from the maturity of investments in CDs as compared to the prior year. Net cash used in financing activities was \$6,816 for fiscal 2020 compared to \$12,417 used in fiscal 2019, a decrease of \$5,601. This decrease is primarily due to lower repurchases of our stock primarily in response to COVID-19. Share repurchases totaled \$2,208 during fiscal 2020 as compared to \$7,345 repurchased during fiscal 2019. As of November 28, 2020, \$8,431 remains authorized under our existing share repurchase plan. With cash and cash equivalents and short-term investments totaling \$63,514 on hand at November 28, 2020, expected future operating cash flows and the availability under our credit line noted below, we believe we have sufficient liquidity to fund operations for the foreseeable future.

Debt and Other Obligations

Our bank credit facility, which was amended effective June 15, 2020, provided for a line of credit of up to \$50,000 through December 31, 2020, after which date the maximum availability was reduced to \$25,000. At November 28, 2020, we had \$2,881 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$47,119. In addition, at November 28, 2020 we had outstanding standby letters of credit with another bank totaling \$325. The line bears interest at the rate of LIBOR plus 1.9%, with a fee of 0.25% charged for the unused portion of the line, and is secured by a general lien on our accounts receivable and inventory. Under the terms of the June 15, 2020 amendment, all covenants based on financial ratios were waived for fiscal 2020. We currently expect to be in compliance with these covenants, which include a minimum fixed charge coverage ratio and a maximum debt to tangible net worth ratio, through the end of fiscal 2021. The credit facility matures on January 31, 2022.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our logistical services segment. We also lease tractors, trailers and local delivery trucks used in our logistical services and retail segments. The total future minimum lease payments for leases with terms in excess of one year at November 28, 2020 is \$165,117, the present value of which is \$141,856 and is included in our accompanying consolidated balance sheet at November 28, 2020. We negotiated with a number of our landlords to obtain relief in the form of rent deferrals or abatements of rent as a result of the effects of COVID-19 on our business. At November 28, 2020, the remaining deferred rent was \$1,027 which primarily represents rent deferred to fiscal 2021. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,811 at November 28, 2020. Remaining terms under these lease guarantees range from approximately one to five years. See Note 15 to our condensed consolidated financial statements for additional details regarding our leases and lease guarantees.

Dividends and Share Repurchases

During fiscal 2020, we declared and paid four quarterly dividends totaling \$4,545, or \$0.455 per share. During fiscal 2020, we repurchased 202,711 shares of our stock for \$2,208 under our share repurchase program. The weighted-average effect of these share repurchases on both our basic and diluted loss per share was approximately \$0.01 per share. The approximate dollar value that may yet be purchased pursuant to our stock repurchase program as of November 28, 2020 was \$8,431.

Capital Expenditures

We currently anticipate that total capital expenditures for fiscal 2021 will be approximately \$16 to \$18 million which will be used primarily for additional tractors for our logistical services segment, additional investments in technology and various remodels or

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(Amounts in thousands except share and per share data)

updates to our existing store fleet. 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 store program, 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.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. Our primary non-recurring fair value estimates, typically involving the valuation of business acquisitions (see Note 3 to the Consolidated Financial Statements), goodwill impairments (see Note 8 to the Consolidated Financial Statements) and asset impairments (see Note 14 to the Consolidated Financial Statements) have utilized Level 3 inputs.

Contractual Obligations and Commitments

We enter into contractual obligations and commercial commitments in the ordinary course of business (See Note 15 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.

	2021	2022	2023	2024	2025	Thereafter	Total
Post employment benefit obligations (1)	\$ 909	\$ 1,119	\$ 1,051	\$ 1,010	\$ 1,030	\$ 7,878	\$ 12,997
Website service agreement	322	292	292	292	-	-	1,198
Letters of credit	3,206	-	-	-	-	-	3,206
Lease obligations (2)	33,894	31,458	26,215	19,249	15,620	38,270	164,706
Lease guarantees (3)	347	347	353	382	382	-	1,811
Other obligations & commitments	250	200	100	100	100	-	750
Purchase obligations (4)	-	-	-	-	-	-	-
Total	\$ 38,928	\$ 33,416	\$ 28,011	\$ 21,033	\$ 17,132	\$ 46,148	\$ 184,668

- (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 \$17,068 to provide funding for these obligations. See Note 10 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 15 to the Consolidated Financial Statements for more information.
- (3) Lease guarantees relate to payments we would only be required to make in the event of default on the part of the guaranteed parties.
- (4) 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 2020, we had approximately \$27,718 in open purchase orders, primarily for imported inventories, which are in the ordinary course of business.

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 and Zenith distribution facilities. We have guaranteed certain lease obligations of licensee operators as part of our retail strategy. See Contractual Obligations and Commitments table above and Note 15 to the Consolidated Financial Statements, included in Item 8 of this Annual Report on Form 10-K, for further discussion of lease

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(Amounts in thousands except share and per share data)

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.

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.

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

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

At retail, transfer occurs and revenue is recognized upon delivery of goods to the customer. We typically collect a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. These deposits are carried on our balance sheet as a current liability until delivery is fulfilled and amounted to \$39,762 and \$25,341 as of November 28, 2020 and November 30, 2019, respectively. Substantially all of the customer deposits held at November 30, 2019 related to performance obligations satisfied during fiscal 2020 and have therefore been recognized in revenue for the year ended November 28, 2020. Estimates for returns and allowances have been recorded as a reduction of revenue based on our historical return patterns. We also sell furniture protection plans to our retail customers on behalf of a third party which is responsible for the performance obligations under the plans. Revenue from the sale of these plans is recognized upon delivery of the goods net of amounts payable to the third party service provider.

For our logistical services segment, line-haul freight revenue is recognized as services are performed and are billed to the customer upon the completion of delivery to the destination. Because the customer receives the benefits of these services as the freight is in transit from point of origin to destination, we recognize revenue using a percentage of completion method based on our estimate of the amount of time freight has been in transit as of the reporting date compared with our estimate of the total required time for the deliveries. We recognize an asset for the amount of line-haul revenue earned but not yet billed which is included in other current assets. The balance of this asset was \$783 and \$441 at November 28, 2020 and November 30, 2019, respectively. Warehousing services revenue is based upon warehouse space occupied by a customer's goods and inventory movements in and out of a warehouse and is recognized as such services are provided and billed to the customer concurrently in the same period. All invoices for logistical services are due 30 days from invoice date.

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 \$1,211 and \$815 at November 28, 2020 and November 30, 2019, respectively, representing 5.1% and 3.7% 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. Although actual

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(Amounts in thousands except share and per share data)

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.

Inventories - Inventories are stated at the lower of cost or market. Cost is determined for domestic furniture inventories, excluding outdoor furniture products, using the last-in, first-out method. The cost of imported inventories and domestic outdoor furniture products 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. Our reserves for excess and obsolete inventory were \$4,522 and \$2,362 at November 28, 2020 and November 30, 2019, respectively, representing 7.6% and 3.4%, respectively, of our inventories on a last-in, first-out basis. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

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: Wood, Upholstery, Retail or Logistical Services. 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*, 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 quantitative goodwill impairment test described in ASC Topic 350 (as amended by Accounting Standards Update No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which we adopted for our annual evaluation of goodwill performed as of September 1, 2019). 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 quantitative 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 quantitative evaluation process. Based on our qualitative assessment as described above for the annual test during fiscal 2019, we concluded that, given declines in our income from operations, primarily resulting from operating losses incurred in our retail reporting unit, as well as in our stock price since the previous analysis in fiscal 2018, it was necessary to perform the quantitative evaluation in the current year. As a result of this test, we recorded an impairment charge of \$1,926 during the year ended November 30, 2019. In addition, we performed an interim test of goodwill as of May 30, 2020 due to the severe impact of the COVID-19 pandemic and resulting business interruption during the second fiscal quarter of 2020. This interim test resulted in an impairment charge of \$1,971 for the year ended November 28, 2020. For the annual test of goodwill performed as of the beginning of the fourth fiscal quarter of 2020, we performed the qualitative assessment as described above and concluded that there was no additional impairment of our goodwill as of November 28, 2020.

The quantitative evaluation 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, a goodwill impairment charge will be recognized in the amount by which the reporting unit's carrying amount exceeds its fair value, but not to exceed the total goodwill assigned to the reporting unit. The determination of the fair value of our reporting units is based on a combination of a market approach, that considers benchmark company market multiples, an income approach, that utilizes discounted cash flows for each reporting unit and other Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosure*, and, in the case of our retail reporting unit, a cost approach that utilizes estimates of net asset value. The cash flows used to determine fair value are dependent on a number of significant management assumptions such as our expectations of future performance and the expected future economic environment, which are partly based upon our historical experience. Our estimates are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate and the terminal growth rate are based on our judgment of the rates that would be utilized by a hypothetical market participant. As part of the goodwill impairment testing, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts.

Other Intangible Assets - Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or between annual tests when an impairment indicator exists. The recoverability of indefinite-lived intangible assets is assessed by comparison of the carrying value of the asset to its estimated fair value. If we determine that the carrying value of the asset exceeds its estimated fair value, an impairment loss equal to the excess would be recorded. At November 28, 2020, our indefinite-lived intangible assets other than goodwill consist of trade names acquired in the acquisitions of Zenith and Lane Venture and have a carrying value of \$9,338.

Definite-lived intangible assets are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We estimate the useful lives of our intangible assets and ratably amortize the value over the estimated useful lives of those assets. If the estimates of the useful lives

Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

(Amounts in thousands except share and per share data)

should change, we will amortize the remaining book value over the remaining useful lives or, if an asset is deemed to be impaired, a write-down of the value of the asset may be required at such time. At November 28, 2020 our definite-lived intangible assets consist of customer relationships and customized technology applications acquired in the acquisition of Zenith and customer relationships acquired in the acquisition of Lane Venture with a total carrying value of \$2,343.

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 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. Right of use assets under operating leases are written down to their estimated fair value. Our estimates of the fair value of the impaired right of use assets include estimates of discounted cash flows based upon current market rents and other inputs which we consider to be Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, Fair Value Measurement and Disclosure.

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.

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 2020.

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

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

We have potential exposure to market risk related to conditions in the commercial real estate market. Our retail real estate holdings of \$17,338 and \$17,845 at November 28, 2020 and November 30, 2019, 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 during periods of weakness in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of \$1,811 and \$1,776 which we have guaranteed on behalf of licensees as of November 28, 2020 and November 30, 2019, respectively, we may not be able to secure sufficient sub-lease income in the current market to offset the payments required under the guarantees. We are also exposed to risk related to conditions in the commercial real estate rental market with respect to the right-of-use assets we carry on our balance sheet for leased retail store locations and warehouse and distribution facilities. At November 28, 2020, the unamortized balance of such right-of-use assets totaled \$107,392. Should we have to close or otherwise abandon one of these leased locations, we could incur additional impairment charges if rental market conditions do not support a fair value for the right of use asset in excess of its carrying value.

	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	8	201,096	\$ 17,338

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 2020, 2019, 2018, 2017 and 2016 mean the fiscal years ended November 28, 2020, November 30, 2019, November 24, 2018, November 25, 2017 and November 26, 2015. Please note that fiscal 2019 contained 53 weeks.

SAFE-HARBOR, FORWARD-LOOKING STATEMENTS

This report 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:

- the impact of the ongoing coronavirus (“COVID-19”) outbreak upon our ability to maintain normal operations at our retail stores and manufacturing facilities and the resulting effects any future interruption of those operations may have upon our financial condition, results of operations and liquidity, as well as the impact of the outbreak upon general economic conditions, including consumer spending and the strength of the housing market in the United States
- competitive conditions in the home furnishings industry
- overall retail traffic levels in stores and on the web and consumer demand for home furnishings
- ability of our customers and consumers to obtain credit
- the profitability of the stores (independent licensees and Company-owned retail stores) which may result in future store closings.
- ability to implement our Company-owned retail strategies and realize the benefits from such strategies, including our initiatives to expand and improve our digital marketing capabilities, as they are implemented
- fluctuations in the cost and availability of raw materials, fuel, labor and sourced products, including those which may result from the imposition of new or increased duties, tariffs, retaliatory tariffs and trade limitations with respect to foreign-sourced products
- results of marketing and advertising campaigns
- effectiveness and security of our information technology systems
- future tax legislation, or regulatory or judicial positions
- ability to efficiently manage the import supply chain to minimize business interruption
- concentration of domestic manufacturing, particularly of upholstery products, and the resulting exposure to business interruption from accidents, weather and other events and circumstances beyond our control
- general risks associated with providing freight transportation and other logistical services by our wholly-owned subsidiary Zenith Freight Lines, LLC

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

Consolidated Balance Sheets
Bassett Furniture Industries, Incorporated and Subsidiaries
November 28, 2020 and November 30, 2019
(In thousands, except share and per share data)

	2020	2019
<u>Assets</u>		
Current assets		
Cash and cash equivalents	\$ 45,799	\$ 19,687
Short-term investments	17,715	17,436
Accounts receivable, net of allowance for doubtful accounts of \$1,211 and \$815 as of November 28, 2020 and November 30, 2019, respectively	22,340	21,378
Inventories	54,886	66,302
Recoverable income taxes	9,666	329
Other current assets	10,272	11,654
Total current assets	160,678	136,786
Property and equipment, net	90,917	101,724
Other long-term assets		
Deferred income taxes, net	4,587	5,744
Goodwill and other intangible assets	23,827	26,176
Right of use assets under operating leases	116,903	-
Other	5,637	5,336
Total other long-term assets	150,954	37,256
Total assets	\$ 402,549	\$ 275,766
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities		
Accounts payable	\$ 23,426	\$ 23,677
Accrued compensation and benefits	16,964	11,308
Customer deposits	39,762	25,341
Current portion of operating lease obligations	27,078	-
Other accrued liabilities	11,141	11,945
Total current liabilities	118,371	72,271
Long-term liabilities		
Post employment benefit obligations	12,089	11,830
Long-term portion of operating lease obligations	111,972	-
Other long-term liabilities	2,087	12,995
Total long-term liabilities	126,148	24,825
Commitments and Contingencies		
Stockholders' equity		
Common stock, \$5 par value; 50,000,000 shares authorized; issued and outstanding 9,942,787 at November 28, 2020 and 10,116,290 at November 30, 2019	49,714	50,581
Retained earnings	109,710	129,130
Additional paid-in-capital	-	195
Accumulated other comprehensive loss	(1,394)	(1,236)
Total stockholders' equity	158,030	178,670
Total liabilities and stockholders' equity	\$ 402,549	\$ 275,766

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

Consolidated Statements of Operations
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 28, 2020, November 30, 2019, and November 24, 2018
(In thousands, except per share data)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Sales revenue:			
Furniture and accessories	\$ 337,672	\$ 403,865	\$ 402,469
Logistics	48,191	48,222	54,386
Total sales revenue	<u>385,863</u>	<u>452,087</u>	<u>456,855</u>
Cost of furniture and accessories sold	163,567	179,244	179,581
Selling, general and administrative expenses excluding new store pre-opening costs	223,314	264,280	260,339
New store pre-opening costs	-	1,117	2,081
Asset impairment charges	12,184	4,431	469
Goodwill impairment charge	1,971	1,926	-
Litigation expense	1,050	700	-
Lease exit costs	-	149	301
Early retirement program	<u>-</u>	<u>835</u>	<u>-</u>
Income (loss) from operations	(16,223)	(595)	14,084
Interest income	236	568	431
Interest expense	(49)	(6)	(57)
Other loss, net	<u>(750)</u>	<u>(1,707)</u>	<u>(2,252)</u>
Income (loss) before income taxes	(16,786)	(1,740)	12,206
Income tax expense (benefit)	<u>(6,365)</u>	<u>188</u>	<u>3,988</u>
Net income (loss)	<u>\$ (10,421)</u>	<u>\$ (1,928)</u>	<u>\$ 8,218</u>
Net income per share			
Basic income (loss) per share	<u>\$ (1.05)</u>	<u>\$ (0.19)</u>	<u>\$ 0.77</u>
Diluted income (loss) per share	<u>\$ (1.05)</u>	<u>\$ (0.19)</u>	<u>\$ 0.77</u>
Dividends per share			
Regular dividends	<u>\$ 0.455</u>	<u>\$ 0.50</u>	<u>\$ 0.47</u>
Special dividend			

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

Consolidated Statements of Comprehensive Income (Loss)
Bassett Furniture Industries, Incorporated and Subsidiaries
For the years ended November 28, 2020, November 30, 2019, and November 24, 2018
(In thousands)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net income (loss)	\$ (10,421)	\$ (1,928)	\$ 8,218
Other comprehensive income (loss):			
Recognize prior service cost associated Actuarial adjustment to Long Term Cash Awards (LTCA)	(86)	(141)	
Amortization associated with LTCA	125	124	126
Income taxes related to LTCA	(10)	4	(32)
Actuarial adjustment to supplemental executive retirement defined benefit plan (SERP)	(259)	1,313	616
Amortization associated with SERP	8	184	304
Income taxes related to SERP	<u>64</u>	<u>(382)</u>	<u>(237)</u>
Other comprehensive income (loss), net of tax	<u>(158)</u>	<u>1,102</u>	<u>777</u>
Total comprehensive income (loss)	<u>\$ (10,579)</u>	<u>\$ (826)</u>	<u>\$ 8,995</u>

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 28, 2020, November 30, 2019, and November 24, 2018
(In thousands)

	2020	2019	2018
Operating activities:			
Net income (loss)	\$ (10,421)	\$ (1,928)	\$ 8,218
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	13,480	13,500	13,203
Non-cash goodwill impairment charge	1,971	1,926	-
Non-cash asset impairment charges	12,184	4,431	469
Non-cash portion of lease exit costs	-	149	301
Bad debt valuation charges	492	61	339
Net (gain) loss on disposals of property and equipment	(81)	515	(234)
Gains on lease modifications	(1,313)	-	-
Inventory valuation charges	4,922	2,254	2,309
Deferred income taxes	2,513	(2,890)	4,663
Other, net	(51)	1,497	2,607
Changes in operating assets and liabilities			
Accounts receivable	(1,454)	(2,616)	1,393
Inventories	6,494	(5,196)	(8,307)
Other current and long-term assets	(9,325)	1,017	(961)
Right of use assets under operating leases	32,107	-	-
Customer deposits	14,421	(1,816)	50
Accounts payable and accrued liabilities	5,965	(1,095)	5,857
Obligations under operating leases	(35,229)	-	-
Net cash provided by operating activities	36,675	9,809	29,907
Investing activities:			
Purchases of property and equipment	(6,029)	(17,375)	(18,301)
Proceeds from sales of property and equipment	2,345	1,643	2,689
Cash paid for business acquisitions, net of cash acquired	-	-	(15,556)
Purchases of investments	(295)	-	-
Proceeds from maturities of investments	16	5,207	482
Other	216	(648)	(1,287)
Net cash used in investing activities	(3,747)	(11,173)	(31,973)
Financing activities:			
Cash dividends	(4,544)	(5,133)	(8,800)
Proceeds from exercise of stock options	-	25	27
Issuance of common stock	285	328	355
Repurchases of common stock	(2,208)	(7,345)	(5,946)
Taxes paid related to net share settlement of equity awards	(228)	-	(674)
Repayment of finance lease obligations	(121)	-	-
Payments on notes and equipment loans	-	(292)	(3,377)
Net cash used in financing activities	(6,816)	(12,417)	(18,415)
Change in cash and cash equivalents	26,112	(13,781)	(20,481)
Cash and cash equivalents - beginning of year	19,687	33,468	53,949
Cash and cash equivalents - end of year	\$ 45,799	\$ 19,687	\$ 33,468

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 28, 2020, November 30, 2019, and November 24, 2018
(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 25, 2017	10,737,950	\$ 53,690	\$ 962	\$ 139,378	\$ (2,570)	\$ 191,460
Comprehensive income						
Net income	-	-	-	8,218	-	8,218
Amortization of defined benefit plan costs, net of tax	-	-	-	-	319	319
Actuarial adjustments to defined benefit plans, net of tax	-	-	-	-	458	458
Reclassification of certain tax effects	-	-	-	545	(545)	-
Regular dividends (\$0.47 per share)	-	-	-	(5,041)	-	(5,041)
Issuance of common stock	63,403	317	65	-	-	382
Purchase and retirement of common stock	(273,717)	(1,369)	(2,160)	(3,091)	-	(6,620)
Stock-based compensation	-	-	1,133	-	-	1,133
Balance, November 24, 2018	10,527,636	52,638	-	140,009	(2,338)	190,309
Comprehensive income (loss)						
Net loss	-	-	-	(1,928)	-	(1,928)
Amortization of defined benefit plan costs, net of tax	-	-	-	-	230	230
Actuarial adjustments to defined benefit plans, net of tax	-	-	-	-	872	872
Cumulative effect of a change in accounting principle	-	-	-	(21)	-	(21)
Regular dividends (\$0.50 per share)	-	-	-	(5,133)	-	(5,133)
Issuance of common stock	102,303	511	217	-	-	728
Purchase and retirement of common stock	(513,649)	(2,568)	(980)	(3,797)	-	(7,345)
Stock-based compensation	-	-	958	-	-	958
Balance, November 30, 2019	10,116,290	50,581	195	129,130	(1,236)	178,670
Comprehensive income (loss)						
Net loss	-	-	-	(10,421)	-	(10,421)
Amortization of defined benefit plan costs, net of tax	-	-	-	-	98	98
Actuarial adjustments to defined benefit plans, net of tax	-	-	-	-	(256)	(256)
Cumulative effect of a change in accounting principle	-	-	-	(3,785)	-	(3,785)
Regular dividends (\$0.455 per share)	-	-	-	(4,545)	-	(4,545)
Issuance of common stock	43,218	216	69	-	-	285
Purchase and retirement of common stock	(216,721)	(1,083)	(684)	(669)	-	(2,436)
Stock-based compensation	-	-	420	-	-	420
Balance, November 28, 2020	<u>9,942,787</u>	<u>\$ 49,714</u>	<u>\$ -</u>	<u>\$ 109,710</u>	<u>\$ (1,394)</u>	<u>\$ 158,030</u>

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, Virginia, 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 97 retail stores known as Bassett Home Furnishings (referred to as “BHF”). Of the 97 stores, the Company owns and operates 63 stores (“Company-owned retail stores”) with the other 34 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.

We sourced approximately 24% of our wholesale products from various foreign countries, with the remaining volume produced at our five domestic manufacturing facilities.

Lane Venture Acquisition

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

Impact of the COVID-19 Pandemic Upon our Financial Condition and Results of Operations

On March 11, 2020, the World Health Organization declared the current coronavirus (“COVID-19”) outbreak to be a global pandemic. In response to this declaration and the rapid spread of COVID-19 within the United States, federal, state and local governments throughout the country have imposed varying degrees of restrictions on social and commercial activity to promote social distancing in an effort to slow the spread of the illness. These measures had a significant adverse impact upon many sectors of the economy, including non-essential retail commerce.

In response to these measures and for the protection of our employees and customers, we temporarily closed our dedicated stores, our manufacturing locations and many of our warehouses for several weeks primarily during the second fiscal quarter of 2020. This extended period of suspended operations has had a material adverse impact upon our results of operations for the year ended November 28, 2020. In addition to operating losses resulting from severely reduced sales volumes, our loss for fiscal 2020 also included charges for goodwill impairment (Note 8) as well as for the impairment of certain other long-lived assets (Note 14) taken during the second quarter of 2020. However, since restarting our manufacturing operations and reopening stores, we have seen a significant improvement in business conditions which has allowed us to return to overall profitability for the third and fourth fiscal quarters of 2020 and to generate positive cash flow for the year. All retail stores that were temporarily closed during the second quarter had reopened by mid-June, and written orders taken at both the retail and wholesale segments exceeded levels from the third and fourth fiscal quarters of 2019. The improvement in operating cash flow allowed us to restore the temporary salary and wage reductions which had been enacted during the second quarter, resume the payment of quarterly dividends, including the payment of the dividend declared and subsequently suspended during the second quarter, and to resume share repurchases under our share repurchase program. Tempering these improvements are the continuing logistical challenges faced by the entire home furnishings industry resulting from COVID-related labor shortages and supply chain disruptions creating significant delays in order fulfillment and increasing backlogs.

Whereas most state and local governments have eased restrictions on commercial retail activity, it is possible that a resurgence in COVID-19 cases could prompt a return to tighter restrictions in certain areas of the country. Furthermore, while the home furnishings industry has fared much better during the pandemic than certain other sectors of the economy, continued economic weakness may eventually have an adverse impact upon our business, and order cancellations could result if the present delays in order fulfillment continue for an extended period of time. Therefore, significant uncertainty remains regarding the ongoing impact of the COVID-19 outbreak upon our financial condition and future results of operations, as well as upon the significant estimates and assumptions we utilize in reporting certain assets and liabilities.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

2. Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

Our fiscal year ends on the last Saturday in November, which periodically results in a 53-week year. Fiscal 2019 contained 53 weeks while fiscal 2020 and 2018 each contained 52 weeks. The Consolidated Financial Statements include the accounts of Bassett Furniture Industries, Incorporated and our majority-owned subsidiaries in which we have a controlling interest. All significant intercompany balances and transactions are eliminated in consolidation. Accordingly, the results of Lane Venture have been consolidated with our results since the date of the acquisition. Sales of logistical services from Zenith to our wholesale and retail segments have been eliminated, and Zenith's operating costs and expenses since the date of acquisition are included in selling, general and administrative expenses in our consolidated statements of net income. 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 2020, 2019 and 2018 are to Bassett's fiscal year ended November 28, 2020, November 30, 2019 and November 24, 2018, 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.

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 15 for disclosure of leases and lease 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, calculation of inventory reserves, the valuation of our reporting units for the purpose of testing the carrying value of goodwill, valuation of income tax reserves, lease guarantees, insurance reserves, assumptions related to our post-employment benefit obligations and the valuation of our right of use assets. Actual results could differ from those estimates.

Revenue Recognition

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

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

At retail, transfer occurs and revenue is recognized upon delivery of goods to the customer. We typically collect a significant portion of the purchase price as a customer deposit upon order, with the balance typically collected upon delivery. These deposits are carried on our balance sheet as a current liability until delivery is fulfilled and amounted to \$39,762 and \$25,341 as of November 28, 2020 and November 30, 2019, respectively. Substantially all of the customer deposits held at November 30, 2019 related to performance obligations satisfied during fiscal 2020 and have therefore been recognized in revenue for the year ended November 28, 2020. Estimates for returns and allowances have been recorded as a reduction of revenue based on our historical return patterns. We also sell furniture protection plans to our retail customers on behalf of a third party which is responsible for the performance obligations under the plans. Revenue from the sale of these plans is recognized upon delivery of the goods net of amounts payable to the third party service provider.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

For our logistical services segment, line-haul freight revenue is recognized as services are performed and are billed to the customer upon the completion of delivery to the destination. Because the customer receives the benefits of these services as the freight is in transit from point of origin to destination, we recognize revenue using a percentage of completion method based on our estimate of the amount of time freight has been in transit as of the reporting date compared with our estimate of the total required time for the deliveries. We recognize an asset for the amount of line-haul revenue earned but not yet billed which is included in other current assets. The balance of this asset was \$783 and \$441 at November 28, 2020 and November 30, 2019, respectively. Warehousing services revenue is based upon warehouse space occupied by a customer's goods and inventory movements in and out of a warehouse and is recognized as such services are provided and billed to the customer concurrently in the same period. All invoices for logistical services are due 30 days from invoice date.

Sales commissions are expensed as part of selling, general and administrative expenses at the time revenue is recognized because the amortization period would have been one year or less. Sales commissions at wholesale are accrued upon the shipment of goods. Sales commissions at retail are accrued at the time a sale is written (i.e. – when the customer's order is placed) and are carried as prepaid commissions in other current assets until the goods are delivered and revenue is recognized. At November 28, 2020 and November 30, 2019, our balance of prepaid commissions included in other current assets was \$4,279 and \$2,435, respectively. We do not incur sales commissions in our logistical services segment.

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

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

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

See Note 18, Segment Information, for disaggregated revenue information.

Cash Equivalents and Short-Term Investments

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. Our short-term investments consist of certificates of deposit that have original maturities of twelve months or less but greater than three months.

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.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

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 28, 2020 and November 30, 2019, our aggregate exposure from receivables and guarantees related to customers consisted of the following:

	<u>2020</u>	<u>2019</u>
Accounts receivable, net of allowances (Note 5)	\$ 22,340	\$ 21,378
Contingent obligations under lease and loan guarantees, less amounts recognized (Note 15)	1,760	1,751
Other	376	168
Total credit risk exposure related to customers	<u>\$ 24,476</u>	<u>\$ 23,297</u>

At November 28, 2020 and November 30, 2019, approximately 24% and 28%, respectively, of the aggregate risk exposure, net of reserves, shown above was attributable to five customers. In fiscal 2020, 2019 and 2018, no customer accounted for more than 10% of total consolidated net sales. However, two customers accounted for approximately 29%, 44% and 40% of our consolidated revenue from logistical services during 2020, 2019 and 2018, respectively.

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 \$789, \$1,846, and \$1,587 in fiscal 2020, 2019, and 2018, respectively. All of our export sales are invoiced and settled in U.S. dollars.

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 as well as Lane Venture and Bassett Outdoor product inventories are determined on a first-in, first-out (“FIFO”) basis. Inventories accounted for under the LIFO method represented 53% and 52% of total inventory before reserves at November 28, 2020 and November 30, 2019, 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, our logistical services operations, and corporate administration. 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.

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: Wood, Upholstery, Retail or Logistical Services. We review goodwill at the reporting unit level annually for impairment or more frequently if events or circumstances indicate that assets might be impaired.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

In accordance with ASC Topic 350, *Intangibles – Goodwill & Other*, 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 quantitative goodwill impairment test described in ASC Topic 350 (as amended by Accounting Standards Update No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which we adopted for our annual evaluation of goodwill performed as of September 1, 2019). 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 quantitative 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 quantitative evaluation process. Based on our qualitative assessment as described above for the annual test during fiscal 2019, we concluded that, given declines in our income from operations, primarily resulting from operating losses incurred in our retail reporting unit, as well as in our stock price since the previous analysis in fiscal 2018, it was necessary to perform the quantitative evaluation. As a result of this test, we recorded an impairment charge of \$1,926 during the year ended November 30, 2019. In addition, we performed an interim test of goodwill as of May 30, 2020 due to the severe impact of the COVID-19 pandemic and resulting business interruption during the second fiscal quarter of 2020. This interim test resulted in an impairment charge of \$1,971 for the year ended November 28, 2020. For the annual test of goodwill performed as of the beginning of the fourth fiscal quarter of 2020, we performed the qualitative assessment as described above and concluded that there was no additional impairment of our goodwill as of November 28, 2020.

The quantitative evaluation 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, a goodwill impairment charge will be recognized in the amount by which the reporting unit's carrying amount exceeds its fair value, but not to exceed the total goodwill assigned to the reporting unit. The determination of the fair value of our reporting units is based on a combination of a market approach, that considers benchmark company market multiples, an income approach, that utilizes discounted cash flows for each reporting unit and other Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosure* (see Note 4), and, in the case of our retail reporting unit, a cost approach that utilizes estimates of net asset value. The cash flows used to determine fair value are dependent on a number of significant management assumptions such as our expectations of future performance and the expected future economic environment, which are partly based upon our historical experience. Our estimates are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate and the terminal growth rate are based on our judgment of the rates that would be utilized by a hypothetical market participant. As part of the goodwill impairment testing, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units. While we believe such assumptions and estimates are reasonable, the actual results may differ materially from the projected amounts. See Note 8 for additional information regarding the results of our annual goodwill impairment test performed as of September 1, 2019 and our interim test performed as of May 30, 2020.

Leases

Effective as of the beginning of fiscal 2020, we adopted ASU 2016-02, *Leases (Topic 842)* and all related amendments. The guidance requires lessees to recognize substantially all leases on their balance sheet as a right-of-use ("ROU") asset and a lease liability.

We lease land and buildings that are used in the operation of our Company-owned retail stores as well as in the operation of certain of our licensee-owned stores, and we lease land and buildings at various locations throughout the continental United States for warehousing and distribution hubs used in our retail and logistical services segments. We also lease tractors and trailers used in our logistical services segment, and local delivery trucks used in our retail segment. We determine if a contract contains a lease at inception based on our right to control the use of an identified asset and our right to obtain substantially all of the economic benefits from the use of that identified asset. Our real estate lease terms range from one to 15 years and generally have renewal options of between five and 15 years. We assess these options to determine if we are reasonably certain of exercising these options based on all relevant economic and financial factors. Any options that meet this criteria are included in the lease term at lease commencement.

Most of our leases do not have an interest rate implicit in the lease. As a result, for purposes of measuring our ROU asset and lease liability, we determine our incremental borrowing rate by applying a spread above the U.S. Treasury borrowing rates. In the case an interest rate is implicit in a lease we will use that rate as the discount rate for that lease. Some of our leases contain variable rent payments based on a Consumer Price Index or percentage of sales. Due to the variable nature of these costs, they are not included in the measurement of the ROU asset and lease liability.

We adopted the standard utilizing the transition election to not restate comparative periods for the impact of adopting the standard and recognizing the cumulative impact of adoption in the opening balance of retained earnings. We elected the package of transition expedients available for expired or existing contracts, which allowed the carry-forward of historical assessments of (1) whether

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

contracts are or contain leases, (2) lease classification and (3) initial direct costs. In addition, we have elected the practical expedient to not separate lease and non-lease components when determining the ROU asset and lease liability and have elected the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements on existing agreements. We have also elected the hindsight practical expedient to determine the lease term for existing leases. In our application of hindsight, we evaluated the performance of the leased stores and the associated markets in relation to our overall real estate strategies, which resulted in the determination that most renewal options would not be reasonably certain in determining the expected lease term. We have made an accounting policy election to not recognize ROU assets and lease liabilities on the balance sheet for those leases with initial terms of one year or less and instead such lease obligations will be expensed on a straight-line basis over the lease term.

Adoption of the standard resulted in the recording of additional net lease-related assets and lease-related liabilities of \$146,585 and \$151,672, respectively, as of December 1, 2019. The difference between the additional lease assets and lease liabilities, net of the \$1,302 deferred tax impact, was \$3,785 and was recorded as an adjustment to retained earnings. This adjustment to retained earnings primarily represents the impairment of right-of-use assets associated with certain underperforming retail locations. Our estimates of the fair value of the impaired ROU assets included estimates of discounted cash flows based upon current market rents and other inputs which we consider to be Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, Fair Value Measurement and Disclosure (see Note 4). Our adoption of this standard did not have a material impact on our consolidated statements of operations, comprehensive income or cash flows.

Prior to fiscal 2020, our leases have been accounted for and reported in accordance with ASC Topic 840, Leases. Total lease payments over the non-cancellable term of a lease were recognized as rent expense on a straight-line basis over the lease term, with the excess of expense recognized over lease payments made carried as a deferred rent liability on the balance sheet. Any lease incentive payments received from lessors were recorded as a liability on the balance sheet and amortized as a reduction of rent expense over the term of the lease.

See Note 15 for additional information regarding our leases.

Other Intangible Assets

Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized but are tested for impairment annually or between annual tests when an impairment indicator exists. The recoverability of indefinite-lived intangible assets is assessed by comparison of the carrying value of the asset to its estimated fair value. If we determine that the carrying value of the asset exceeds its estimated fair value, an impairment loss equal to the excess would be recorded.

Definite-lived intangible assets are amortized over their respective estimated useful lives and reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We estimate the useful lives of our intangible assets and ratably amortize the value over the estimated useful lives of those assets. If the estimates of the useful lives should change, we will amortize the remaining book value over the remaining useful lives or, if an asset is deemed to be impaired, a write-down of the value of the asset may be required at such time.

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 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. ROU assets under operating leases are written down to their estimated fair value. Our estimates of the fair value of the impaired ROU assets included estimates of discounted cash flows based upon current market rents and other inputs which we consider to be Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, Fair Value Measurement and Disclosure (see Note 4).

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

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. See Note 13.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. 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 or carryback 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 13.

New Store Pre-Opening Costs

Income from operations for fiscal 2020, 2019 and 2018 includes new store pre-opening costs of \$0, \$1,117 and \$2,081, respectively. Such costs consist of expenses incurred at the new store location during the period prior to its opening and include, among other things, facility occupancy costs such as rent and utilities and local store personnel costs related to pre-opening activities including training. New store pre-opening costs do not include costs which are capitalized in accordance with our property and equipment capitalization policies, such as leasehold improvements and store fixtures and equipment. Such capitalized costs associated with new stores are depreciated commencing with the opening of the store. There are no pre-opening costs associated with stores acquired from licensees, as such locations were already in operation at the time of their acquisition.

Shipping and Handling Costs

Costs incurred to deliver wholesale merchandise to customers are recorded in selling, general and administrative expense and totaled \$14,779, \$18,402, and \$17,511 for fiscal 2020, 2019 and 2018, respectively. Costs incurred to deliver retail merchandise to customers, including the cost of operating regional distribution warehouses, are also recorded in selling, general and administrative expense and totaled \$19,024, \$23,710, and \$20,640 for fiscal 2020, 2019 and 2018, 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 \$12,671, \$20,674, and \$20,922 in fiscal 2020, 2019, and 2018, respectively.

Insurance Reserves

We have self-funded insurance programs in place to cover workers’ compensation and health insurance. These insurance programs are subject to various stop-loss limitations. 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.

Supplemental Cash Flow Information

Refer to the supplemental lease disclosures in Note 15 for cash flow impacts of leasing transactions during fiscal 2020. Otherwise, there were no material non-cash investing or financing activities during fiscal 2020 or 2018. During the fourth quarter of fiscal 2019, we purchased certain fixed assets and inventory with a total purchase price of \$2,225, of which \$375 was paid for with the issuance of 24,590 shares of our common stock.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Recent Accounting Pronouncements

Recently Adopted Pronouncements

Effective as of the beginning of fiscal 2020, we have adopted Accounting Standards Update No. 2016-02, Leases (Topic 842). The guidance in ASU 2016-02 (as subsequently amended by ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20) requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. We have adopted this standard using the modified retrospective approach. Refer to the preceding discussion under “Leases” and to Note 15 for more information regarding our leases and the adoption of the new standard.

Recent Pronouncements Not Yet Adopted

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The guidance in ASU 2016-13 replaces the incurred loss impairment methodology under current GAAP. The new impairment model requires immediate recognition of estimated credit losses expected to occur for most financial assets and certain other instruments. For available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The guidance in ASU 2016-13 will become effective for us as of the beginning of our 2021 fiscal year. We are currently evaluating the impact that this guidance will have upon our financial position and results of operations, if any.

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

In December 2019, the FASB issued Accounting Standards Update No. 2019-12 – Income Taxes (Topic 740) Simplifying the Accounting for Income Taxes, as part of its initiative to reduce complexity in the accounting standards. The amendments in ASU 2019-12 eliminate certain exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 also clarifies and simplifies other aspects of the accounting for income taxes. The amendments in ASU 2019-12 will become effective for us as of the beginning of our 2022 fiscal year. Early adoption is permitted, including adoption in any interim period. We are currently evaluating the impact that this guidance will have upon our financial position and results of operations, if any.

Reclassifications

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation with no effect on previously reported net income or Stockholders' equity.

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(In thousands, except share and per share data)

3. Business Combinations

Acquisition of Lane Venture

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

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

The allocation of the fair value of the acquired business was initially based on a preliminary valuation. Our estimates and assumptions were revised during 2018 as we obtained additional information for our estimates during the measurement period, which we consider to be closed as of November 24, 2018. During fiscal 2018, we recorded measurement period adjustments resulting in a net increase to the opening value of various acquired assets and assumed liabilities with an offsetting reduction of recognized goodwill of \$76. The final allocation of the \$15,556 all-cash purchase price to the acquired assets and liabilities of the Lane Venture business, including measurement period adjustments, is as follows:

Allocation of the fair value of consideration transferred:	
Identifiable assets acquired:	
Accounts receivable, net of reserve (Note 5)	\$ 1,507
Inventory, net of reserve (Note 6)	3,718
Prepaid expenses and other current assets	37
Intangible assets	<u>7,360</u>
Total identifiable assets acquired	12,622
Liabilities assumed:	
Accounts payable	(357)
Other accrued liabilities	<u>(852)</u>
Total liabilities assumed	(1,209)
Net identifiable assets acquired	11,413
Goodwill	<u>4,143</u>
Total net assets acquired	<u>\$ 15,556</u>

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

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

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

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

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

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Acquisition costs related to the Lane Venture acquisition totaled \$256 during the year ended November 24, 2018, and are included in selling, general and administrative expenses in the consolidated statements of operations. The acquisition costs are primarily related to legal, accounting and valuation services.

The pro forma impact of the acquisition and the results of operations attributable to Lane Venture since the acquisition have not been presented because they are not material to our consolidated results of operations for the three fiscal years ended November 24, 2018.

4. Financial Instruments, Investments and Fair Value Measurements

Financial Instruments

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

Investments

Our short-term investments of \$17,715 and \$17,436 at November 28, 2020 and November 30, 2019, respectively, consisted of certificates of deposit (CDs) with original terms of six to twelve months, bearing interest at rates ranging from 0.05% to 2.0%. At November 28, 2020, the weighted average remaining time to maturity of the CDs was approximately four months and the weighted average yield of the CDs was approximately 0.21%. Each CD is placed with a federally insured financial institution and all deposits are within Federal deposit insurance limits. As the CDs mature, we expect to reinvest them in CDs of similar maturities of up to one year. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at November 28, 2020 and November 30, 2019 approximates their fair value.

Fair Value Measurement

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

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

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

Level 3 Inputs— Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. Our primary non-recurring fair value estimates typically involve business acquisitions (Note 3) which involve a combination of Level 2 and Level 3 inputs, goodwill impairment testing (Note 8), which involves Level 3 inputs, and asset impairments (Note 14) which utilize Level 3 inputs.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

5. Accounts Receivable

Accounts receivable consists of the following:

	November 28, 2020	November 30, 2019
Gross accounts receivable	\$ 23,551	\$ 22,193
Allowance for doubtful accounts	(1,211)	(815)
Net accounts receivable	<u>\$ 22,340</u>	<u>\$ 21,378</u>

Activity in the allowance for doubtful accounts was as follows:

	2020	2019
Balance, beginning of the year	\$ 815	\$ 754
Additions charged to expense	492	61
Reductions to allowance, net	(96)	-
Balance, end of the year	<u>\$ 1,211</u>	<u>\$ 815</u>

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

6. Inventories

Inventories consist of the following:

	November 28, 2020	November 30, 2019
Wholesale finished goods	\$ 25,001	\$ 27,792
Work in process	516	733
Raw materials and supplies	14,836	17,293
Retail merchandise	27,946	31,534
Total inventories on first-in, first-out method	68,299	77,352
LIFO adjustment	(8,891)	(8,688)
Reserve for excess and obsolete inventory	(4,522)	(2,362)
	<u>\$ 54,886</u>	<u>\$ 66,302</u>

We source a significant amount of our wholesale product from other countries. During 2020, 2019 and 2018, purchases from our two largest vendors located in Vietnam and China were \$15,378, \$15,221 and \$24,073 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 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.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

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

	Wholesale Segment	Retail Segment	Total
Balance at November 24, 2018	\$ 1,500	\$ 266	\$ 1,766
Additions charged to expense	1,881	373	2,254
Write-offs	(1,327)	(331)	(1,658)
Balance at November 30, 2019	2,054	308	2,362
Additions charged to expense	3,745	1,177	4,922
Write-offs	(2,378)	(384)	(2,762)
Balance at November 28, 2020	<u>\$ 3,421</u>	<u>\$ 1,101</u>	<u>\$ 4,522</u>

7. Property and Equipment

Property and equipment consist of the following:

	November 28, 2020	November 30, 2019
Land	\$ 9,478	\$ 9,478
Buildings and leasehold improvements	114,961	126,085
Machinery and equipment	118,112	115,131
Property and equipment at cost	242,551	250,694
Less accumulated depreciation	(151,634)	(148,970)
Property and equipment, net	<u>\$ 90,917</u>	<u>\$ 101,724</u>

The net book value of our property and equipment by reportable segment is as follows:

	November 28, 2020	November 30, 2019
Wholesale	\$ 26,999	\$ 28,993
Retail - Company-owned stores	44,820	55,625
Logistical Services	19,098	17,106
Total property and equipment, net	<u>\$ 90,917</u>	<u>\$ 101,724</u>

At November 30, 2019 we owned one retail store property located in Gulfport, Mississippi which was under contract to be sold. The net book value of the property of \$1,569 at November 30, 2019 was classified as held for sale and included in other current assets in the accompanying consolidated balance sheets at November 30, 2019. The sale of the property was completed during the first quarter of fiscal 2020 for net proceeds of \$1,639.

Depreciation expense associated with the property and equipment shown above was included in income from operations in our consolidated statements of operations as follows:

	2020	2019	2018
Cost of goods sold (wholesale segment)	\$ 1,552	\$ 1,402	\$ 1,264
Selling, general and administrative expenses:			
Wholesale segment	1,516	1,672	1,666
Retail segment	6,578	7,479	7,060
Logistical services segment	3,454	3,697	3,747
Total included in selling, general and administrative expenses	11,548	12,848	12,473
Total depreciation expense included in income from operations	<u>\$ 13,100</u>	<u>\$ 14,250</u>	<u>\$ 13,737</u>

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

8. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consisted of the following:

	November 28, 2020		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, Net</u>
Intangibles subject to amortization:			
Customer relationships	\$ 3,550	\$ (1,346)	\$ 2,204
Technology - customized applications	834	(695)	139
Total intangible assets subject to amortization	<u>\$ 4,384</u>	<u>\$ (2,041)</u>	2,343
Intangibles not subject to amortization:			
Trade names			9,338
Goodwill			<u>12,146</u>
Total goodwill and other intangible assets			<u>\$ 23,827</u>
	November 30, 2019		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Intangible Assets, Net</u>
Intangibles subject to amortization:			
Customer relationships	\$ 3,550	\$ (1,088)	\$ 2,462
Technology - customized applications	834	(575)	259
Total intangible assets subject to amortization	<u>\$ 4,384</u>	<u>\$ (1,663)</u>	2,721
Intangibles not subject to amortization:			
Trade names			9,338
Goodwill			<u>14,117</u>
Total goodwill and other intangible assets			<u>\$ 26,176</u>

Due to the impact of the COVID-19 pandemic, we performed an interim impairment assessment of our remaining goodwill as of May 30, 2020, then end of our second fiscal quarter. As a result of this test, we concluded that the carrying value of our wood reporting unit exceeded its fair value by an amount in excess of the goodwill previously allocated to the reporting unit. Therefore, we recognized a goodwill impairment charge of \$1,971 for year ended November 28, 2020. Our annual goodwill impairment test, conducted as of the beginning of our fourth fiscal quarter, resulted in no additional impairment.

The determination of the fair value of our reporting units is based on a combination of a market approach, that considers benchmark company market multiples, and an income approach, that utilizes discounted cash flows for each reporting unit and other Level 3 inputs as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosure* (see Note 4). Under the income approach, we determine fair value based on the present value of the most recent cash flow projections for each reporting unit as of the date of the analysis and calculate a terminal value utilizing a terminal growth rate. The significant assumptions under this approach include, among others: income projections, which are dependent on future sales, new product introductions, customer behavior, competitor pricing, operating expenses, the discount rate, and the terminal growth rate. The cash flows used to determine fair value are dependent on a number of significant management assumptions such as our expectations of future performance and the expected future economic environment, which are partly based upon our historical experience. Our estimates are subject to change given the inherent uncertainty in predicting future results. Additionally, the discount rate and the terminal growth rate are based on our judgment of the rates that would be utilized by a hypothetical market participant. As part of the goodwill impairment testing, we also consider our market capitalization in assessing the reasonableness of the combined fair values estimated for our reporting units.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Changes in the carrying amounts of goodwill by reportable segment were as follows:

	<u>Wholesale</u>	<u>Retail</u>	<u>Logistics</u>	<u>Total</u>
Balance as of November 24, 2018	\$ 9,188	\$ 1,926	\$ 4,929	\$ 16,043
Goodwill impairment	<u>-</u>	<u>(1,926)</u>	<u>-</u>	<u>(1,926)</u>
Balance as of November 30, 2019	9,188	-	4,929	14,117
Goodwill impairment	<u>(1,971)</u>	<u>-</u>	<u>-</u>	<u>(1,971)</u>
Balance as of November 28, 2020	<u>\$ 7,217</u>	<u>\$ -</u>	<u>\$ 4,929</u>	<u>\$ 12,146</u>

Accumulated impairment losses at November 28, 2020 and November 30, 2019 were \$3,897 and \$1,926, respectively. There were no accumulated impairment losses on goodwill as of November 24, 2018.

The weighted average useful lives of our finite-lived intangible assets and remaining amortization periods as of November 28, 2020 are as follows:

	<u>Useful Life in Years</u>	<u>Remaining Amortization Period in Years</u>
Customer relationships	14	9
Technology - customized applications	7	1

Amortization expense associated with intangible assets during fiscal 2020, 2019 and 2018 was \$379, \$379 and \$374, respectively and is included in selling, general and administrative expense in our consolidated statement of operations. All expense arising from the amortization of intangible assets is associated with our logistical services segment except for \$57, \$57 and \$51 in fiscal 2020, 2019 and 2018, respectively, associated with our wholesale segment arising from Lane Venture (Note 3). Estimated future amortization expense for intangible assets that exist at November 28, 2020 is as follows:

Fiscal 2021	\$ 378
Fiscal 2022	279
Fiscal 2023	259
Fiscal 2024	259
Fiscal 2025	259
Thereafter	<u>909</u>
Total	<u>\$ 2,343</u>

9. Bank Credit Facility

Bank Credit Facility

Our bank credit facility, which was amended effective June 15, 2020, provided for a line of credit of up to \$50,000 through December 31, 2020, after which date the maximum availability was reduced to \$25,000. At November 28, 2020, we had \$2,881 outstanding under standby letters of credit against our line, leaving availability under our credit line of \$47,119. In addition, at November 28, 2020 we have outstanding standby letters of credit with another bank totaling \$325. The line bears interest at the rate of LIBOR plus 1.9%, with a fee of 0.25% charged for the unused portion of the line, and is secured by a general lien on our accounts receivable and inventory. Under the terms of the June 15, 2020 amendment, all covenants based on financial ratios were waived for the remainder of fiscal 2020. We currently expect to be in compliance with these covenants, which include a minimum fixed charge coverage ratio and a maximum debt to tangible net worth ratio, through the end of fiscal 2021. The credit facility matures on January 31, 2022.

Total interest paid, including the interest component of financing lease payments, during fiscal 2020, 2019 and 2018 was \$49, \$7 and \$166, respectively.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

10. Post-Employment Benefit Obligations

Management Savings Plan

On May 1, 2017, our Board of Directors, upon the recommendation of the Organization, Compensation and Nominating Committee (the “Committee”), adopted the Bassett Furniture Industries, Incorporated Management Savings Plan (the “Plan”). The Plan is an unfunded, nonqualified deferred compensation plan maintained for the benefit of certain highly compensated or management level employees.

The Plan is an account-based plan under which (i) participants may defer voluntarily the payment of current compensation to future years (“participant deferrals”) and (ii) the Company may make annual awards to participants payable in future years (“Company contributions”). The Plan permits each participant to defer up to 75% of base salary and up to 100% of any incentive compensation or other bonus, which amounts would be credited to a deferral account established for the participant. Such deferrals will be fully vested at the time of the deferral. Participant deferrals will be indexed to one or more deemed investment alternatives chosen by the participant from a range of alternatives made available under the Plan. Each participant’s account will be adjusted to reflect gains and losses based on the performance of the selected investment alternatives. A participant may receive distributions from the Plan: (1) upon separation from service, in either a lump sum or annual installment payments over up to a 15 year period, as elected by the participant, (2) upon death or disability, in a lump sum, or (3) on a date or dates specified by the participant (“scheduled distributions”) with such scheduled payments made in either a lump sum or substantially equal annual installments over a period of up to five years, as elected by the participant. Participant contributions commenced during the third quarter of fiscal 2017. Company contributions will vest in full (1) on the third anniversary of the date such amounts are credited to the participant’s account, (2) the date that the participant reaches age 63 or (3) upon death or disability. Company contributions are subject to the same rules described above regarding the crediting of gains or losses from deemed investments and the timing of distributions. Expense associated with deferred compensation under the Plan was \$264, \$196 and \$102 for fiscal 2020, 2019 and 2018, respectively. Our liability for Company contributions and participant deferrals at November 28, 2020 and November 30, 2019 was \$1,250 and \$894, respectively, and is included in post-employment benefit obligations in our consolidated balance sheets.

On May 2, 2017, we made Long Term Cash Awards (“LTC Awards”) totaling \$2,000 under the Plan to certain management employees in the amount of \$400 each. The LTC Awards vest in full on the first anniversary of the date of the award if the participant has reached age 63 by that time, or, if later, on the date the participant reaches age 63, provided in either instance that the participant is still employed by the Company at that time. If not previously vested, the awards will also vest immediately upon the death or disability of the participant prior to the participant’s separation from service. The awards will be payable in 10 equal annual installments following the participant’s death, disability or separation from service. We are accounting for the LTC Awards as a defined benefit pension plan.

During fiscal 2020, 2019 and 2018, we invested \$609, \$627 and \$900 in life insurance policies covering all participants in the Plan. At November 28, 2020, these policies have a net death benefit of \$14,998 for which the Company is the sole beneficiary. These policies are intended to provide a source of funds to meet the obligations arising from the deferred compensation and LTC Awards under the Plan, and serve as an economic hedge of the financial impact of changes in the liabilities. They are held in an irrevocable trust but are subject to claims of creditors in the event of the Company’s insolvency.

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 on these executives with a current net death benefit of \$2,070 at November 28, 2020 and we 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.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Aggregated summarized information for the Supplemental Plan and the LTC Awards, measured as of the end of each year presented, is as follows:

	<u>2020</u>	<u>2019</u>	
Change in Benefit Obligation:			
Projected benefit obligation at beginning of year	\$ 10,090	\$ 11,652	
Service cost	172	190	
Interest cost	268	441	
Actuarial (gains) and losses	345	(1,172)	
Benefits paid	(804)	(1,021)	
Projected benefit obligation at end of year	<u>\$ 10,071</u>	<u>\$ 10,090</u>	
Accumulated Benefit Obligation	<u>\$ 10,034</u>	<u>\$ 9,998</u>	
Discount rate used to value the ending benefit obligations:	2.00%	2.75%	
Amounts recognized in the consolidated balance sheet:			
Current liabilities	\$ 613	\$ 655	
Noncurrent liabilities	9,458	9,435	
Total amounts recognized	<u>\$ 10,071</u>	<u>\$ 10,090</u>	
Amounts recognized in accumulated other comprehensive income:			
Prior service cost	\$ 480	\$ 606	
Actuarial loss	1,394	1,055	
Net amount recognized	<u>\$ 1,874</u>	<u>\$ 1,661</u>	
Total recognized in net periodic benefit cost and accumulated other comprehensive income:	<u>\$ 785</u>	<u>\$ (541)</u>	
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Components of Net Periodic Pension Cost:			
Service cost	\$ 172	\$ 190	\$ 196
Interest cost	268	441	418
Amortization of transition obligation	-	-	42
Amortization of prior service cost	126	126	126
Amortization of other loss	8	183	262
Net periodic pension cost	<u>\$ 574</u>	<u>\$ 940</u>	<u>\$ 1,044</u>
Assumptions used to determine net periodic pension cost:			
Discount rate	2.75%	4.00%	3.50%
Increase in future compensation levels	3.00%	3.00%	3.00%
Estimated Future Benefit Payments (with mortality):			
Fiscal 2021		613	
Fiscal 2022		817	
Fiscal 2023		778	
Fiscal 2024		737	
Fiscal 2025		775	
Fiscal 2026 through 2030		3,499	

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Of the \$1,874 recognized in accumulated other comprehensive income at November 28, 2020, amounts expected to be recognized as components of net periodic pension cost during fiscal 2021 are as follows:

Prior service cost	\$	126
Other loss		<u>59</u>
Total expected to be amortized to net periodic pension cost in 2021	\$	<u>185</u>

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

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 \$176, \$204, and \$216 in fiscal 2020, 2019, and 2018, respectively, associated with the plan. Our liability under this plan was \$1,676 and \$1,767 as of November 28, 2020 and November 30, 2019, respectively. The non-current portion of this obligation is included in post-employment benefit obligations in our consolidated balance sheets, with the current portion included in accrued compensation and benefits.

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 25% of up to 8% of gross pay, regardless of years of service. During fiscal 2020, the Company's matching contribution was temporarily suspended for approximately six months as part of the cash conservation measures put into place in response to the impact of the COVID-19 pandemic, but was resumed during the fourth quarter. Expense for employer matching contributions was \$611, \$1,157 and \$1,128 during fiscal 2020, 2019 and 2018, respectively.

11. Accumulated Other Comprehensive Loss

The activity in accumulated other comprehensive loss for the fiscal years ended November 28, 2020 and November 30, 2019, which is comprised solely of post-retirement benefit costs related to our SERP and LTC Awards, is as follows:

Balance at November 24, 2018	\$	(2,338)
Actuarial gains		1,172
Net pension amortization reclassified from accumulated other comprehensive loss		308
Tax effects		<u>(378)</u>
Balance at November 30, 2019		(1,236)
Actuarial losses		(345)
Net pension amortization reclassified from accumulated other comprehensive loss		133
Tax effects		<u>54</u>
Balance at November 28, 2020	\$	<u>(1,394)</u>

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

12. 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 2020, 2019 and 2018 was as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Stock based compensation expense	\$ 420	\$ 958	\$ 1,133

Incentive Stock Compensation Plans

On April 14, 2010, our shareholders approved the Bassett Furniture Industries, Incorporated 2010 Stock Incentive Plan which was amended and restated effective January 13, 2016 (the “2010 Plan”). All non-employee directors, key employees and outside consultants for the Company were eligible to receive incentive awards under the 2010 Plan. The 2010 Plan expired in April of 2020 and no additional grants can be awarded under the plan.

The fair value of each option award was 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. Forfeitures are recognized as they occur. We utilized 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.

Stock Options

There were no new grants of options made in 2020, 2019 or 2018.

Changes in the outstanding options under our plans during the year ended November 28, 2020 were as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price Per Share</u>
Outstanding at November 30, 2019	5,250	\$ 8.02
Granted	-	-
Exercised	-	-
Forfeited/Expired	-	-
Outstanding at November 28, 2020	<u>5,250</u>	8.02
Exercisable at November 28, 2020	<u>5,250</u>	\$ 8.02

All remaining options outstanding at November 28, 2020 are exercisable at \$8.02 per share with a remaining contractual life of 0.6 years and an aggregate intrinsic value of \$45. There were no non-vested options outstanding under our plans during the year ended November 28, 2020.

Additional information regarding activity in our stock options during fiscal 2020, 2019 and 2018 is as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total intrinsic value of options exercised	\$ -	\$ 34	\$ 75
Total cash received from the exercise of options	-	25	27
Excess tax benefits recognized in income tax expense upon the exercise of options	-	6	16

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Restricted Shares

Changes in the outstanding non-vested restricted shares during the year ended November 28, 2020 were as follows:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value Per Share</u>
Non-vested restricted shares outstanding at November 30, 2019	90,153	\$ 29.06
Granted	-	-
Vested	(48,653)	27.30
Forfeited	<u>(7,000)</u>	19.03
Non-vested restricted shares outstanding at November 28, 2020	<u>34,500</u>	\$ 33.58

During fiscal 2020, 48,653 restricted shares were vested and released, of which 39,000 shares had been granted to employees and 9,653 shares had been granted to directors. During fiscal 2020 and 2018, 14,010 shares and 19,810 shares, respectively, were withheld to cover withholding taxes of \$228 and \$674, respectively, arising from the vesting of restricted shares. During fiscal 2020, 2019 and 2018, excess tax (expense) benefits of \$(114), \$0 and \$207, respectively, were recognized within income tax expense upon the release of vested shares.

Additional information regarding our outstanding non-vested restricted shares at November 28, 2020 is as follows:

<u>Grant Date</u>	<u>Restricted Shares Outstanding</u>	<u>Share Value at Grant Date Per Share</u>	<u>Remaining Restriction Period (Years)</u>
January 11, 2018	31,000	\$ 35.75	0.1
October 9, 2019	<u>3,500</u>	14.37	1.9
	<u>34,500</u>		

Unrecognized compensation cost related to these non-vested restricted shares at November 28, 2020 is \$41, all of which is expected to be recognized within the next two fiscal years.

Employee Stock Purchase Plan

In March of 2017 we adopted and implemented the 2017 Employee Stock Purchase Plan ("2017 ESPP") that allows eligible employees to purchase a limited number of shares of our stock at 85% of market value. Under the 2017 ESPP we sold 50,217, 23,460 and 14,967 shares to employees during fiscal 2020, 2019 and 2018, respectively, which resulted in an immaterial amount of compensation expense. There are 155,081 shares remaining available for sale under the 2017 ESPP at November 28, 2020.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

13. Income Taxes

The components of the income tax provision are as follows:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current:			
Federal	\$ (8,486)	\$ 2,150	\$ (1,137)
State	155	892	462
Deferred:			
Federal	2,457	(2,191)	4,747
State	(491)	(663)	(84)
Total	<u>\$ (6,365)</u>	<u>\$ 188</u>	<u>\$ 3,988</u>

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law. A major provision of the CARES Act allows net operating losses from the 2018, 2019 and 2020 tax years to be carried back up to five years. As a result, for the year ended November 28, 2020 we were able to recognize tax benefits substantially in excess of the current federal statutory rate of 21% due to the effects of carrying back our current net operating loss to tax years in which the federal statutory rate was 35%.

On December 22, 2017, The Tax Cuts and Jobs Act (the “Act”) was signed into law. The Act reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018 for all corporate taxpayers, while most other provisions of the Act became effective for fiscal years beginning on or after January 1, 2018. Therefore, we computed our income tax expense for fiscal 2018 using a blended federal statutory rate of 22.2%. The 21% federal statutory rate, as well as certain other provisions of the Act including the elimination of the domestic manufacturing deduction and new limitations on certain business deductions, applies to our 2019 fiscal year and thereafter. The federal rate reduction had a significant impact on our provision for income taxes for fiscal 2018 due to a discrete charge of \$1,331 arising from the re-measurement of our deferred tax assets. Our accounting for the income tax effects of the Act was complete as of November 24, 2018.

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutory federal income tax rate	21.0%	21.0%	22.2%
CARES Act benefit	21.1	-	-
Revaluation of deferred tax assets resulting from new enacted rates	-	-	10.9
State income tax, net of federal benefit	1.7	(14.0)	4.6
Impairment of non-deductible goodwill	(2.5)	(23.2)	-
Excess tax benefit from stock-based compensation	(0.6)	0.3	(1.5)
Other	(2.8)	5.1	(3.5)
Effective income tax rate	<u>37.9%</u>	<u>(10.8)%</u>	<u>32.7%</u>

Excess tax (expense) benefits in the amount of \$(114), \$22 and \$223 were recognized as a component of income tax expense during fiscal 2020, 2019 and 2018, respectively, resulting from the exercise of stock options and the release of restricted shares. The fiscal 2020 and 2019 adjustments for impairment of non-deductible goodwill reflect the fact that there was no tax basis related to the impaired goodwill.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

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 28, 2020	November 30, 2019
Deferred income tax assets:		
Trade accounts receivable	\$ 303	\$ 207
Inventories	3,086	2,487
Notes receivable	44	44
Post employment benefit obligations	3,260	3,241
State net operating loss carryforwards	1,321	193
Unrealized loss from affiliates	-	81
Leases	5,850	3,753
Other	1,856	1,828
Gross deferred income tax assets	15,720	11,834
Valuation allowance	-	-
Total deferred income tax assets	15,720	11,834
Deferred income tax liabilities:		
Property and equipment	8,746	4,288
Intangible assets	1,404	1,114
Prepaid expenses and other	983	688
Total deferred income tax liabilities	11,133	6,090
Net deferred income tax assets	<u>\$ 4,587</u>	<u>\$ 5,744</u>

We have state net operating loss carryforwards available to offset future taxable state income of \$26,407, which expire in varying amounts between 2022 and 2027. Realization is dependent on generating sufficient taxable income prior to expiration of the loss carryforwards.

Income taxes paid, net of refunds received, during fiscal 2020, 2019 and 2018 were \$539, \$1,228, and \$1,431, respectively.

We regularly evaluate, assess and adjust our accrued liabilities for unrecognized tax benefits in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period. Our accrued liabilities for uncertain tax benefits at November 28, 2020 and November 30, 2019 were not material.

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 2017 through 2020 for all of our major tax jurisdictions.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

14. Other Gains and Losses

Gains on Dispositions of Retail Store Locations

Selling, general and administrative expenses for the year ended November 28, 2020 include gains totaling \$1,313 resulting from the settlement of lease obligations due to the early termination of leases at our retail store locations in Torrance, California and Culver City, California.

Selling, general and administrative expenses for the year ended November 24, 2018 includes a gain of \$165 resulting from the sale of our retail store location in Spring, Texas for \$2,463 in cash. The store was closed in October of 2018 and repositioned to a new location serving the Houston market in The Woodlands, Texas, which opened in November of 2018.

Early Retirement Program

During the first quarter of fiscal 2019, we offered a voluntary early retirement package to certain eligible employees of the Company. These employees received pay equal to one-half their current salary plus benefits over a period of one year from the final day of each individual's active employment. Accordingly, we recognized a charge of \$835 during the year ended November 30, 2019. The unpaid obligation of \$0 and \$374 is included in other accrued liabilities in our consolidated balance sheet as of November 28, 2020 and November 30, 2019, respectively.

Asset Impairment Charges and Lease Exit Costs

During fiscal 2020 we recorded \$11,114 of non-cash impairment charges on the assets of five underperforming retail stores, including \$6,239 for the impairment of operating lease right-of-use assets associated with the leased locations. We also incurred \$1,070 of non-cash impairment charges in our wholesale segment, primarily due to the closing of our custom upholstery manufacturing facility in Grand Prairie, Texas, in May.

During fiscal 2019, the loss from operations included \$4,431 of non-cash impairment charges recognized on the assets of six underperforming retail stores. In addition, a \$149 charge was accrued for lease exit costs incurred in connection with the repositioning of a Company-owned retail store in Palm Beach, Florida to a new location within the same market.

During fiscal 2018 income from operations included \$469 of non-cash asset impairment charges recognized on the assets of one underperforming retail location, and a \$301 charge for the accrual of lease exit costs incurred in connection with the closing of a Company-owned retail store location in San Antonio, Texas.

Litigation Expense

During fiscal 2020 and 2019 we accrued \$1,050 and \$700, respectively for the estimated costs to resolve certain wage and hour violation claims that had been asserted against the Company (see Note 16).

Gains from Company-Owned Life Insurance

Other loss, net for the fiscal 2020, 2019 and 2018 includes gains of \$914, \$629 and \$266, respectively, arising from death benefits from Company-owned life insurance.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

15. Leases and Lease Guarantees

Leases

Fiscal 2020

Effective as of the beginning of fiscal 2020, we adopted ASU 2016-02, Leases (Topic 842) and all related amendments. See “Leases” under Note 2 for a discussion of our accounting policies and elections under Topic 842 as well as the impact of the adoption upon our financial statements.

Supplemental balance sheet information related to our leases as of November 28, 2020 is as follows:

Operating leases:	
Right of use assets	\$ 116,903
Lease liabilities, short-term	27,078
Lease liabilities, long-term	111,972
Finance leases:	
Right of use assets (1)	\$ 2,623
Lease liabilities, short-term (2)	534
Lease liabilities, long-term (3)	1,862

(1) Included in property & equipment, net in our consolidated balance sheet.

(2) Included in other current liabilities and accrued expenses in our consolidated balance sheet.

(3) Included in other long-term liabilities and accrued expenses in our consolidated balance sheet.

Our right-of-use assets under operating leases by segment as of November 28, 2020 are as follows:

Wholesale	\$ 10,232
Retail	90,487
Logistical services	16,184
Total right of use assets	<u>\$ 116,903</u>

The components of our lease cost for the year ended November 28, 2020 are as follows:

Operating lease cost	\$ 33,207
Financing lease cost:	
Amortization of right-of-use assets	213
Interest on lease liabilities	49
Short-term lease cost	2,040
Variable lease cost (net of abatements received)	(605)
Sublease income	(1,557)
Total lease cost	<u>\$ 33,347</u>

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Supplemental lease disclosures as of November 28, 2020 and for the fiscal year then ended are as follows:

	<u>Operating</u>	<u>Financing</u>
For the year ended November 28, 2020:		
Cash paid for amounts included in the measurements of lease liabilities	\$ 35,310	\$ 260
Lease liabilities arising from new right-of-use assets	10,804	2,623
As of November 28, 2020:		
Weighted average remaining lease terms (years)	6.2	4.3
Weighted average discount rates	4.98%	4.43%

Future payments under our leases and the present value of the obligations as of November 28, 2020 are as follows:

	<u>Operating Leases</u>	<u>Financing Leases</u>
Fiscal 2021	\$ 33,265	\$ 629
Fiscal 2022	30,829	629
Fiscal 2023	25,586	629
Fiscal 2024	18,732	517
Fiscal 2025	15,423	197
Thereafter	<u>38,237</u>	<u>33</u>
Total lease payments	162,072	2,634
Less: interest	<u>23,022</u>	<u>238</u>
Total lease obligations	<u>\$ 139,050</u>	<u>\$ 2,396</u>

As of November 28, 2020, we had a commitment to acquire twenty-four tractors under leases for use in our logistical services segment that are expected to commence at various times during the first half of fiscal 2021 and replace older units that will be coming off lease. These leases are expected to have annual payments totaling approximately \$705 per year over seven years.

We sublease a small number of our leased locations to certain of our licensees for operation as BHF network stores. The terms of these leases generally match those of the lease we have with the lessor. Minimum future lease payments due to us under these subleases are as follows:

Fiscal 2021	\$ 1,276
Fiscal 2022	1,086
Fiscal 2023	769
Fiscal 2024	664
Fiscal 2025	599
Thereafter	<u>156</u>
Total minimum future rental income	<u>\$ 4,550</u>

We negotiated with a number of our landlords to obtain relief in the form of rent deferrals or abatements of rent as a result of the effects of COVID-19 on our business. At November 28, 2020, the unpaid rent was \$990 which primarily represents rent deferred to fiscal 2021 and is included in other current liabilities and accrued expenses in our accompanying condensed consolidated balance sheet. In accordance with FASB Staff Q&A - Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic ("FASB Staff Q&A") issued in April 2020, we have elected to account for any lease concessions resulting directly from COVID-19 as if the enforceable rights and obligations for the concessions existed in the respective contracts at lease inception and as such we will not account for any concession as a lease modification. Guidance from the FASB Staff Q&A provided methods to account for rent deferrals which include the option to treat the lease as if no changes to the lease contract were made or to treat deferred payments as variable lease payments. The FASB Staff Q&A allows entities to select the most practical approach and does not require the same approach be applied consistently to all leases. As a result, we account for the deferrals as if no changes to the lease contract were made and will continue to recognize lease expense, on a straight-line basis, during the deferral period. For any abatements received, we account for those as variable rent in the period in which the abatement is granted. For the year ended November 28, 2020, we were granted abatements against rent totaling \$775.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

Fiscal 2019 and 2018

Prior to the adoption of Topic 842, we accounted for and reported our leases in accordance with Topic 840, Leases. In accordance with Topic 840 leases classified as operating leases were not included in our balance sheet as right of use assets or lease obligations as of November 30, 2019. During fiscal 2019 and 2018 we had no leases which were classified as capital leases.

Lease expense was \$41,809 and \$38,970 for 2019 and 2018, respectively. Improvement allowances received from lessors at the inception of a lease are deferred and amortized over the term of the lease. The unamortized balance of such amounts was \$8,050 and at November 30, 2019, with the non-current portion of \$6,799 included in other liabilities in our consolidated balance sheets and the remaining current portion included in other accrued liabilities.

Real estate rental net loss (rental income less lease costs, depreciation, insurance, and taxes), related to licensee stores and other investment real estate, was \$156 and \$23 in 2019 and 2018, respectively, and is reflected in other loss, 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 three years. We were contingently liable under licensee lease obligation guarantees in the amount of \$1,811 and \$1,776 at November 28, 2020 and November 30, 2019, 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 lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at November 28, 2020 and November 30, 2019, were not material.

16. Contingencies

We are involved in various claims and actions 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. We carried reserves for pending litigation claims in the amount of \$1,050 and \$900 as of November 28, 2020 and November 30, 2019, respectively, which are included in other current liabilities and accrued expenses in our accompanying balance sheets.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

17. Earnings (Loss) Per Share

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Numerator:			
Net income (loss)	<u>\$ (10,421)</u>	<u>\$ (1,928)</u>	<u>\$ 8,218</u>
Denominator:			
Denominator for basic income per share - weighted average shares	9,969,616	10,285,511	10,651,351
Effect of dilutive securities*	<u>-</u>	<u>-</u>	<u>40,424</u>
Denominator for diluted income per share — weighted average shares and assumed conversions	<u>9,969,616</u>	<u>10,285,511</u>	<u>10,691,775</u>
Basic income (loss) per share:			
Net income (loss) per share — basic	<u>\$ (1.05)</u>	<u>\$ (0.19)</u>	<u>\$ 0.77</u>
Diluted income (loss) per share:			
Net income (loss) per share — diluted	<u>\$ (1.05)</u>	<u>\$ (0.19)</u>	<u>\$ 0.77</u>

*Due to the net losses in 2020 and 2019, the potentially dilutive securities would have been anti-dilutive and are therefore excluded.

For fiscal 2020, 2019 and 2018, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Unvested restricted shares	34,500	90,153	45,036
Stock options	5,250	5,250	-

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

18. Segment Information

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

- **Wholesale.** The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned stores 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. Our wholesale segment also includes our holdings of short-term investments and retail real estate previously leased as licensee stores. The earnings and costs associated with these assets are included in other loss, net, in our consolidated statements of operations.
- **Retail – Company-owned stores.** Our retail segment consists of Company-owned stores and includes the revenues, expenses, assets and liabilities and capital expenditures directly related to these stores and the Company-owned distribution network utilized to deliver products to our retail customers.
- **Logistical services.** With our acquisition of Zenith in 2015, we created the logistical services operating segment which reflects the operations of Zenith. In addition to providing shipping and warehousing services for the Company, Zenith also provides similar services to other customers, primarily in the furniture industry. Revenue from the performance of these services to other customers is included in logistics revenue in our consolidated statement of operations. Zenith's operating costs are included in selling, general and administrative expenses and total \$73,913, \$78,220 and \$81,468 for fiscal 2020, 2019 and 2018, respectively.

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

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:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Sales			
Wholesale	\$ 221,075	\$ 261,105	\$ 255,958
Retail	211,944	268,693	268,883
Logistical services	75,158	80,074	82,866
Inter-company eliminations:			
Furniture and accessories	(95,347)	(125,933)	(122,372)
Logistical services	(26,967)	(31,852)	(28,480)
Consolidated	<u>\$ 385,863</u>	<u>\$ 452,087</u>	<u>\$ 456,855</u>
Income (loss) from Operations			
Wholesale	\$ 4,587	\$ 11,456	\$ 12,274
Retail	(9,497)	(7,009)	(312)
Logistical services	1,245	1,855	1,398
Inter-company elimination	2,647	1,144	1,494
Asset impairment charges	(12,184)	(4,431)	(469)
Goodwill impairment charge	(1,971)	(1,926)	-
Early retirement program	-	(835)	-
Litigation expense	(1,050)	(700)	-
Lease exit costs	-	(149)	(301)
Consolidated income from operations	<u>\$ (16,223)</u>	<u>\$ (595)</u>	<u>\$ 14,084</u>
Depreciation and Amortization			
Wholesale	\$ 3,125	\$ 3,178	\$ 3,038
Retail	6,578	6,303	6,096
Logistical services	3,777	4,019	4,069
Consolidated	<u>\$ 13,480</u>	<u>\$ 13,500</u>	<u>\$ 13,203</u>
Capital Expenditures			
Wholesale	\$ 2,434	\$ 5,650	\$ 4,194
Retail	695	8,473	12,769
Logistical services	2,900	3,627	1,338
Consolidated	<u>\$ 6,029</u>	<u>\$ 17,750</u>	<u>\$ 18,301</u>
Identifiable Assets			
Wholesale	\$ 176,243	\$ 144,392	\$ 144,209
Retail	169,105	91,997	96,241
Logistical services	57,201	39,377	51,191
Consolidated	<u>\$ 402,549</u>	<u>\$ 275,766</u>	<u>\$ 291,641</u>

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

	<u>2020</u>		<u>2019</u>		<u>2018</u>	
Bassett Custom Upholstery	\$ 128,200	58.0%	\$ 152,415	58.4%	\$ 141,321	55.2%
Bassett Leather	21,436	9.7%	19,220	7.4%	21,589	8.4%
Bassett Custom Wood	39,311	17.8%	46,082	17.6%	46,074	18.0%
Bassett Casegoods	32,128	14.5%	40,920	15.7%	42,875	16.8%
Accessories (1)	-	0.0%	2,468	0.9%	4,099	1.6%
Total	<u>\$ 221,075</u>	<u>100.0%</u>	<u>\$ 261,105</u>	<u>100.0%</u>	<u>\$ 255,958</u>	<u>100.0%</u>

- (1) Beginning with the third quarter of fiscal 2019, our wholesale segment no longer purchases accessory items for resale to our retail segment or to third party customers such as licensees or independent furniture retailers. Our retail segment and third party customers now source their accessory items directly from the accessory vendors.

Notes to Consolidated Financial Statements - Continued

(In thousands, except share and per share data)

19. Quarterly Results of Operations

	2020			
	First Quarter	Second Quarter (1)	Third Quarter (2)	Fourth Quarter (3)
Sales revenue:				
Furniture and accessories	\$ 98,942	\$ 53,000	\$ 80,341	\$ 105,389
Logistics	13,178	10,801	11,218	12,994
Total sales revenue	112,120	63,801	91,559	118,383
Cost of furniture and accessories sold	45,270	29,452	38,418	50,427
Income (loss) from operations	2,210	(31,229)	2,747	10,049
Net income (loss)	1,210	(20,352)	2,178	6,543
Basic earnings (loss) per share	0.12	(2.04)	0.22	0.65
Diluted earnings (loss) per share	0.12	(2.04)	0.22	0.65
	2019			
	First Quarter (4)	Second Quarter	Third Quarter	Fourth Quarter (5)
Sales revenue:				
Furniture and accessories	\$ 107,357	\$ 95,824	\$ 98,369	\$ 102,315
Logistics	13,484	12,366	11,050	11,322
Total sales revenue	120,841	108,190	109,419	113,637
Cost of furniture and accessories sold	49,177	42,530	42,246	45,291
Income from operations	949	701	3,400	(5,645)
Net income	608	445	2,157	(5,138)
Basic earnings per share	0.06	0.04	0.21	(0.50)
Diluted earnings per share	0.06	0.04	0.21	(0.50)

The first quarter of fiscal 2019 included 14 weeks. All other quarters shown above for fiscal 2020 and 2019 consisted of 13-week fiscal periods.

- (1) Loss from operations reflects the severe impact of the COVID-19 pandemic on our operations due to the temporary closure of substantially all of our operations during the quarter (see Note 1) and includes a goodwill impairment charge of \$1,971 (see Note 8), asset impairment charges of \$12,184 and a litigation expense accrual of \$1,050 (see Note 14). Net loss includes the benefit of carrying back the loss to tax years with 35% federal statutory rate as provided for in the CARES Act (see Note 13).
- (2) Net income includes a non-taxable gain of \$914 arising from the recognition of a death benefit from Company-owned life insurance (see Note 14).
- (3) Income from operations includes a gain of \$1,161 arising from the settlement of a lease obligation (see Note 14).
- (4) Income from operations includes a charge of \$835 arising from certain eligible employees' acceptance of voluntary early retirement package (see Note 14).
- (5) Loss from operations includes a charge for the impairment of goodwill of \$1,926 (see Note 8) and charges of \$4,431, \$700 and \$149 for impairment of long-lived assets, litigation costs and lease termination costs, respectively (see Note 14).

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.

(In thousands)	2020	2019	2018	2017	2016
Net sales	\$ 385,863	\$ 452,087	\$ 456,855	\$ 452,503	\$ 432,038
Operating income (loss)	\$ (16,223) ⁽¹⁾	\$ (595) ⁽¹⁾	\$ 14,084 ⁽¹⁾	\$ 27,018 ⁽¹⁾	\$ 28,193
Other income (loss), net	\$ (563)	\$ (1,145)	\$ (1,878)	\$ 858 ⁽²⁾	\$ (2,416)
Income before income taxes	\$ (16,786)	\$ (1,740)	\$ 12,206	\$ 27,876	\$ 25,777
Income tax expense (benefit)	\$ (6,365) ⁽³⁾	\$ 188	\$ 3,988 ⁽⁴⁾	\$ 9,620	\$ 9,948
Net income	\$ (10,421)	\$ (1,928)	\$ 8,218	\$ 18,256	\$ 15,829
Diluted earnings per share	\$ (1.05)	\$ (0.19)	\$ 0.77	\$ 1.70	\$ 1.46
Cash dividends declared	\$ 4,545	\$ 5,133	\$ 4,496	\$ 8,266	\$ 7,345
Cash dividends per share	\$ 0.46	\$ 0.50	\$ 0.47	\$ 0.77	\$ 0.68
Total assets	\$ 402,549 ⁽⁵⁾	\$ 275,766	\$ 293,748	\$ 293,748	\$ 278,267
Long-term debt	\$ -	\$ -	\$ 329	\$ 329	\$ 3,821
Current ratio	1.36 to 1	1.89 to 1	1.82 to 1	1.91 to 1	1.83 to 1
Book value per share	\$ 15.89	\$ 17.66	\$ 18.08	\$ 17.83	\$ 16.85

- (1) Fiscal 2020 operating loss includes asset impairment charges, a goodwill impairment charge and litigation costs totaling \$15,205. Fiscal 2019 operating income includes asset impairment charges, a goodwill impairment charge, litigation costs, early retirement program charges and lease exit costs totaling \$8,041. Fiscal 2018 operating income includes restructuring and asset impairment charges and lease exit costs totaling \$770. Fiscal 2017 operating income includes a gain of \$1,220 resulting from the sale of our retail store in Las Vegas, Nevada. Fiscal 2016 operating income includes the benefit of a \$1,428 award received from the settlement of class action litigation. See Note 14 to the Consolidated Financial Statements for additional information related to each of these items.
- (2) Fiscal 2017 includes \$4,221 of gains resulting from the sale of investments, and an impairment charge of \$1,084 retail real estate held for investment (see Note 2 to the Consolidated Financial Statements).
- (3) Fiscal 2020 income tax benefit includes a federal tax benefit of \$3,038 arising from the carryback of net operating losses to years with a 35% statutory rate due to enactment of the CARES Act (see Note 13 to the Consolidated Financial Statements).
- (4) Fiscal 2018 income tax expense includes a charge of \$1,331 resulting from the remeasurement of our deferred tax assets following the reduction of federal income tax rates with the enactment of the Tax Cuts and Jobs Act (see Note 13 to the Consolidated Financial Statements).
- (5) Fiscal 2020 total assets include right of use assets under operating leases in the amount of \$116,903 recognized following the adoption of Accounting Standards Update 2016-02, Leases (Topic 842) as of the beginning of fiscal 2020. Prior years were not restated under the transition method which we elected (see “Leases” under Note 2 to the Consolidated Financial Statements).

Bassett Furniture Industries, Incorporated

Schedule II

Analysis of Valuation and Qualifying Accounts
For the Years Ended November 28, 2020, November 30, 2019 and November 24, 2018
(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 24, 2018:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 617	\$ 339	\$ (252)	\$ 50 (2)	\$ 754
Notes receivable valuation reserves	\$ 1,454	\$ -	\$ (1,077)	\$ -	\$ 377
For the Year Ended November 30, 2019:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 754	\$ 61	\$ -		\$ 815
Notes receivable valuation reserves	\$ 377	\$ -	\$ (18)	\$ -	\$ 359
For the Year Ended November 28, 2020:					
Reserve deducted from assets to which it applies					
Allowance for doubtful accounts	\$ 815	\$ 492	\$ (96)	\$ -	\$ 1,211
Notes receivable valuation reserves	\$ 359	\$ -	\$ (18)	\$ -	\$ 341

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

(2) Represents reserves of acquired business at date of acquisition.

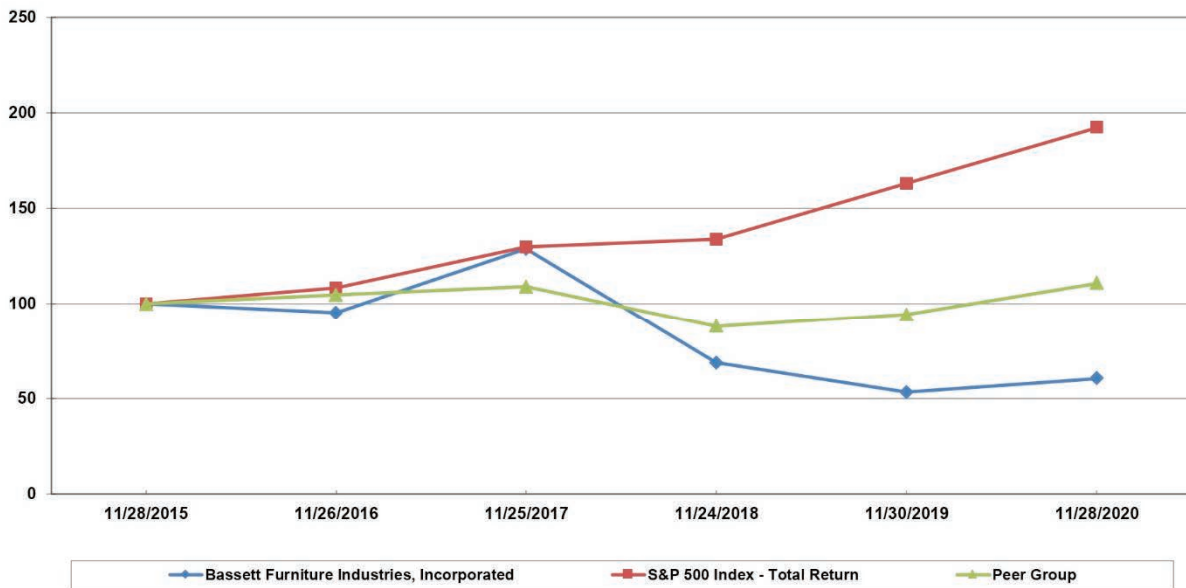
STOCKHOLDER PERFORMANCE GRAPH

Presented below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on the Company's Common Stock against the cumulative total return of the Standard & Poor's 500 Index and the Company's peer group. The Company's peer group consists of the following:

American Woodmark, Inc.
 Culp, Inc.
 The Dixie Group, Inc.
 Ethan Allan Interiors, Inc.
 Flexsteel Industries, Inc.
 Haverty Furniture Companies, Inc.
 Hooker Furniture Corporation
 Kimball International, Inc.
 Kirkland's, Inc.
 La-Z-Boy Incorporated
 Nautilus, Inc.

This graph assumes that \$100 was invested on November 28, 2015 in the Company's Common Stock, the S&P Index and the peer group and that any dividends paid were invested. Tile Shop Holdings, Inc. is no longer included in our peer group as its common stock is no longer publicly traded.

Comparison of 5 Year Cumulative Total Return
 Assumes Initial Investment of \$100
 November 2020



Assumes \$100 Invested on November 28, 2015
 Assumes Dividends Reinvested

Management’s Report of Internal Control over Financial Reporting

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 to provide reasonable assurance 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 28, 2020 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 28, 2020, 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

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bassett Furniture Industries, Incorporated and Subsidiaries (the Company) as of November 28, 2020 and November 30, 2019, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended November 28, 2020, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at November 28, 2020 and November 30, 2019, and the results of its operations and its cash flows for each of the three years in the period ended November 28, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of November 28, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated January 21, 2021 expressed an unqualified opinion thereon.

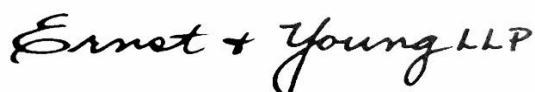
Adoption of ASU No. 2016-02

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for leases in fiscal year 2020 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended, effective December 1, 2019, using the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



We have served as the Company's auditor since 2002.
Richmond, Virginia
January 21, 2021

Report of Independent Registered Public Accounting Firm

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

Opinion on Internal Control over Financial Reporting

We have audited Bassett Furniture Industries, Incorporated and Subsidiaries' internal control over financial reporting as of November 28, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, Bassett Furniture Industries, Incorporated and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of November 28, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of November 28, 2020 and November 30, 2019, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended November 28, 2020, and the related notes and schedule and our report dated January 21, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

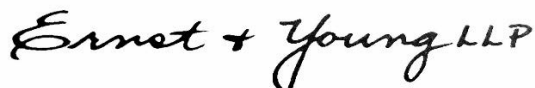
We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

The logo for Ernst & Young LLP is written in a cursive, handwritten-style font. The letters are dark and the overall appearance is that of a signature or a stylized brand mark.

Richmond, Virginia
January 21, 2021

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INVESTOR INFORMATION

Internet Site

Our site on the Internet has been updated recently and is filled with information about Bassett Furniture, including this annual report, detailed financial information and updates, information about our home furnishings products, and a dealer locator of Bassett stores and other stores that feature Bassett products. Visit us at bassettfurniture.com.

Forward Looking Statements

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation and Reform Act of 1995 and within the meaning of Sections 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Annual Report the words “hope,” “believe,” “expect,” “plan” or “planned,” “intend,” “anticipate,” “potential” and similar expressions are intended to identify forward-looking statements. Readers are cautioned against placing undue reliance on these statements. Such statements, including but not limited to those regarding increases in sales, improving gross margins, growth in earnings per share, and the operating performance of licensed Bassett stores are based upon management’s beliefs, as well as assumptions made by and information currently available to management, and involve various risks and uncertainties, certain of which are beyond the Company’s control. The Company’s actual results could differ materially from those expressed in any forward-looking statement made by or on behalf of the Company.

If the Company does not attain its goals, its business and results of operations might be adversely affected. For a discussion of factors that may impair the Company’s ability to achieve its goals, please see the cautionary statements in the Management’s Discussion and Analysis section of this Annual Report.

Corporate Information and Investor Inquiries

Our annual report and proxy statement together contain much of the information presented in the Form 10-K report filed with the Securities and Exchange Commission. Individuals who wish to receive the Form 10-K or other corporate literature should visit our website at bassettfurniture.com or contact Investor Relations, at 276.629.6000.

Transfer Agent - Stockholder Inquiries

Stockholders with inquiries relating to stockholder records, stock transfers, change of ownership, change of address or dividend payments should write to:
American Stock Transfer & Trust Company, LLC
Operations Center <https://www.google.com/620115thAvenue>
Brooklyn, NY 11219
Toll free: (800) 937-5449
Local & International: (718) 921-8124
Email: info@astfinancial.com
Web site: www.astfinancial.com

Annual Meeting

The Bassett Annual Meeting of Shareholders will be held Wednesday, March 10, 2021 at 10 a.m. EST virtually.

Market and Dividend Information

Bassett’s common stock trades on the NASDAQ national market system under the symbol “BSET.” We had 3,400 beneficial stockholders as of January 15, 2021. 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:

Quarter	MARKET PRICES OF COMMON STOCK				DIVIDENDS DECLARED	
	2020		2019		2020	2019
	HIGH	LOW	HIGH	LOW		
First	\$17.02	\$9.71	\$21.95	\$18.11	\$0.125	\$0.125
Second	9.93	4.35	20.04	14.61	0.125	0.125
Third	12.72	6.13	16.23	11.64	0.08	0.125
Fourth	17.42	12.07	18.24	11.76	0.125	0.125

BOARD OF DIRECTORS

ROBERT H. SPILMAN, JR.

Chairman of the Board and Chief Executive Officer
Bassett Furniture Industries, Inc.

EMMA S. BATTLE

Chief Executive Officer
Market Vigor, LLC

JOHN R. BELK

Former President and Chief Operating Officer
Belk, Inc.
Private Investor

KRISTINA K. CASHMAN

Former Chief Financial Officer
Upward Projects, LLC

VIRGINIA W. HAMLET

Founder and Owner
Hamlet Vineyards, LLC

J. WALTER MCDOWELL

Former Chief Executive Officer
Carolinas/Virginia Banking
Wachovia Corporation

WILLIAM C. WAMPLER, JR.

Managing Member, WTX, LLC
Former Member, Senate of Virginia

WILLIAM C. WARDEN, JR.

Lead Independent Director of Bassett Furniture Industries, Inc.
Former Executive Vice President
Lowe's Companies, Inc.

OFFICERS

ROBERT H. SPILMAN, JR.

Chairman of the Board and Chief Executive Officer

DAVID C. BAKER

Senior Vice President, Chief Retail Officer

JOHN E. BASSETT, III

Senior Vice President, Chief Operations Officer

BRUCE R. COHENOUR

Senior Vice President, Chief Sales Officer

J. MICHAEL DANIEL

Senior Vice President, Chief Financial & Administrative
Officer

JACK L. HAWN, JR.

Senior Vice President, Bassett
President, Zenith

KARA KELCHNER-STRONG

Senior Vice President, Customer Experience Officer

JAY R. HERVEY

Vice President, Secretary, General Counsel

EDWIN C. AVERY, JR.

Vice President, Upholstery Product Development

BRIAN W. CLASPELL

Vice President, Chief Information Officer

NICHOLAS C. GEE

Vice President, Corporate Retail Sales

DRURY E. INGRAM

Vice President, Corporate Controller

MATTHEW S. JOHNSON

Vice President, Sales

MIKE R. KREIDLER

Vice President, Upholstery

BETH A. LARSON

Vice President, Upholstery Finance & Administration

PETER D. MORRISON

Vice President, Chief Creative Officer

LOUIS C. MOSSOTTI, JR.

Vice President, Corporate Retail – Southeast Region

J. CARTER UNDERWOOD

Vice President, Wood Operations

EDWARD H. WHITE

Vice President, Human Resources

Bassett[®]

Bassett, Virginia

NASDAQ : BSET