

BASSETT FURNITURE INDUSTRIES INC
Form 10-Q
October 02, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended August 30, 2014

OR

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

For the transition period from _____ to _____

Commission File No. 0-209

BASSETT FURNITURE INDUSTRIES, INCORPORATED

(Exact name of Registrant as specified in its charter)

Virginia
(State or other jurisdiction)

54-0135270
(I.R.S. Employer)

of incorporation or organization) Identification No.)

3525 Fairystone Park Highway

Bassett, Virginia 24055

(Address of principal executive offices)

(Zip Code)

(276) 629-6000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company.

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

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

At September 19, 2014, 10,495,177 shares of common stock of the Registrant were outstanding.

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATIONITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGSFOR THE PERIODS ENDED AUGUST 30, 2014 AND AUGUST 31, 2013 – UNAUDITED

(In thousands except per share data)

| | Quarter Ended | | Nine Months Ended | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | August 30, 2014 | August 31, 2013 | August 30, 2014 | August 31, 2013 |
| Net sales | \$85,186 | \$77,152 | \$246,018 | \$238,224 |
| Cost of sales | 40,168 | 38,429 | 115,434 | 116,315 |
| Gross profit | 45,018 | 38,723 | 130,584 | 121,909 |
| Selling, general and administrative expenses excluding new store pre-opening costs | 41,510 | 37,822 | 120,991 | 115,017 |
| New store pre-opening costs | 109 | 78 | 1,217 | 295 |
| Income from operations | 3,399 | 823 | 8,376 | 6,597 |
| Other loss, net | (65) | (229) | (52) | (1,026) |
| Income before income taxes | 3,334 | 594 | 8,324 | 5,571 |
| Income tax expense | 1,078 | 38 | 2,674 | 2,082 |
| Net income | \$2,256 | \$556 | \$5,650 | \$3,489 |
| Retained earnings-beginning of period | 105,297 | 106,167 | 104,526 | 104,319 |
| Purchase and retirement of common stock | (859) | - | (2,174) | - |
| Cash dividends | (836) | (656) | (2,144) | (1,741) |
| Retained earnings-end of period | \$105,858 | \$106,067 | \$105,858 | \$106,067 |
| Basic earnings per share | \$0.22 | \$0.05 | \$0.54 | \$0.33 |
| Diluted earnings per share | \$0.21 | \$0.05 | \$0.53 | \$0.32 |

| | | | | |
|---------------------|--------|--------|--------|--------|
| Dividends per share | \$0.08 | \$0.06 | \$0.20 | \$0.16 |
|---------------------|--------|--------|--------|--------|

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

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PART I – FINANCIAL INFORMATION – CONTINUEDITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOMEFOR THE PERIODS ENDED AUGUST 30, 2014 AND AUGUST 31, 2013 – UNAUDITED(In thousands)

| | Quarter Ended | | Nine Months Ended | |
|--|----------------------|-------------------|--------------------------|-------------------|
| | August 30, | August 31, | August 30, | August 31, |
| | 2014 | 2013 | 2014 | 2013 |
| Net income | \$2,256 | \$ 556 | \$5,650 | \$3,489 |
| Other comprehensive income: | | | | |
| Amortization associated with supplemental executive retirement defined benefit plan (SERP) | 41 | 31 | 124 | 93 |
| Income taxes related to SERP | (16) | (12) | (48) | (36) |
| Other comprehensive income, net of tax | 25 | 19 | 76 | 57 |
| Total comprehensive income | \$2,281 | \$ 575 | \$5,726 | \$3,546 |

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

PART I – FINANCIAL INFORMATION – CONTINUEDITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEETSAUGUST 30, 2014 AND NOVEMBER 30, 2013

(In thousands)

| | (Unaudited) | |
|--|----------------------------|------------------------------|
| | August 30, 2014 | November 30, 2013 |
| <u>Assets</u> | | |
| Current assets | | |
| Cash and cash equivalents | \$ 19,442 | \$ 12,733 |
| Short-term investments | 23,125 | 28,125 |
| Accounts receivable, net | 15,897 | 16,080 |
| Inventories | 54,220 | 53,069 |
| Deferred income taxes | 4,691 | 4,418 |
| Other current assets | 8,612 | 11,949 |
| Total current assets | 125,987 | 126,374 |
| Property and equipment, net | 74,169 | 64,271 |
| Retail real estate | 6,390 | 10,435 |
| Deferred income taxes | 9,579 | 10,734 |
| Other | 14,661 | 14,035 |
| Total long-term assets | 30,630 | 35,204 |
| Total assets | \$ 230,786 | \$ 225,849 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities | | |
| Accounts payable | \$ 20,437 | \$ 19,892 |
| Accrued compensation and benefits | 7,660 | 6,503 |
| Customer deposits | 20,084 | 16,214 |
| Dividends payable | - | 2,172 |
| Other accrued liabilities | 8,072 | 6,660 |
| Total current liabilities | 56,253 | 51,441 |
| Long-term liabilities | | |
| Post employment benefit obligations | 10,354 | 11,146 |

| | | |
|-----------------------------|--------|--------|
| Real estate notes payable | 2,245 | 2,467 |
| Other long-term liabilities | 4,753 | 3,386 |
| Total long-term liabilities | 17,352 | 16,999 |

Stockholders' equity

| | | |
|---|-------------------|-------------------|
| Common stock | 52,661 | 54,297 |
| Retained earnings | 105,858 | 104,526 |
| Accumulated other comprehensive loss | (1,338) | (1,414) |
| Total stockholders' equity | 157,181 | 157,409 |
| Total liabilities and stockholders' equity | \$ 230,786 | \$ 225,849 |

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

PART I – FINANCIAL INFORMATION – CONTINUEDITEM 1. FINANCIAL STATEMENTSBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESCONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE PERIODS ENDED AUGUST 30, 2014 AND AUGUST 31, 2013 – UNAUDITED

(In thousands)

| | Nine Months Ended | |
|---|------------------------------|----------------------------|
| | August 30, 2014 | August 31, 2013 |
| Operating activities: | | |
| Net income | \$5,650 | \$3,489 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 5,428 | 4,445 |
| Equity in undistributed income of investments and unconsolidated affiliated companies | (534) | (466) |
| Tenant improvement allowances received from lessors | 2,119 | - |
| Deferred income taxes | 882 | 1,284 |
| Collateral deposited with insurance carrier | (1,150) | - |
| Other, net | (165) | (888) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 19 | (656) |
| Inventories | (1,151) | (559) |
| Other current assets | 732 | (3,864) |
| Customer deposits | 3,870 | 2,787 |
| Accounts payable and accrued liabilities | 2,570 | (5,469) |
| Net cash provided by operating activities | 18,270 | 103 |
| Investing activities: | | |
| Purchases of property and equipment | (15,210) | (9,547) |
| Proceeds from sale of retail real estate and property and equipment | 5,157 | 958 |
| Proceeds from sale of interest in affiliate | 2,348 | 2,348 |
| Proceeds from maturity of short-term investments | 5,000 | - |
| Purchases of investments | - | (28,125) |
| Other | 246 | 88 |
| Net cash used in investing activities | (2,459) | (34,278) |
| Financing activities: | | |
| Cash dividends | (4,316) | (2,283) |

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| | | |
|---|-----------------|-----------------|
| Issuance of common stock | 275 | 643 |
| Repurchases of common stock | (4,621) | (759) |
| Repayments of real estate notes payable | (208) | (179) |
| Taxes paid related to net share settlement of equity awards | (489) | (226) |
| Excess tax benefits from stock-based compensation | 257 | 317 |
| Net cash used in financing activities | (9,102) | (2,487) |
| Change in cash and cash equivalents | 6,709 | (36,662) |
| Cash and cash equivalents - beginning of period | 12,733 | 45,566 |
| Cash and cash equivalents - end of period | \$19,442 | \$8,904 |

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

1. Basis of Presentation

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

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

The condensed consolidated financial statements include the accounts of Bassett Furniture Industries, Incorporated (“Bassett”, “we”, “our”, or the “Company”) and our wholly-owned subsidiaries of which we have operating control. The equity method of accounting is used for our investments in affiliated companies in which we exercise significant influence but do not maintain control. In accordance with ASC Topic 810, we have evaluated our licensees and certain other entities to determine whether they are variable interest entities (“VIEs”) of which we are the primary beneficiary and thus would require consolidation in our financial statements. To date we have concluded that none of our licensees nor any other of our counterparties represent VIEs.

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, 2013 was a 53-week year, with the additional week being included in the first fiscal quarter. Accordingly, the information presented below includes 39 weeks of operations for the nine months ended August 30, 2014 as compared with 40 weeks included for the nine months ended August 31, 2013.

2. Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements. The results of operations for the three month and nine months ended August 30, 2014 are not necessarily indicative of results for the full fiscal year. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended November 30, 2013.

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rate for the three and nine months ended August 30, 2014 differs from the federal statutory rate primarily due to the effects of state income taxes, permanent differences resulting from non-deductible expenses, non-taxable life insurance proceeds, and the expiration of the statute of limitations on certain previously unrecognized tax benefits. The benefit arising from the expiration of that statute of limitations on certain previously unrecognized tax benefits was \$111 for the three and nine months ended August 30, 2014 and \$221 for the three and nine months ended August 31, 2013. During the second quarter of 2014, the state of New York enacted legislation affecting various corporate tax issues, including the usage of state net operating losses. Based on this legislation, prior limitations on our ability to use those net operating losses have been removed. Thus, we have changed our realization assessment for the deferred tax assets associated with those net operating losses and removed the related valuation allowance resulting in a tax benefit of \$190 for the nine months ended August 30, 2014. Our federal tax return for the fiscal year ended November 24, 2012 is currently under examination by the Internal Revenue Service.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

3. Accounts Receivable

Accounts receivable consists of the following:

| | August 30, 2014 | November 30, 2013 |
|---------------------------------|-----------------------|-------------------------|
| Gross accounts receivable | \$17,440 | \$ 17,687 |
| Allowance for doubtful accounts | (1,543) | (1,607) |
| Accounts receivable, net | \$15,897 | \$ 16,080 |

At August 30, 2014 and November 30, 2013 approximately 49% and 50%, respectively, of gross accounts receivable, and approximately 68% and 64%, respectively, of the allowance for doubtful accounts were attributable to amounts owed to us by our licensees. Our remaining receivables are primarily due from national account and traditional distribution channel customers.

Activity in the allowance for doubtful accounts was as follows:

| | 2014 | 2013 |
|---------------------------------|---------|---------|
| Balance at November 30, 2013 | \$1,607 | \$1,789 |
| Additions charged to expense | 164 | 361 |
| Write-offs and other deductions | (228) | (543) |
| Balance at August 30, 2014 | \$1,543 | \$1,607 |

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 10.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 30, 2014(Dollars in thousands except share and per share data)**4. Inventories**

Inventories are valued at the lower of cost or market. Cost is determined for domestic furniture inventories using the last-in, first-out (LIFO) method. The costs for imported inventories are determined using the first-in, first-out (FIFO) method.

Inventories were comprised of the following:

| | August 30, 2014 | November 30, 2013 |
|---|-----------------------|-------------------------|
| Wholesale finished goods | \$27,801 | \$ 28,450 |
| Work in process | 311 | 277 |
| Raw materials and supplies | 8,398 | 8,029 |
| Retail merchandise | 26,949 | 25,167 |
| Total inventories on first-in, first-out method | 63,459 | 61,923 |
| LIFO adjustment | (7,943) | (7,561) |
| Reserve for excess and obsolete inventory | (1,296) | (1,293) |
| | \$54,220 | \$ 53,069 |

We estimate an inventory reserve for excess quantities and obsolete items based on specific identification and historical write-offs, taking into account future demand, market conditions and the respective valuations at LIFO. The need for these reserves is primarily driven by the normal product life cycle. As products mature and sales volumes decline, we rationalize our product offerings to respond to consumer tastes and keep our product lines fresh. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required. In determining reserves, we calculate separate reserves on our wholesale and retail inventories. Our wholesale inventories tend to carry the majority of the reserves for excess quantities and obsolete inventory due to the nature of our distribution model. These wholesale reserves primarily represent design and/or style obsolescence.

Typically, product is not shipped to our retail warehouses until a consumer has ordered and paid a deposit for the product. We do not typically hold retail inventory for stock purposes. Consequently, floor sample inventory and inventory for delivery to customers account for the majority of our inventory at retail. Retail reserves are based on accessory and clearance floor sample inventory in our stores and any inventory that is not associated with a specific customer order in our retail warehouses.

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

| | Wholesale Segment | Retail Segment | Total |
|------------------------------|----------------------|-------------------|----------|
| Balance at November 30, 2013 | \$ 1,001 | \$ 292 | \$ 1,293 |
| Additions charged to expense | 923 | 316 | 1,239 |
| Write-offs | (984) | (252) | (1,236) |
| Balance at August 30, 2014 | \$ 940 | \$ 356 | \$ 1,296 |

Our estimates and assumptions have been reasonably accurate in the past. We have not made any significant changes to our methodology for determining inventory reserves in 2014 and do not anticipate that our methodology is likely to change in the future.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

5. Unconsolidated Affiliated Companies

We own 49% of Zenith Freight Lines, LLC, (“Zenith”) which provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors, and also provides home delivery services to furniture retailers. We have contracted with Zenith to provide for substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for several of our Company-owned retail stores. Our investment in Zenith was \$7,787 and \$7,254 at August 30, 2014 and November 30, 2013, respectively. At August 30, 2014 and November 30, 2013, we owed Zenith \$2,234 and \$2,580, respectively, for services rendered to us. We believe the transactions with Zenith are at current market rates. We recorded the following income from Zenith in other loss, net, in our condensed consolidated statements of income and retained earnings:

| | Quarter Ended | | Nine Months Ended | |
|---------------------|---------------|------------|-------------------|------------|
| | August 30, | August 31, | August 30, | August 31, |
| | 2014 | 2013 | 2014 | 2013 |
| Earnings recognized | \$ 190 | \$ 184 | \$ 534 | \$ 466 |

In connection with the sale of our interest in International Home Furnishings Center, Inc. on May 2, 2011, \$2,348 remained held in escrow at November 30, 2013, and was included as a receivable in other current assets in our condensed consolidated balance sheets. This escrow was released to us in full during the second quarter of fiscal 2014.

6. Real Estate Notes Payable and Bank Credit Facility

Real Estate Notes Payable

The real estate notes payable are summarized as follows:

| | August 30, | November 30, |
|--|---------------|-----------------|
| | 2014 | 2013 |
| Real estate notes payable | \$2,538 | \$ 2,746 |
| Less: | | |
| Current portion of real estate notes payable | (293) | (279) |
| | \$2,245 | \$ 2,467 |

Two of our retail real estate properties have been financed through commercial mortgages with interest rates of 6.73%. These mortgages are collateralized by the respective properties with net book values totaling approximately \$6,161 and \$6,262 at August 30, 2014 and November 30, 2013, respectively. The portion of these mortgages due within one year, \$293 and \$279 as of August 30, 2014 and November 30, 2013, respectively, is included in other current liabilities in the accompanying condensed consolidated balance sheets. The long-term portion, \$2,245 and \$2,467 as of August 30, 2014 and November 30, 2013, respectively, is presented as real estate notes payable in the condensed consolidated balance sheets.

The fair value of these mortgages was \$2,498 and \$2,684 at August 30, 2014 and November 30, 2013, respectively. In determining the fair value, we utilized current market interest rates for similar instruments. The inputs into these fair value calculations reflect our market assumptions and are not observable. Consequently, the inputs are considered to be Level 3 as specified in the fair value hierarchy in ASC Topic 820, *Fair Value Measurements and Disclosures*. See Note 10.

Bank Credit Facility

Our credit facility with our bank provides for a line of credit of up to \$15,000 and is secured by our accounts receivable and inventory. The facility contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

At August 30, 2014, we had \$216 outstanding under standby letters of credit, leaving availability under our credit line of \$14,784.

7. Contingencies

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

During fiscal 2012, the U.S. Customs and Border Protection (“Customs”) made a distribution to us of \$9,010 representing our share of the final distribution of duties that have been withheld by Customs under the Continued Dumping and Subsidy Offset Act of 2000 (“CDSOA”). We have received annual distributions in past years under the CDSOA as a result of our support of an antidumping petition on imports of wooden bedroom furniture from China. Certain manufacturers who did not support the antidumping petition (“Non-Supporting Producers”) filed actions in the United States Court of International Trade challenging the CDSOA’s “support requirement” and seeking to share in the distributions. As a result, Customs held back a portion of those distributions (“the Holdback”) pending resolution of the Non-Supporting Producers’ claims. The Court of International Trade dismissed all of the actions of the Non-Supporting Producers, who appealed to the United States Court of Appeals for the Federal Circuit (“the Court of Appeals”). The Court of Appeals denied the Non-Supporting Producers’ request for an injunction to block the final distribution of the Holdback and allowed Customs to distribute the funds in April of 2012. The Court of Appeals held oral arguments on March 8, 2013 concerning the appeals, and on August 19, 2013 a three-judge panel ruled against the appellants in a two-to-one decision. The Non-Supporting Producers’ request for an en banc rehearing by the full Court of Appeals was denied. On May 2, 2014 the Non-Supporting Producers filed a petition for a writ of certiorari with the U.S. Supreme Court. We do not know whether the Supreme Court will grant certiorari. Should any action by the Supreme Court or, on remand, by a lower court result in the reversal of the earlier decisions of the Federal Circuit which determined that the Non-Supporting Producers were not entitled to CDSOA distributions, it is possible that Customs may seek to have us return all or a portion of our share of the distribution. However, we believe that the likelihood of such an outcome is remote.

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. We had obligations of \$94,427 and \$96,421 at August 30, 2014 and November 30, 2013, respectively, for future minimum lease payments under non-cancelable operating leases having initial terms in excess of one year.

We also have guaranteed certain lease obligations of licensee operators. Lease guarantees range from one to ten years. We were contingently liable under licensee lease obligation guarantees in the amount of \$3,795 and \$3,698 at August 30, 2014 and November 30, 2013, 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 (primarily inventory), and pursuing payment under the personal guarantees of the independent dealer. The proceeds of the above options are expected to cover the estimated amount of our future payments under the guarantee obligations, net of recorded reserves. The fair value of lease guarantees (an estimate of the cost to the Company to perform on these guarantees) at August 30, 2014 and November 30, 2013 was not material.

In June of 2014, we placed \$1,150 on deposit with one of our insurance carriers as security to guarantee our obligations under certain insurance policies. This deposit is included in other current assets in our condensed consolidated balance sheet as of August 30, 2014. Prior to June 2014, this collateral obligation was satisfied by a standby letter of credit.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

8. Post Employment Benefit Obligations

We have an unfunded Supplemental Retirement Income Plan (the “Supplemental Plan”) that covers one current and certain former executives. The liability for this plan was \$9,305 and \$9,775 as of August 30, 2014 and November 30, 2013, respectively, and is recorded as follows in the condensed consolidated balance sheets:

| | August 30, 2014 | November 30, 2013 |
|-------------------------------------|-----------------------|-------------------------|
| Accrued compensation and benefits | \$810 | \$ 810 |
| Post employment benefit obligations | 8,495 | 8,965 |
| Total pension liability | \$9,305 | \$ 9,775 |

Components of net periodic pension costs are as follows:

| Quarter Ended August 30, | | Nine Months Ended August 30, | |
|-----------------------------------|------|---------------------------------------|------|
| 2014 | 2013 | 2014 | 2013 |

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| | | | | |
|---------------------------------------|--------|--------|-------|--------|
| Service cost | \$20 | \$ 18 | \$59 | \$ 53 |
| Interest cost | 93 | 87 | 279 | 262 |
| Amortization of transition obligation | 10 | 11 | 32 | 32 |
| Amortization of loss | 31 | 20 | 92 | 61 |
| Net periodic pension cost | \$ 154 | \$ 136 | \$462 | \$ 408 |

We have an unfunded Deferred Compensation Plan that covers one current executive and certain former executives and provides for voluntary deferral of compensation. This plan has been frozen with no additional participants or deferrals permitted. During the third quarter of fiscal 2014, we recorded a credit to income of \$124 due to a change in our estimate of the future obligation of a former employee. We recognized expense (income) under this plan as follows:

| | Quarter Ended August 30, | | Nine Months Ended August 31, | |
|---|-----------------------------------|-------|---------------------------------------|--------|
| | 2014 | 2013 | 2014 | 2013 |
| Deferred compensation plan expense (income) | \$(52) | \$ 72 | \$92 | \$ 216 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

Our liability under this plan was \$2,232 and \$2,555 as of August 30, 2014 and November 30, 2013, respectively, and is recorded as follows in the condensed consolidated balance sheets:

| | August 30, 2014 | November 30, 2013 |
|---------------------------------------|-----------------------|-------------------------|
| Accrued compensation and benefits | \$ 373 | \$ 373 |
| Post employment benefit obligations | 1,859 | 2,182 |
| Total deferred compensation liability | \$2,232 | \$ 2,555 |

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PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 30, 2014(Dollars in thousands except share and per share data)**9. Earnings Per Share**

The following reconciles basic and diluted earnings per share:

| | Net Income | Weighted Average Shares | Net Income Per Share |
|--|---------------|-------------------------------|-------------------------------|
| <u>For the quarter ended August 30, 2014</u> | | | |
| Basic earnings per share | \$ 2,256 | 10,475,945 | \$ 0.22 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 135,209 | (0.01) |
| Diluted earnings per share | \$ 2,256 | 10,611,154 | \$ 0.21 |

For the quarter ended August 31, 2013:

| | | | |
|------------------------------------|--------|------------|---------|
| Basic earnings per share | \$ 556 | 10,742,625 | \$ 0.05 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 163,204 | - |
| Diluted earnings per share | \$ 556 | 10,905,829 | \$ 0.05 |

For the Nine Months ended August 30, 2014:

| | | | |
|------------------------------------|----------|------------|---------|
| Basic earnings per share | \$ 5,650 | 10,596,433 | \$ 0.54 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 138,627 | (0.01) |
| Diluted earnings per share | \$ 5,650 | 10,735,060 | \$ 0.53 |

For the Nine Months ended August 31, 2013:

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| | | | |
|------------------------------------|----------|------------|---------|
| Basic earnings per share | \$ 3,489 | 10,717,506 | \$ 0.33 |
| Add effect of dilutive securities: | | | |
| Options and restricted shares | - | 161,679 | (0.01) |
| Diluted earnings per share | \$ 3,489 | 10,879,185 | \$ 0.32 |

For the three and nine months ended August 30, 2014 and August 31, 2013, the following potentially dilutive shares were excluded from the computations as their effect was anti-dilutive:

| | Quarter Ended | | Nine Months Ended | |
|--------------------------------|-----------------|-----------------|-------------------|-----------------|
| | August 30, 2014 | August 31, 2013 | August 30, 2014 | August 31, 2013 |
| Stock options | 207,500 | 415,000 | 207,500 | 472,500 |
| Unvested shares | - | 70,000 | 66,339 | 81,295 |
| Total anti-dilutive securities | 207,500 | 485,000 | 273,839 | 553,795 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

10. Financial Instruments and Fair Value Measurements

Financial Instruments

Our financial instruments include cash and cash equivalents, short-term investments in certificates of deposit, accounts receivable, cost and equity 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. Our cost and equity method investments generally involve entities for which it is not practical to determine fair values.

Investments

Our short-term investments of \$23,125 and \$28,125 at August 30, 2014 and November 30, 2013, respectively, consisted of certificates of deposit (CDs) with original terms generally ranging from six to twelve months, bearing interest at rates ranging from 0.10% to 0.91%. At August 30, 2014, the weighted average remaining time to maturity of the CDs was approximately eight months and the weighted average yield of the CDs was approximately 0.208%. Each CD is placed with a Federally insured financial institution and all deposits are within Federal deposit insurance limits. Due to the nature of these investments and their relatively short maturities, the carrying amount of the short-term investments at August 30, 2014 and November 30, 2013 approximates their fair value.

We hold an investment in the Fortress Value Recovery Fund I, LLC ("Fortress"). Due to significant declines in net asset values during the first quarter of fiscal 2012, the highly illiquid nature of the investment, and the high degree of uncertainty regarding our ability to recover our investment in the foreseeable future, we fully impaired the carrying amount of this investment during the year ended November 24, 2012. During the three and nine months ended August

30, 2014, we recognized gains of \$18 and \$207, respectively, resulting from the partial liquidation of Fortress which is included in other loss, net in our consolidated statement of income. The timing and amount of future receipts, if any, from the liquidation of Fortress, remain uncertain, and will be recognized as gains in other income if and when notification of a distribution is received.

Fair Value Measurement

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

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

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

Level 3 Inputs– Instruments with primarily unobservable value drivers.

We believe that the carrying amounts of our current assets and current liabilities approximate fair value due to the short-term nature of these items. The recurring estimate of the fair value of our mortgages payable for disclosure purposes (see Note 6) involves Level 3 inputs.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

11. Asset Dispositions and Accrued Lease Exit Costs

Asset Dispositions

During the three and nine months ended August 30, 2014 we received proceeds from the disposition of investment real estate totaling \$3,750 and \$5,157, respectively. During the first quarter of fiscal 2014 we received \$1,407 from the sale of our retail real estate investment property in Henderson, Nevada. This property had been classified as held for sale and included in other current assets in our condensed consolidated balance sheet at November 30, 2013. During the third quarter of fiscal 2014 we received net proceeds in the amount of \$3,750 from the sale of our retail real estate investment property located in Denver, Colorado. This asset had been included in retail real estate in our condensed consolidated balance sheet at November 30, 2013. The gains associated with these dispositions for the three and nine months ended August 30, 2014 were not material.

Accrued Lease Exit Costs

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

| | |
|---|-------|
| Balance at November 30, 2013 | \$907 |
| Payments on unexpired leases | (456) |
| Accretion of interest on obligations and other | 32 |
| Balance at August 30, 2014 | \$483 |
| Current portion included in other accrued liabilities | \$140 |
| Long-term portion included in other long-term liabilities | 343 |
| | \$483 |

12. Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update No. 2013-11 (ASU 2013-11), which updated the guidance in ASC Topic 740, *Income Taxes*. The amendments in ASU 2013-11 generally provide guidance for the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. The guidance requires an unrecognized tax benefit to be presented as a decrease in a deferred tax asset where a net operating loss, a similar tax loss, or a tax credit carryforward exists and certain criteria are met. This guidance will become effective for us as of the beginning of our 2015 fiscal year and is consistent with our present practice.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08 (ASU 2014-08), which updated the guidance in ASC Topic 205, *Presentation of Financial Statements*, and ASC Topic 360, *Property, Plant and Equipment*. The amendments in ASU 2014-08 change the criteria for reporting discontinued operations for all public and nonpublic entities. The amendments also require new disclosures about discontinued operations and disposals of components of an entity that do not qualify for discontinued operations reporting. This guidance will become effective for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years, and therefore will become effective for us as of the beginning of our 2016 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITED

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASU 2014-09), which creates ASC Topic 606, *Revenue from Contracts with Customers*, and supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, ASU 2014-09 supersedes the cost guidance in Subtopic 605-35, *Revenue Recognition—Construction-Type and Production-Type Contracts*, and creates new Subtopic 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, and early application is not permitted. Therefore the amendments in ASU 2014-09 will become effective for us as of the beginning of our 2018 fiscal year. The Company is currently assessing the impact of implementing the new guidance.

13. Segment Information

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

Wholesale. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (Company-owned and licensee-owned 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.

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

Investments and real estate. Our investments and real estate segment consists of our short-term investments, our holdings of real estate leased or previously leased as licensee stores, and our equity investment in Zenith. We also hold an investment in Fortress, which we fully reserved during fiscal 2012. Although this segment does not have operating earnings, income or loss from the segment is included in other loss, net, in our consolidated statements of income and retained earnings.

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

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESNOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-UNAUDITEDAUGUST 30, 2014(Dollars in thousands except share and per share data)

The following table presents our segment information:

| | Quarter Ended | | Nine Months Ended | |
|--------------------------------------|---------------|----------|-------------------|-----------|
| | August | August | August | August |
| | 30, | 31, | 30, | 31, |
| | 2014 | 2013 | 2014 | 2013 |
| Net Sales | | | | |
| Wholesale | \$56,069 | \$52,927 | \$163,339 | \$160,820 |
| Retail - Company-owned stores | 53,987 | 46,245 | 154,401 | 147,672 |
| Inter-company elimination | (24,870) | (22,020) | (71,722) | (70,268) |
| Consolidated | \$85,186 | \$77,152 | \$246,018 | \$238,224 |
| Income (loss) from Operations | | | | |
| Wholesale | \$3,216 | \$2,367 | \$9,821 | \$8,218 |
| Retail - Company-owned stores | (167) | (1,509) | (2,605) | (1,803) |
| Inter-company elimination | 350 | (35) | 1,160 | 182 |
| Consolidated | \$3,399 | \$823 | \$8,376 | \$6,597 |
| Depreciation and Amortization | | | | |
| Wholesale | \$447 | \$325 | \$1,108 | \$998 |
| Retail - Company-owned stores | 1,451 | 1,114 | 4,008 | 3,080 |
| Investments and real estate | 92 | 117 | 312 | 367 |
| Consolidated | \$1,990 | \$1,556 | \$5,428 | \$4,445 |
| Capital Expenditures | | | | |
| Wholesale | \$788 | \$731 | \$4,013 | \$2,853 |
| Retail - Company-owned stores | 2,690 | 3,632 | 11,674 | 6,694 |
| Investments and real estate | - | - | - | - |
| Consolidated | \$3,478 | \$4,363 | \$15,687 | \$9,547 |

As of As of

| | August 30, | November 30, |
|-------------------------------|---------------|-----------------|
| | 2014 | 2013 |
| Identifiable Assets | | |
| Wholesale | \$ 113,017 | \$ 109,958 |
| Retail - Company-owned stores | 88,254 | 77,331 |
| Investments and real estate | 29,515 | 38,560 |
| Consolidated | \$ 230,786 | \$ 225,849 |

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

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

Overview

Bassett is a leading retailer, manufacturer and marketer of branded home furnishings. Our products are sold primarily through a network of Company-owned and licensee-owned branded stores under the Bassett Home Furnishings (“BHF”) name, with additional distribution through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We were founded in 1902 and incorporated under the laws of Virginia in 1930. Our rich 112-year history has instilled the principles of quality, value, and integrity in everything that we do, while simultaneously providing us with the expertise to respond to ever-changing consumer tastes and to meet the demands of a global economy.

With 94 BHF stores at August 30, 2014, we have leveraged our strong brand name in furniture into a network of corporate and licensed stores that focus on providing consumers with a friendly environment for buying furniture and accessories. We created our store program in 1997 to provide a single source home furnishings retail store that provides a unique combination of stylish, quality furniture and accessories with a high level of customer service. The store features custom order furniture ready for delivery in less than 30 days, more than 1,000 upholstery fabrics, free in-home design visits, and coordinated decorating accessories. We believe that our capabilities in custom furniture have become unmatched in recent years. Our manufacturing team takes great pride in the breadth of its options, the precision of its craftsmanship, and the speed of its delivery. The selling philosophy in the stores is based on building strong long term relationships with each customer. Sales people are referred to as Design Consultants and are each trained to evaluate customer needs and provide comprehensive solutions for their home decor. We continue to strengthen the sales and design talent within our Company-owned retail stores. Our Design Consultants undergo extensive Design Certification training. This training has strengthened their skills related to our house call and design business, and is intended to increase business with our most valuable customers.

In order to reach markets that cannot be effectively served by our retail store network, we also distribute our products through other wholesale channels including multi-line furniture stores, many of which feature Bassett galleries or design centers, specialty stores and mass merchants. We use a network of over 25 independent sales representatives

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

In September of 2011, we announced the formation of a strategic partnership with HGTV (Home and Garden Television), a division of Scripps Networks, LLC, which combines our 112 year heritage in the furniture industry with the penetration of 99 million households in the United States that HGTV enjoys today. As part of this alliance, the in-store design centers have been co-branded with HGTV to more forcefully market the concept of a “home makeover”, an important point of differentiation for our stores that also mirrors much of the programming content on the HGTV network.

The following table summarizes the changes in store count during the nine months ended August 30, 2014:

| | November 30, 2013 | New Stores* | Closed Stores* | August 30, 2014 |
|-----------------------|-------------------------|----------------|-------------------|-----------------------|
| Company-owned stores | 55 | 6 | (1) | 60 |
| Licensed-owned stores | 34 | - | - | 34 |
| Total | 89 | 6 | (1) | 94 |

*Does not include openings and closures due to relocation of existing stores within a market.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

In fiscal 2013, we began a program to increase the Company-owned retail store count and relocate a number of first generation stores to better locations. This program included opening nine new stores and relocating six existing stores in 2013 and 2014. As a result, we spent \$11,674 in capital expenditures for new and relocated stores in the first nine months of fiscal 2014 and expect to spend approximately \$2,000 during the fourth quarter of 2014. During the nine months ended August 30, 2014, stores in the following locations were opened and relocated:

| New Stores | Store Relocations |
|---------------------------|--------------------------|
| Forth Worth, Texas | Little Rock, Arkansas |
| Westport, Connecticut | Boston, Massachusetts |
| Annapolis, Maryland | |
| Burlington, Massachusetts | |
| Hartsdale, New York | |
| Rockville, Maryland | |

During the next six months, we expect to relocate stores in San Antonio, Texas and Southlake, Texas. During the third quarter of fiscal 2014 we closed our Company-owned store in Plano, Texas.

We expect to continue opening new stores in the future, primarily in underpenetrated markets where we currently have stores. We and certain licensees are actively engaged in site selection and lease negotiations for several locations and expect to open at least three to five new stores in 2015. While we currently expect to renew or extend three leases for Company-owned stores that expire in 2015, we will continue to evaluate whether it is more appropriate to reposition the stores to a more favorable location within the market as we do with any leases that come up for renewal.

As with any retail operation, prior to opening a new store we incur such expenses as rent, training costs and other payroll related costs. These costs generally range between \$100 to \$300 per store depending on the overall rent costs for the location and the period between the time when we take possession of the physical store space and the time of the store opening. Generally, rent payments between time of possession and opening of a new store are deferred and therefore rent costs recognized during that time do not require cash. Inherent in our retail business model, we also

incur significant losses in the first two to three months of operation following a new store opening. Similar to other furniture retailers, we do not recognize a sale in the income statement until the furniture is delivered to our customer. Because our retail business model does not involve maintaining a stock of retail inventory that would result in quick delivery, and because of the custom nature of our furniture offerings, delivery to our customers usually does not occur until 30 days after an order is placed. We generally require a deposit at the time of order and collect the remaining balance when the furniture is delivered at which time the sale is recorded in the income statement. Coupled with the previously discussed store pre-opening costs, total start-up losses can range from \$300 to \$500 per store. While this expansion is initially costly to our operating results, we believe our site selection and new store presentation will result in locations that operate at or above a retail break-even level within 12 months of their opening. Even as these stores ramp up to break-even, we are realizing additional wholesale sales volume that will leverage the fixed costs in our wholesale business.

Our wholesale operations include an upholstery plant in Newton, North Carolina that produces a wide range of upholstered furniture. We believe that we are an industry leader with our quick-ship custom upholstery offerings. We also operate a custom dining manufacturing facility in Martinsville, Virginia. Most of our wood furniture and certain of our upholstery offerings are sourced through several foreign plants, primarily in Vietnam, Indonesia and China. We define imported product as fully finished product that is sourced internationally. For the nine months ended August 30, 2014, approximately 42% of our wholesale sales were of imported product compared to 47% for the nine months ended August 31, 2013.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 30, 2014(Dollars in thousands except share and per share data)**Results of Operations – Three and nine months ended August 30, 2014 compared with three and nine months ended August 31, 2013:**

Net sales, gross profit, selling, general and administrative (SG&A) expense, and income from operations were as follows for the periods ended August 30, 2014 and August 31, 2013:

| | Quarter Ended | | | | Nine Months Ended* | | | |
|-----------------------------|-----------------|--------|-----------------|--------|--------------------|--------|-----------------|--------|
| | August 30, 2014 | | August 31, 2013 | | August 30, 2014 | | August 31, 2013 | |
| Net sales | \$85,186 | 100.0% | \$77,152 | 100.0% | \$246,018 | 100.0% | \$238,224 | 100.0% |
| Gross profit | 45,018 | 52.8 % | 38,723 | 50.2 % | 130,584 | 53.1 % | 121,909 | 51.2 % |
| SG&A expenses | 41,510 | 48.7 % | 37,822 | 49.0 % | 120,991 | 49.2 % | 115,017 | 48.3 % |
| New store pre-opening costs | 109 | 0.1 % | 78 | 0.1 % | 1,217 | 0.5 % | 295 | 0.1 % |
| Income from operations | \$3,399 | 4.0 % | \$823 | 1.1 % | \$8,376 | 3.4 % | \$6,597 | 2.8 % |

* 39 weeks for fiscal 2014 as compared to 40 weeks for fiscal 2013.

On a consolidated basis, we reported net sales for the third quarter of 2014 of \$85,186, as compared to \$77,152 for the third quarter of 2013, a 10.4% increase. Net sales for the nine months ended August 30, 2014 were \$246,018, a 3.3% increase from the comparable period of 2013. Because of our fiscal calendar, the nine months ended August 31, 2013 consisted of 40 weeks compared to 39 weeks for the first nine months of 2014. On an average weekly basis (normalizing for the extra week in the first nine months of 2013), consolidated net sales increased 5.9%. Operating income was \$3,399 for the third quarter of 2014 as compared to \$823 for the third quarter of 2013, an increase of \$2,576 primarily attributable to higher margins in our wholesale operations along with improved pricing strategies and higher comparable-store sales in our retail operations. For the nine months ended August 30, 2014, operating income was \$8,376, an increase of \$1,779 from the first nine months of 2013 driven primarily by improved wholesale margins along with improved pricing strategies at retail, partially offset by higher new store related costs (both pre- and post-opening), as we opened six new stores during the first nine months of 2014 compared to two in the first nine months

of 2013.

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PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

Segment Information

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

Wholesale. The wholesale home furnishings segment is involved principally in the design, manufacture, sourcing, sale and distribution of furniture products to a network of Bassett stores (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.

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

Investments and real estate. Our investments and real estate segment consists of our holdings of retail real estate leased or previously leased as licensee stores and our equity investment in Zenith Freight Lines, LLC, (“Zenith”). We also hold an investment in the Fortress Value Recover Fund I, LLC (“Fortress”), which we fully reserved during the first quarter of fiscal 2012. Although this segment does not have operating earnings, income from the segment is included in other loss, net, in our condensed consolidated statements of income and retained earnings.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 30, 2014(Dollars in thousands except share and per share data)

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

| | Quarter Ended August 30, 2014 | | | | Consolidated |
|-------------------------------|-------------------------------|----------|--------------|-----|--------------|
| | Wholesale | Retail | Eliminations | | |
| Net sales | \$56,069 | \$53,987 | \$ (24,870) | (1) | \$ 85,186 |
| Gross profit | 18,230 | 26,933 | (145) | (2) | 45,018 |
| SG&A expense | 15,014 | 26,991 | (495) | (3) | 41,510 |
| New store pre-opening costs | - | 109 | - | | 109 |
| Income (loss) from operations | \$3,216 | \$(167) | \$ 350 | | \$ 3,399 |

| | Quarter Ended August 31, 2013 | | | | Consolidated |
|-------------------------------|-------------------------------|------------|--------------|-----|--------------|
| | Wholesale | Retail | Eliminations | | |
| Net sales | \$52,927 | \$46,245 | \$ (22,020) | (1) | \$ 77,152 |
| Gross profit | 17,023 | 22,191 | (491) | (2) | 38,723 |
| SG&A expense | 14,656 | 23,622 | (456) | (3) | 37,822 |
| New store pre-opening costs | - | 78 | - | | 78 |
| Income (loss) from operations | \$2,367 | \$(1,509) | \$ (35) | | \$ 823 |

| | Nine Months Ended August 30, 2014* | | | | Consolidated |
|-------------------------------|------------------------------------|------------|--------------|-----|--------------|
| | Wholesale | Retail | Eliminations | | |
| Net sales | \$163,339 | \$154,401 | \$ (71,722) | (1) | \$ 246,018 |
| Gross profit | 53,789 | 77,054 | (259) | (2) | 130,584 |
| SG&A expense | 43,968 | 78,442 | (1,419) | (3) | 120,991 |
| New store pre-opening costs | - | 1,217 | - | | 1,217 |
| Income (loss) from operations | \$9,821 | \$(2,605) | \$ 1,160 | | \$ 8,376 |

| | Nine Months Ended August 31, 2013* | | | |
|--|------------------------------------|--------|--------------|--------------|
| | Wholesale | Retail | Eliminations | Consolidated |

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| | | | | | |
|-----------------------------------|------------|------------|------------|-------|------------|
| Net sales | \$ 160,820 | \$ 147,672 | \$ (70,268 |) (1) | \$ 238,224 |
| Gross profit | 52,624 | 70,478 | (1,193 |) (2) | 121,909 |
| SG&A expense | 44,406 | 71,986 | (1,375 |) (3) | 115,017 |
| New store pre-opening costs | - | 295 | - | | 295 |
| Income (loss) from operations (4) | \$ 8,218 | \$ (1,803 |) \$ 182 | | \$ 6,597 |

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

(2) Represents the change for the period in the elimination of intercompany profit in ending retail inventory.

(3) Represents the elimination of rent paid by our retail stores occupying Company-owned real estate.

(4) Excludes the effects of restructuring and asset impairment charges and lease exit costs. These charges are not allocated to our segments.

* 39 weeks for fiscal 2014 as compared to 40 weeks for fiscal 2013.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

The following is a discussion of operating results for our wholesale and retail segments:

Wholesale segment

Results for the wholesale segment for the three months ended August 30, 2014 and August 31, 2013 are as follows:

| | Quarter Ended | | August 31, 2013 | | Nine Months Ended* | | August 31, 2013 | |
|------------------------|-----------------|---------|-----------------|---------|--------------------|---------|-----------------|---------|
| | August 30, 2014 | | August 31, 2013 | | August 30, 2014 | | August 31, 2013 | |
| Net sales | \$56,069 | 100.0 % | \$52,927 | 100.0 % | \$163,339 | 100.0 % | \$160,820 | 100.0 % |
| Gross profit | 18,230 | 32.5 % | 17,023 | 32.2 % | 53,789 | 32.9 % | 52,624 | 32.7 % |
| SG&A expenses | 15,014 | 26.8 % | 14,656 | 27.7 % | 43,968 | 26.9 % | 44,406 | 27.6 % |
| Income from operations | \$3,216 | 5.7 % | \$2,367 | 4.5 % | \$9,821 | 6.0 % | \$8,218 | 5.1 % |

* 39 weeks for fiscal 2014 as compared to 40 weeks for fiscal 2013

Quarterly Analysis of Results – Wholesale

Net sales for the wholesale segment were \$56,069 for the third quarter of 2014 as compared to \$52,927 for the third quarter of 2013, an increase of 5.9%. Shipments to the BHF store network increased 9.2% from the comparable prior year period while shipments outside of the BHF store network increased 1.8%. Gross margins for the wholesale segment increased 30 basis points to 32.5% for the third quarter of 2014 as compared with 32.2% for the third quarter

of 2013. This increase was primarily due to improved margins in the upholstery operations with higher sales volumes providing greater leverage of fixed costs. Wholesale SG&A increased \$358 to \$15,014 for the third quarter of 2014 as compared to \$14,656 for the third quarter of 2013. SG&A as a percentage of sales decreased to 26.8% for the third quarter of 2014 as compared to 27.7% for the third quarter of 2013 due primarily to greater leverage of fixed costs from higher sales volumes and tighter expense control. Income from operations was \$3,216, or 5.7% of sales, for the third quarter of 2014 as compared to \$2,367, or 4.5% of sales, for the comparable prior year period.

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 30, 2014(Dollars in thousands except share and per share data)*Year-to-date Analysis of Results - Wholesale*

Net sales for the wholesale segment were \$163,339 for the nine months ended August 30, 2014 as compared to \$160,820 for the comparable prior year period, an increase of 1.6%. On an average weekly basis (normalizing for the extra week in the first 9 months of 2013), wholesale net sales increased 4.2%. Average weekly shipments outside of the BHF store network increased 10.9%, while average weekly shipments to the BHF stores were flat compared with the prior year period. We have gained market share in the traditional furniture store channel as recent product offerings have been well received. Sales to our BHF store network were negatively impacted by slower business during the winter months from inclement weather along with overall softness in the demand for wood furniture. Gross margins for the wholesale segment increased 20 basis points to 32.9% for the first nine months of 2014 as compared with 32.7% for the first nine months of 2013. Wholesale SG&A decreased \$438 to \$43,968 for the first nine months of 2014 as compared to \$44,406 for the first nine months of 2013 primarily due to lower fixed SG&A. SG&A as a percentage of sales decreased to 26.9% as compared to 27.6% for the prior year period primarily due to tighter expense control. Income from operations was \$9,821, or 6.0% of sales, for the nine months ended August 30, 2014 as compared to \$8,218, or 5.1% of sales, for the comparable prior year period.

| Wholesale shipments by type: | Quarter Ended | | | Nine Months Ended* | | | | |
|------------------------------|-----------------|---------|-----------------|--------------------|-----------------|---------|-----------------|---------|
| | August 30, 2014 | | August 31, 2013 | | August 30, 2014 | | August 31, 2013 | |
| Wood | \$21,694 | 38.7 % | \$22,251 | 42.0 % | \$63,462 | 38.9 % | \$66,716 | 41.5 % |
| Upholstery | 33,975 | 60.6 % | 30,262 | 57.2 % | 98,707 | 60.4 % | 92,698 | 57.6 % |
| Other | 400 | 0.6 % | 414 | 0.9 % | 1,170 | 0.7 % | 1,406 | 0.9 % |
| Total | \$56,069 | 100.0 % | \$52,927 | 100.0 % | \$163,339 | 100.0 % | \$160,820 | 100.0 % |

* 39 weeks for fiscal 2014 as compared to 40 weeks for fiscal 2013

Wholesale Backlog

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The dollar value of wholesale backlog, representing orders received but not yet shipped to dealers and Company stores, was \$14,352 at August 30, 2014 as compared with \$13,038 at August 31, 2013.

Retail – Company-owned stores segment

Results for the retail segment for the three months ended August 30, 2014 and August 31, 2013 are as follows:

| | Quarter Ended | | August 31, 2013 | | Nine Months Ended* | | August 31, 2013 | |
|-----------------------------|-----------------|--------|-----------------|--------|--------------------|--------|-----------------|--------|
| | August 30, 2014 | | August 31, 2013 | | August 30, 2014 | | August 31, 2013 | |
| Net sales | \$53,987 | 100.0% | \$46,245 | 100.0% | \$154,401 | 100.0% | \$147,672 | 100.0% |
| Gross profit | 26,933 | 49.9 % | 22,191 | 48.0 % | 77,054 | 49.9 % | 70,478 | 47.7 % |
| SG&A expenses | 26,991 | 50.0 % | 23,622 | 51.1 % | 78,442 | 50.8 % | 71,986 | 48.7 % |
| New store pre-opening costs | 109 | 0.2 % | 78 | 0.2 % | 1,217 | 0.8 % | 295 | 0.2 % |
| Loss from operations | \$(167) | -0.3 % | \$(1,509) | -3.3 % | \$(2,605) | -1.7 % | \$(1,803) | -1.2 % |

PART I-FINANCIAL INFORMATION-CONTINUEDBASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIESAUGUST 30, 2014(Dollars in thousands except share and per share data)

Results for the comparable stores[†](53 stores for the quarters ended August 30, 2014 and August 31, 2013, 51 stores for the nine months ended August 30, 2014 and August 31, 2013) are as follows:

| | Quarter Ended | | August 31, 2013 | | Nine Months Ended* | | August 31, 2013 | |
|-------------------------------|-----------------|--------|-----------------|--------|--------------------|--------|-----------------|--------|
| | August 30, 2014 | | | | August 30, 2014 | | | |
| Net sales | \$48,913 | 100.0% | \$43,364 | 100.0% | \$139,789 | 100.0% | \$138,303 | 100.0% |
| Gross profit | 24,393 | 49.9 % | 20,847 | 48.1 % | 69,597 | 49.8 % | 66,041 | 47.8 % |
| SG&A expenses | 23,920 | 48.9 % | 22,283 | 51.4 % | 69,467 | 49.7 % | 66,838 | 48.3 % |
| Income (loss) from operations | \$473 | 1.0 % | \$(1,436) | -3.3 % | \$130 | 0.1 % | \$(797) | -0.7 % |

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

Results for all other stores are as follows:

| | Quarter Ended | | August 31, | | Nine Months Ended* | | August 31, 2013 | |
|-----------------------------|-----------------|---------|-----------------|--------|--------------------|---------|-----------------|---------|
| | August 30, 2014 | | August 31, 2013 | | August 30, 2014 | | | |
| Net sales | \$5,074 | 100.0% | \$2,881 | 100.0% | \$14,612 | 100.0% | \$9,369 | 100.0% |
| Gross profit | 2,540 | 50.1 % | 1,344 | 46.7 % | 7,457 | 51.0 % | 4,437 | 47.4 % |
| SG&A expenses | 3,071 | 60.5 % | 1,339 | 46.5 % | 8,975 | 61.4 % | 5,148 | 54.9 % |
| New store pre-opening costs | 109 | 2.1 % | 78 | 2.7 % | 1,217 | 8.3 % | 295 | 3.1 % |
| Loss from operations | \$(640) | -12.6 % | \$(73) | -2.5 % | \$(2,735) | -18.7 % | \$(1,006) | -10.8 % |

* 39 weeks for fiscal 2014 as compared to 40 weeks for fiscal 2013

Quarterly Analysis of Results – Retail

Our Company-owned stores had sales of \$53,987 during the quarter ended August 30, 2014 as compared to \$46,245 during the quarter ended August 31, 2013, an increase of 16.7%. This increase was comprised primarily of a \$5,549, or 12.8%, increase in comparable store sales along with a \$2,193 increase in non-comparable store sales as a result of opening seven new stores in the last twelve months.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Written sales for comparable stores increased by 12% for the third quarter of 2014 compared to the third quarter of 2013.

The consolidated retail operating loss for the third quarter of 2014 was \$167 compared to an operating loss of \$1,509 million in the third quarter of 2013. The 53 comparable stores recognized operating income of \$473 for the third quarter of 2014 as compared to a loss of \$1,436 for the comparable prior year period. Gross margins at our comparable stores improved to 49.9% compared to 48.1% in the comparable prior year period due primarily to improved pricing strategies. SG&A expenses for comparable stores increased \$1,637 to \$23,920, while as a percentage of sales comparable-store SG&A expenses declined to 48.9% as compared to 51.4% for the third quarter of fiscal 2013. This decrease as a percentage of net sales is primarily due to greater leverage of fixed costs due to higher sales volumes. During the third quarter of 2014 we completed a store relocation in Boston, Massachusetts. In connection with this relocation we incurred \$27 of overlapping rent while the store was in the process of being relocated. As with new store openings as described below, we begin to recognize rent expense at the date we take possession of the new store location. We will effectively recognize rent expense on both locations until the date that the previously existing store closes. We define a store relocation as the closing of one store and opening of another store in the same market within a short period of time. Since there is no change in the store count for a specific market, we continue to include relocation costs as part of the comparable store operations.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

Losses from the non-comparable stores in the third quarter of fiscal 2014 were \$640 which includes \$109 of costs incurred prior to the opening of one store during the third quarter. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its opening and generally range between \$100 to \$300 per store based on the overall rent costs for the location and the period between the time when we take physical possession of the store space and when the store opens. Also included in the non-comparable store loss is \$260 in post-opening losses from two new stores. We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$300 to \$500 per store. The remaining non-comparable stores incurred an operating loss of \$271 for the third quarter of 2014.

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

Year-to-Date Analysis of Results – Retail

Our Company-owned stores had sales of \$154,401 during the nine months ended August 30, 2014 as compared to \$147,672 for the comparable prior year period. This increase was comprised primarily of a \$5,243 increase in non-comparable store sales along with a \$1,486 increase in comparable store sales. Normalizing for the extra week in 2013, overall net sales increased 7.2% while comparable store net sales increased 3.7%.

While we do not recognize sales until goods are delivered to the consumer, management tracks written sales (the retail dollar value of sales orders taken, rather than delivered) as a key store performance indicator. Normalized written sales for comparable stores increased 0.9% for the first nine months of 2014 compared to the first nine months of 2013.

The consolidated retail operating loss for the first nine months of 2014 increased by \$802 to \$2,605 as compared to a loss of \$1,803 in the first nine months of 2013. This loss was driven largely by increased new store related opening costs, overlapping rent costs incurred during the transition period for store relocations, and initial operating losses at newly opened locations.

The 51 comparable stores earned operating income of \$130 for the first nine months of 2013 as compared to an operating loss of \$797 for the comparable prior year period. Gross margins at our comparable stores improved to 49.8% compared to 48.3% in the comparable prior year period due primarily to improved pricing strategies. SG&A expenses for comparable stores increased \$2,629 to \$69,467 or 49.7% of sales as compared to 48.3% for the first nine months of fiscal 2013. This increase is primarily due to planned increases in advertising spending, higher health care benefit costs, increased other overhead costs as the store network continues to grow and the effects of having one less week to leverage fixed costs. In addition, we incurred \$222 of overlapping rent incurred while two stores were in the process of being relocated. As with new store openings as described below, we begin to recognize rent expense at the date we take possession of the new store location. We will effectively recognize rent expense on both locations until the date that the previously existing store closes. We completed relocations in Little Rock, Arkansas and Boston, Massachusetts during the first nine months of fiscal 2014. We define a store relocation as the closing of one store and opening of another store in the same market. Since there is no change in the store count for a specific market, we continue to include relocation costs as part of the comparable store operations.

Losses from the non-comparable stores during the nine months ended August 30, 2014 were \$2,735 which includes \$1,217 of costs incurred prior to the opening of six stores during the first nine months of 2014. These costs include rent, training costs and other payroll-related costs specific to a new store location incurred during the period leading up to its open and generally range between \$100 to \$300 per store based on the overall rent costs for the location and the period between the time when we take physical possession of the store space and the time when the store opens. Also included in the non-comparable store loss is \$983 in post-opening losses from these six store openings. We incur losses in the first two to three months of operation following a store opening as sales are not recognized in the income statement until the furniture is delivered to its customers resulting in operating expenses without the normal sales volume. Because we do not maintain a stock of retail inventory that would result in quick delivery, and because of the custom nature of the furniture offerings, such deliveries are generally not made until after 30 days from when the furniture is ordered by the customer. Coupled with the pre-opening costs, total start-up losses typically amount to \$300 to \$500 per store. The remaining non-comparable stores incurred an operating loss of \$535 for the first nine months of 2014.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

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

Retail Comparable Store Sales Increases

| | Quarter Ended | | Nine Months Ended* | |
|-----------|-----------------|-----------------|--------------------|-----------------|
| | August 30, 2014 | August 31, 2013 | August 30, 2014 | August 31, 2013 |
| Delivered | 12.8% | 3.9% | 1.1% | 9.5% |
| Written | 12.4% | 0.3% | 0.9% | 9.2% |

39 weeks for fiscal 2014 as compared to 40 weeks for fiscal 2013. On an average weekly basis for the nine months *ended August 31, 2013, the increases in delivered and written comparable store sales were 6.8% and 6.4%, respectively.

Retail Backlog

The dollar value of our retail backlog, representing orders received but not yet delivered to customers, was \$26,827, or an average of \$447 per open store at August 30, 2014 as compared with \$18,888, or an average of \$343 per open store at August 31, 2013.

Our retail segment includes the expenses of retail real estate utilized by Company-owned retail stores. Rental income and expenses from our properties utilized by independent licensees and partnership licensees are included in our investment and real estate segment.

Investments and real estate segment and other items affecting Net Income

Our investments and real estate segment consists of our holdings of retail real estate leased or previously leased as licensee stores and our equity investment in Zenith. We also hold an investment in Fortress, which we fully impaired during the first quarter of fiscal 2012. Although this segment does not have operating earnings, income or loss from the segment is included in other loss, net in our condensed consolidated statements of income and retained earnings.

Other loss, net, for the third quarter of fiscal 2014 was \$65 as compared to \$229 for the third quarter of fiscal 2013. This change is primarily attributable to the recognition of \$165 in death benefits received from life insurance policies covering a former executive.

Other loss, net, for the nine months ended August 30, 2014 was \$52 as compared to \$1,026 for the nine months ended August 31, 2013. This change is primarily attributable to the recognition of \$827 in death benefits received from life insurance policies covering former executives, compared with \$304 of similar proceeds received during the first nine months of 2013, and a \$207 gain resulting from the recovery of a portion of our investment in Fortress due to a partial liquidation of the fund.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

We own 49% of Zenith, which provides domestic transportation and warehousing services primarily to furniture manufacturers and distributors and also provides home delivery services to furniture retailers. We have contracted with Zenith to provide for substantially all of our domestic freight, transportation and warehousing needs for the wholesale business. In addition, Zenith provides home delivery services for almost half of our Company-owned retail stores. We believe our partnership with Zenith allows us to focus on our core competencies of manufacturing and marketing home furnishings. Zenith focuses on offering Bassett customers best-of-class service and handling. We consider the expertise that Zenith exhibits in logistics to be a significant competitive advantage for us. In addition, we believe that Zenith is well positioned to take advantage of current growth opportunities for providing logistical services to the furniture industry. Our equity in the income of Zenith, included in other loss, net, was \$190 and \$534 for the three and nine months ended August 30, 2014, respectively and \$184 and \$466 for the three and nine months ended August 31, 2013, respectively. Our investment in Zenith was \$7,787 and \$7,254 at August 30, 2014 and November 30, 2013, respectively.

Income taxes

We calculate an anticipated effective tax rate for the year based on our annual estimates of pretax income or loss and use that effective tax rate to record our year-to-date income tax provision. Any change in annual projections of pretax income or loss could have a significant impact on our effective tax rate for the respective quarter. Our effective tax rate for the three and nine months ended August 30, 2014 differs from the federal statutory rate primarily due to the effects of state income taxes, permanent differences resulting from non-deductible, non-taxable life insurance proceeds, and the expiration of the statute of limitations on certain previously unrecognized tax benefits. The benefit arising from the expiration of that statute of limitations on certain previously unrecognized tax benefits was \$111 for the three and nine months ended August 30, 2014 and \$221 for the three and nine months ended August 31, 2013. During the second quarter of 2014, the state of New York enacted legislation affecting various corporate tax issues, including the usage of state net operating losses. Based on this legislation, prior limitations on our ability to use those net operating losses have been removed. Thus, we have changed our realization assessment for the deferred tax assets associated with those net operating losses and removed the related valuation allowance resulting in a tax benefit of \$190 for the nine months ended August 30, 2014. Our federal tax return for the fiscal year ended November 24, 2012 is currently under examination by the Internal Revenue Service.

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 the first nine months of 2014 was \$18,270 compared to cash provided by operations of \$103 for the first nine months of 2013, representing an improvement of \$18,167 in cash flows from operations. The improvement is primarily the result of better overall working capital management coupled with improved profitability. In addition, we received \$2,119 in tenant improvement funds during the first nine months of 2014 associated with leasing new stores and store relocations. Cash provided by operations during the first nine months of 2014 was partially reduced by the placement of a \$1,150 collateral deposit with one of our insurance carriers during the third quarter.

Our overall cash position has increased by \$6,709 during the first nine months of 2014. Cash provided by operations was partially offset by net cash used in investing activities of \$2,459, primarily consisting of capital expenditures for retail store expansion, remodeling and relocations substantially offset by proceeds from the maturity of short-term investments in certificates of deposit, the release of the remaining escrowed funds from the 2011 sale of our interest in International Home Furnishings Center, Inc., and proceeds from the disposition of real estate investment properties. Cash used in financing activities totaled \$9,102, consisting primarily of dividend payments and stock repurchases under our existing share repurchase plan, of which \$7,006 remains authorized as of August 30, 2014. With cash and cash equivalents and short-term investments totaling \$42,567 on hand at August 30, 2014, we believe we have sufficient liquidity to fund operations for the foreseeable future.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

Credit Agreement

Our credit facility with our bank provides for a line of credit of up to \$15,000 and is secured by our accounts receivable and inventory. The facility contains covenants requiring us to maintain certain key financial ratios. We are in compliance with all covenants under the agreement and expect to remain in compliance for the foreseeable future.

At August 30, 2014, we had \$216 outstanding under standby letters of credit, leaving availability under our credit line of \$14,784.

Investment in Retail Real Estate

We have a substantial investment in real estate acquired for use as retail locations. To the extent such real estate is occupied by Company-owned retail stores, it is included in property and equipment, net, in the accompanying condensed consolidated balance sheets and is considered part of our retail segment. The net book value of such retail real estate occupied by Company-owned stores was \$27,959 at August 30, 2014. All other retail real estate that we own is currently leased to non-licensees and is reported as retail real estate in the accompanying condensed consolidated balance sheets. The net book value of such real estate, which is considered part of our investments/real estate segment, was \$6,390 at August 30, 2014.

The following table summarizes our total investment in retail real estate owned at August 30, 2014:

| Number of Locations | Aggregate | Net Book Value |
|---------------------------|-----------|----------------------|
|---------------------------|-----------|----------------------|

| | | Square Footage | |
|--|----|-------------------|----------|
| Real estate occupied by Company-owned and operated stores, included in property and equipment, net (1) | 11 | 276,887 | \$27,959 |
| Investment real estate: | | | |
| Leased to others | 3 | 67,521 | 6,337 |
| Other (2) | - | - | 53 |
| Total included in retail real estate | 3 | 67,521 | 6,390 |
| Total Company investment in retail real estate | 14 | 344,408 | \$34,349 |

(1) Includes two properties encumbered under mortgages totalling \$2,538 at August 30, 2014.

(2) Consists of leasehold improvements in locations leased by the Company and subleased to licensees.

Critical Accounting Policies and Estimates

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in our Annual Report on Form 10-K for the fiscal year ended November 30, 2013.

Off-Balance Sheet Arrangements

We utilize stand-by letters of credit in the procurement of certain goods in the normal course of business. We lease land and buildings that are primarily used in the operation of both Company-owned and licensee stores. We have guaranteed certain lease obligations of licensee operators of the stores, as part of our retail expansion strategy. See Note 7 to our condensed consolidated financial statements for further discussion of operating leases and lease guarantees, including descriptions of the terms of such commitments and methods used to mitigate risks associated with these arrangements.

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

Contingencies

We are involved in various legal and environmental matters, which arise in the normal course of business. Although the final outcome of these matters cannot be determined, based on the facts presently known, it is our opinion that the final resolution of these matters will not have a material adverse effect on our financial position or future results of operations. See Note 7 to our condensed consolidated financial statements for further information regarding certain contingencies as of August 30, 2014.

Item 3. Quantitative and Qualitative Disclosure about Market Risk:

We are exposed to market risk from changes in the value of foreign currencies. Substantially all of our imports purchased outside of North America are denominated in U.S. dollars. Therefore, we believe that gains or losses resulting from changes in the value of foreign currencies relating to foreign purchases not denominated in U.S. dollars would not be material to our results from operations in fiscal 2014.

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

We have potential exposure to market risk related to the current weakness in the commercial real estate market. Our retail real estate holdings of \$6,390 at August 30, 2014 for stores currently or formerly operated by licensees as well as our holdings of \$27,959 at August 30, 2014 for Company-owned stores could suffer significant impairment in value if we are forced to close additional stores and sell or lease the related properties in certain markets. Additionally, if we are required to assume responsibility for payment under the lease obligations of \$3,795 which we have guaranteed on behalf of licensees as of August 30, 2014, we may not be able to secure sufficient sub-lease income in the current

market to offset the payments required under the guarantees.

Item 4. Controls and Procedures:

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

PART I-FINANCIAL INFORMATION-CONTINUED

BASSETT FURNITURE INDUSTRIES, INCORPORATED AND SUBSIDIARIES

AUGUST 30, 2014

(Dollars in thousands except share and per share data)

Safe-harbor, forward-looking statements:

The discussion in items 2 and 3 above contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of Bassett Furniture Industries, Incorporated and subsidiaries. Such forward-looking statements are identified by use of forward-looking words such as “*anticipates*”, “*believes*”, “*plans*”, “*estimates*”, “*expects*”, “*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 that could cause actual results to differ materially from those contemplated by such forward-looking statements are listed in our Annual Report on Form 10-K for fiscal 2013 and include:

• competitive conditions in the home furnishings industry

• general economic conditions

• overall retail traffic levels and consumer demand for home furnishings

• ability of our customers and consumers to obtain credit

• Bassett store openings

• store closings and the profitability of the stores (independent licensees and Company-owned retail stores)

• ability to implement our Company-owned retail strategies and realize the benefits from such strategies as they are implemented

• fluctuations in the cost and availability of raw materials, labor and sourced products

• results of marketing and advertising campaigns

• information and technology advances

• future tax legislation, or regulatory or judicial positions

• ability to efficiently manage the import supply chain to minimize business interruption

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PART II - OTHER INFORMATION

BASSETT FURNITURE INDUSTRIES INCORPORATED AND SUBSIDIARIES

AUGUST 31, 2014

(Dollars in thousands except share and per share data)

Item 1. Legal Proceedings

None

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

| | | | Total Number of Shares | Approximate Dollar Value of |
|-----------------------------|---------------------------------------|-------------------------------|--|---|
| | Total Shares Purchased | Avg Price Paid | Purchased as Part of Publicly Announced Plans or Programs | Shares that May Yet Be Purchased Under the Plans or Programs (1) |
| June 1, 2014 – July 5, 2014 | 83,200 | | | |